

# Ratings

CRISIL Ratings Limited (A subsidiary of CRISIL Limited)

# CRISIL

An S&P Global Company

## Rating Rationale

August 02, 2022 | Mumbai

### DBL Mangalwedha Solapur Highways Private Limited

Rating upgraded to 'CRISIL AAA/Stable'

#### Rating Action

<b>Rs.363.88 Crore Non Convertible Debentures</b>	<b>CRISIL AAA/Stable (Upgraded from 'CRISIL AA+/Positive')</b>
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1 crore = 10 million

Refer to Annexure for Details of Instruments & Bank Facilities

#### Detailed Rationale

CRISIL Ratings has upgraded its rating on the non-convertible debentures (NCDs) of DBL Mangalwedha Solapur Highways Private Limited (DMSHPL) to '**CRISIL AAA/Stable**' from '**CRISIL AA+/Positive**'.

The rated NCDs have been utilised for refinancing the project term loan and funding of balance engineering, procurement and construction cost (tranche I of Rs 300 crore) and creation of debt service reserve account (DSRA, tranche II of Rs 24.9 crore)

The rating action follows receipt of first annuity (along with interest) and operations and maintenance (O&M) payment from National Highways Authority of India (NHAI; 'CRISIL AAA/Stable') as per the provisions of the concession agreement (CA) on June 20, 2022. Further, the sponsor has created a DSRA of Rs 24.90 crore in the form of fixed deposits, covering six months of peak debt servicing obligations in line with the financing agreements.

The annuity receipt corresponded to the entire project length without deductions. But Rs 3.3 crore were withheld by NHAI from the annuity payment. This amount pertains to the Goods and Services Tax (GST), which is expected to be reimbursed upon submission of documentation corresponding to actual GST payments. The project has a track record of timely and full receipt of payment milestones during construction, and timely receipt of first annuity payment

The project received provisional completion certificate (PCC) with effect from December 14, 2021 vide letter dated December 22, 2021, thereby significantly mitigating implementation risk. PCC has been received for 52.76 kilometre (km), i.e., 93.38% of total project length of 56.50 km. The management has articulated that punch list A has been completed. Pertaining to punch list B, only work for Rs 0.90 crore is pending and should be completed by September 2022. DMSHPL has also requested the NHAI for descoping works amounting to Rs 4.53 crore. The main carriageway is complete and remaining work pertains to service roads, and rest area. Approval for descoping of pending works of punch list B items is awaited from NHAI.

The rating continues to reflect healthy debt protection metrics of the project and inherent benefits of the hybrid annuity model (HAM). The rating also derives comfort from the strong management support, operating capabilities and financial flexibility of Cube Highways and Infrastructure III Pte Ltd (Cube Highways). These strengths are partially offset by susceptibility to changes in operating cost and interest rate.

#### Analytical Approach

CRISIL Ratings has considered standalone business and financial risk profiles of DMSHPL to arrive at the rating action.

#### Key Rating Drivers & Detailed Description

##### Strengths

##### Healthy debt protection metrics

The project is to receive 60% of the bid project cost (BPC) from NHAI in the form of 30 semi-annual payments starting June 20, 2022. Along with fixed annuities, the project will receive interest payments on the balance annuities at a rate equal to the prevailing bank rate plus 3%. Ratio of debt to annuities receivable is expected to be healthy at 0.42 time (assuming draw down of entire NCD and receipt of 100% annuity) and debt service coverage ratio (DSCR) comfortably above 1 time throughout the debt tenure.

The first NCD repayment is due on September 30, 2022, providing a cushion of more than 60 days between the scheduled annuity payment date and the debt repayment date. Additionally, DSRA of Rs 24.9 crore (equivalent peak debt servicing obligation of six months and translating to around 11 months of debt servicing obligation for fiscal 2023) has been created upfront, protecting cash flow in the event of delay in receipt of annuity. Any significant delay or deduction in payment from NHAI will remain a rating sensitivity factor.

