

GMR Pochanpalli Expressways Limited

August 29, 2023

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long Term Bank Facilities	20.00	CARE BB-; Stable	Reaffirmed
Non-Convertible Debentures	171.11 (Reduced from 215.15)	CARE BB-; Stable	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The reaffirmation of rating assigned to the bank facilities and Non-Convertible Debentures of GMR Pochanpalli Expressways Limited (GPEL) continues to derive strength from the stable revenue stream with annuity-based nature, timely receipt of annuities in a regular manner without any major deductions from National Highways Authority of India (NHAI; rated 'CARE AAA; Stable') and presence of bank guaranteed towards Debt Service Reserve Account (DSRA) covering ~4 months of interest and principal obligations.

Furthermore, CARE Ratings Limited (CARE Ratings) takes cognizance of the favourable judgment by the High Court of Delhi with respect to the arbitration proceedings between GPEL and NHAI which may provide upside to the cashflows going ahead.

The rating strengths are however tempered by GPEL's significant exposure by way of advances to group entities with weaker credit profile, non-maintenance of Major Maintenance Reserve Account (MMRA) and modest debt coverage metrics. Furthermore, the rating takes into account the inherent operations & maintenance (O&M) risk including major maintenance (MM) risk. CARE Ratings also note that the company is in receipt of show cause notice from GST council towards GST payable on the annuities received from NHAI commencing July 2017 to September 2022, however the same is under sub-judice in the Telangana High Court.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Recovery of funds from group entities and reduction in exposure on sustained basis.
- Improvement in liquidity profile of the company marked by improvement in cash balances while meeting maintenance expenses every year.
- Adherence to the financial covenants of the DTD with DSCR maintained at 1.2x

Negative factors

- Unfavourable outcome of the court case against NHAI resulting in expensing of major maintenance expense projected across several years in single year leading to stretch in liquidity and shortage of funds for debt servicing.
- Non-receipt/delayed/reduced receipt of annuity thereby impacting the liquidity profile.

Analytical approach: Standalone

Outlook: Stable

The Stable outlook assigned to the bank facilities and Non-Convertible Debentures of GPEL takes into account the expectations of timely receipt of annuity without deductions and build-up of liquidity to meet the annual major maintenance expenses.

Detailed description of the key rating drivers:

Key strengths

Operational annuity project with timely receipt of annuities:

The project revenues are linked with the annuity receivables from NHAI and not dependent on the traffic on the project stretch. However, the annuity receivables are subject to full availability and regular maintenance of the project stretch as per terms of concession agreement. As on March 31, 2023, the company has received 28 annuities from NHAI. All the annuities are being

¹Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

received in a timely manner without any deductions. In the past, deductions were made by NHAI while remitting the 18th and 22nd annuities due to non-fulfilment of major maintenance obligations as per NHAI. However, as the matter is sub-judiced at High Court of Delhi, the company has been receiving almost full annuities (except a small deduction of Rs.1.98 crore from September 2021 annuity which has been partially released along with March 2022 annuity).

With release of almost entire annuity receipts since Sep 2022, the liquidity profile has improved relatively in the company. As on August 22, 2023, the company had liquid funds (excluding funds lien marked) aggregating Rs.7.92 crore which provides cushion to the cashflows.

Low credit risk associated with the Annuity provider – NHAI:

NHAI is a statutory body, incorporated by the Govt. of India under act of Parliament. It functions as a nodal agency for development, maintenance and management of the National Highways in the country. By virtue of being a quasi-government body, the risk arising from NHAI defaulting on the annuity payments is very low.

Fixed price O&M Contract and interest rate on NCD:

The company has entered into a fixed price agreement with O&M contractor (i.e., GMR Highways Limited) for the regular maintenance of the stretch. The fixed price contract reduces risk associated with rising input prices. The interest rate on the NCD issuance is also fixed which also protects the cashflows from fluctuation in interest rates.

Key weaknesses

Weakened strength of the structure with continued exposure to group companies:

GPEL has advanced funds to group companies which stood at Rs.344 crore as on March 31, 2023 (Rs.333 crore as on March 31, 2022), the increase is primarily due to interest accrued on the loans extended and no funds were extended from the project cash flows. Majority of the exposure is in entities with relatively weak credit profile. The transfer of funds is inconsistent with the structure originally envisaged and has diluted the strong credit quality inbuilt in the structure. The timelines of recovery to fund any cashflow mismatch is crucial from credit perspective.

Pending finalization of ongoing litigation:

NHAI had levied a penalty on account of pending major maintenance of the project which was disputed by GPEL. The company had invoked the arbitration proceedings against NHAI in respect of the dispute on applicability of carrying out of major maintenance of the road project once in every five years as per the Concession Agreement.