##### Inherent benefits of HAM

The project benefits from HAM with provisions such as de-linking/de-scoping of unavailable land, which lets PCC to be issued on completion of construction on the land made available up to 146 days from the appointed date (AD), thereby

allowing full annuities to be paid as if all project works have been completed. The concessionaire is required to complete construction on the remaining land whenever it is made available after the PCC. Consequently, this project received PCC on December 14, 2021 on 52.76 km (i.e., 93% of total project length). Other benefits of HAM include indexation done to the BPC and O&M cost to the extent of inflation movement and interest payments on residual annuity payments in the operational period.

The project had received PCC with effect from December 14, 2021 (vide letter dated December 22, 2021) for 52.76 km, i.e., 93.38% of total project length of 56.50 km. Based on the report from independent engineer (IE) for March 2022, 98.35% of total work is completed, the management has indicated that punch list A is completed, except for highway traffic management system and toll plaza for which NHAI has sought clarification from IE. For punch list B, work amounting to Rs 0.90 crore is expected to be completed by September 2022; further, for works amounting to Rs 4.53 crore, the company has requested NHAI for descoping for the purpose of final completion certificate. Once descoping is approved, the amount shall be reduced from BPC and subsequent annuities shall be calculated accordingly at the reduced amount. As per the provisions of the HAM CA, full annuities and O&M payments are to be received starting six months from the PCC. Accordingly, the project has received its first annuity (along with interest) and O&M payment, to the extent of entire project length, in-line with the provision in the CA.

#### **Experienced management team**

Dilip Buildcon Ltd (DBL; 'CRISIL A/Negative') entered into a share purchase agreement (SPA) with Cube Highways in August 2019, wherein DBL will sell its entire shareholding in DMSHPL to Cube Highways in a phased manner, subject to the shareholding transfer restrictions set out in the CA, and various regulatory and lender approvals. Presently, 49% of equity shareholding and 100% of promoter loans have been taken over by Cube Highways. The balance shareholding is expected to be transferred by mid of August 2022.

Cube Highways has a well-equipped team of professionals to manage the maintenance of the road. Its senior management comprises experienced professionals with deep understanding of the technical specifications and advanced methods of O&M to proactively tackle the maintenance of road projects. This is further supported by an experienced finance and legal team. Cube Highways has undertaken to fund any shortfall in annuity, O&M and interest pay-outs by NHAI due to pending work completion to achieve commercial operation date (COD) and has the financial flexibility to support the project, if needed, and have the track record of doing so in their other projects. Further, Cube Highways is supported by strong sponsors such as Abu Dhabi Investment Authority, I-Squared Capital.

#### **Weaknesses**

##### **Susceptibility to changes in operational cost and interest rate**

The project is exposed to risks related to maintenance of the project stretch. If the prescribed standards are not met, annuity payment may be reduced. Any significant delay and deduction in annuities could impact the debt-servicing capability. Nonetheless, the management's extensive experience is expected to mitigate this risk and help in effective maintenance and avoidance of any structural damage to the road.

Along with fixed annuities, the project will receive interest payments on the balance annuities that are linked to the prevailing bank rate. While bank rate has increased recently, it witnessed significant reduction over the 18-24 months since the project award, thereby impacting project inflow, given that a large proportion of the cash inflow is from the interest on balance annuities. However, this is partially offset as the coupon rate on the NCDs is floating after two years from deemed date of allotment and may follow the trend in bank rates, thus supporting DSCR.

##### **Exposure to refinancing risk**

The NCDs have put/call options exposing the company to refinancing risk. The first put/call option date is two years from the deemed date of allotment and at the end of every year thereafter or as mutually agreed between the issuer and debenture holder. This risk is partially mitigated, given the sufficient time available for refinancing the NCDs, i.e., 90-120 days, stable cash flow and healthy debt protection metrics of the project and extensive experience of Cube Highways.

##### **Liquidity: Superior**

Liquidity will be supported by receipt of semi-annual annuities (along with interest) and O&M pay-out from NHAI. The DSCR is expected to be comfortably over 1 time throughout the tenure of debt. Further, DSRA of Rs 24.9 crore is available, which is equivalent to six months of peak debt servicing obligation. Furthermore, there is a gap of more than 30 days between the scheduled annuity payment date and the debt repayment date, which provides a cushion in case of delay in annuity. Financial support will also be available from Cube Highways in case of any shortfall/deduction in annuity due to any issue in project completion, under the sponsor support agreement signed for the NCDs.

##### **Outlook: Stable**

DMSHPL should continue to benefit from the receipt of PCC, leading to stable semi-annual payments from NHAI

##### **Rating Sensitivity Factors**

###### **Downward Factors**

- Substantial delay in receipt of subsequent annuities from NHAI
- Significant deduction in annuity and O&M payments due to non-maintenance of the road
- Any significant additional debt contracted

##### **About the Company**

DMSHPL is a special-purpose vehicle incorporated on April 11, 2018. DBL entered into an SPA with Cube Highways in August 2019, wherein DBL will, sell its entire shareholding in DMSHPL to Cube Highways, in a phased manner. Currently, Cube Highways holds 49% equity shares of the company and the balance (51%) is held by DBL. It is established to undertake four-laning (from existing two-lane) of the Sangli-Solapur (Mangalwedha to Solapur) section of national highway

(NH) 166 in Maharashtra on a design, build, operate and transfer basis under HAM. Total length of the road is 56.50 km and the pavement is rigid (concrete).

The CA was signed on May 10, 2018, and the concession period includes construction period of 730 days from the AD and fixed operations period of 15 years from the COD. AD was received on May 23, 2019, and the project received an extension of 180 days owing to the Covid-19 pandemic-related disruptions. The project received PCC on December 14, 2021. The project cost is Rs 889 crore, funded through ab NHA grant to the extent of Rs 431 crore, debt of Rs 334 crore, and the balance through equity and contribution extended by the promoters.

### Key Financial Indicators

Particulars	Unit	2022	2021	2020
Revenue*	Rs.Crore	109	318	356
Profit After Tax (PAT)	Rs.Crore	-15	-24	-14
PAT Margin	%	-12.8	-7.5	-3.9
Adjusted debt/adjusted networkth	Times	-622.81	20.85	3.69
Interest coverage	Times	0.15	-0.19	-0.26

\*Revenue includes construction cost incurred in the project as per IND AS accounting requirements

### Any other information:

- **Put/call option on the proposed NCDs:** First put/call option date is two years from deemed date of allotment and every year thereafter
- **Step-up/step-down in coupon rate:** The coupon rate shall be revised upwards by 0.25% for every notch downgrade in the credit rating of the debentures till AA. In case of rating downgrade to AA- or below, the coupon shall be increased by 1.00% for every notch downgrade below AA. The coupon rate shall be revised downwards by 0.35% for upgrade in rating to AAA.

### Financial covenants

- DSCR below 1.10 time will be considered a breach of restricted payment conditions.

### Note on complexity levels of the rated instrument:

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### Annexure - Details of Instrument(s)

ISIN	Name of instrument	Date of allotment	Coupon rate (%)	Maturity date	Issue size (Rs.Crore)	Complexity level	Rating assigned with outlook
INE000O07018	NCDs	22-Feb-2022	6.32% (year 1)	28-Feb-2035	338.90	Complex	CRISIL AAA/Stable
INE000O07026	NCDs	22-Feb-2022	6.32% (year 1)	28-Feb-2035	24.90	Complex	CRISIL AAA/Stable
NA	NCDs*	NA	NA	NA	0.08	Complex	CRISIL AAA/Stable

\*Yet to be issued

### Annexure - Rating History for last 3 Years

Instrument	Type	Current		2022 (History)		2021		2020		2019		Start of 2019
		Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Non Convertible Debentures	LT	363.88	CRISIL AAA/Stable	11-02-22	CRISIL AA+/Positive		--		--		--	--
				28-01-22	CRISIL AA+/Positive		--		--		--	--

All amounts are in Rs.Cr.

### Criteria Details

Links to related criteria
<a href="#">The Rating Process</a>
<a href="#">CRISILs criteria for rating annuity and HAM road projects</a>

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