On April 6, 2022, the High Court of Delhi has passed a judgement in favour of GPEL entitling the latter to the cost of Rs 104.47 crore with respect to the overlay as the same was not warranted as the roughness index was below 2000mm/km. The court has also directed NHAI to pay the amount of Rs 10.78 crore along with interest @12% p.a from the date of deduction (March 25, 2018) till the date of payment. In view of the above development, the company has issued a notice of arbitration to NHAI for refund of Rs. 14.3 crore which was wrongly deducted from the annuity of FY20 on account of pending Major Maintenance. The matter is subjudiced.

Non maintenance of MMRA:

The company is entitled to full receipt of annuities subject to maintenance of stretch as per the specifications of the Concession Agreement. However, for incurring the major maintenance, there is no reserve built up and the expenditure is being incurred from project cashflows on a yearly basis.

Liquidity: Stretched

The liquidity profile of GPEL continues to remain stretched. The company has a free cash balance of Rs. 7.92 crore as on August 22, 2023. However, the cash flow available for debt servicing is tightly matched against the debt servicing obligations resulting in weak debt service coverage. The company also does not have funded Debt Service Reserve Account (DSRA) and/or MMR.

Assumptions/Covenants

Not Applicable

Environment, social, and governance (ESG) risks

Not Applicable

Applicable criteria[Policy on default recognition](#)[Financial Ratios – Non financial Sector](#)[Liquidity Analysis of Non-financial sector entities](#)[Rating Outlook and Credit Watch](#)[Annuity Road Projects](#)[Infrastructure Sector Ratings](#)[Policy on Withdrawal of Ratings](#)**About the company and industry****Industry classification**

Macro-Economic Indicator	Sector	Industry	Basic Industry
Services	Services	Transport Infrastructure	Road Assets–Toll, Annuity, Hybrid - Annuity

GMR Pochanpalli Expressways Private Limited (GPEL) was incorporated as a Special Purpose Vehicle (SPV) by GMR group on October 18, 2005 to develop and maintain the 102-km stretch on the National Highway (NH)-7 connecting Adloor Yellareddy and Gundla Pochanpalli in the state of Andhra Pradesh. The concession was awarded by NHAI on Build, Operate and Transfer (BOT) Annuity Basis to the consortium based on its lowest annuity quote of Rs.108.36 crore (payable semi-annually). GPEL has entered into a Concession Agreement (CA) with NHAI on March 31, 2006 for the project. The project achieved Commercial Operations Date (COD) on March 26, 2009. GPEL received its first annuity from NHAI in September 2009.

As on March 31, 2023, GMR Highways Limited along with GMR Power and Urban Infra Limited and GMR Energy Limited held 100% stake of GPEL.

Brief Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)
Total operating income	63	58
PBILDT	22	12
PAT	16	44
Overall gearing (times)	1.40	1.01
Interest coverage (times)	0.53	0.28

A: Audited UA: Unaudited; Note: 'the above results are latest financial results available'

Status of non-cooperation with previous CRA:

Not Applicable

Any other information:

Not Applicable

Rating history for last three years: Please refer Annexure-2

Covenants of rated instrument / facility: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Debentures-Non Convertible Debentures	INE808H07010	15-Apr-2010	9.38%	October 15, 2026	171.11	CARE BB-; Stable
Non-fund-based - LT-Bank Guarantee		-	-	-	20.00	CARE BB-; Stable

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021
1	Debentures-Non Convertible Debentures	LT	171.11	CARE BB-; Stable	-	1)CARE BB-; Stable (30-Aug-22)	1)CARE B-; Stable (02-Sep-21)	1)CARE D (22-Mar-21) 2)CARE D (07-Sep-20) 3)CARE BB (CW with Negative Implications) (28-Apr-20)
2	Non-fund-based - LT-Bank Guarantee	LT	20.00	CARE BB-; Stable	-	1)CARE BB-; Stable (30-Aug-22)	1)CARE B-; Stable (02-Sep-21)	1)CARE D (22-Mar-21) 2)CARE D (07-Sep-20) 3)CARE BB (CW with Negative Implications) (28-Apr-20)

*Long term/Short term.

Annexure-3: Detailed explanation of covenants of the rated instruments/facilities: Not Applicable**Annexure-4: Complexity level of the various instruments rated**

Sr. No.	Name of the Instrument	Complexity Level
1	Debentures-Non Convertible Debentures	Simple
2	Non-fund-based - LT-Bank Guarantee	Simple

Annexure-5: Lender details

To view the lender wise details of bank facilities please [click here](#)

Note on the complexity levels of the rated instruments: CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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About us:

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