

Ratings

CRISIL Ratings Limited (A subsidiary of CRISIL Limited)



Rating Rationale

May 20, 2022 | Mumbai

DBL Bargaon Watambare Highways Private Limited

Rating upgraded to 'CRISIL AAA/Stable'

Rating Action

Rs.333.89 Crore Non Convertible Debentures	CRISIL AAA/Stable (Upgraded from 'CRISIL AA+/Positive')
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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 Bargaon Watambare Highways Private Limited (DBWHPL) to '**CRISIL AAA/Stable**' from '**CRISIL AA+/Positive**'. The NCDs have been utilised for refinancing project term loan and funding of balance engineering, procurement and construction (EPC) cost (tranche I of Rs 310.4 crore) and creation of debt service reserve account (DSRA, tranche II of Rs 23.4 crore).

The rating action follows receipt of the first annuity (along with interest) and operations and maintenance (O&M) payment from National Highways Authority of India (NHAI; '**CRISIL AAA/Stable**') on April 7, 2022, as per the provisions of the concession agreement (CA). The sponsor has also created DSRA of Rs 23.40 crore in the form of fixed deposits, covering six months of peak debt obligations in line with the financing agreements.

The annuity receipt corresponded to the entire project length without deductions. However, NHAI has withheld Rs 3.04 crore pertaining to goods and services tax (GST), which is expected to be reimbursed on submission of documentation corresponding to actual GST payment. The project has a track record of timely and full receipt of milestone payments during construction and timely receipt of first annuity.

The project had received provisional completion certificate (PCC) with effect from September 24, 2021, through a letter dated October 26, 2021, significantly mitigating implementation risk. PCC was received for 50.146 kilometre (km), that is, 96.4% of the total project length of 52.0 km. Of the remaining works, punch list A has been completed and only minor works pertaining to punch list B are pending; majority of the project was completed as of May 5, 2022. The main carriageway is complete and remaining work pertains to service roads, rest area, and so on. Cost of completion for the pending items is Rs 10-12 crore and will likely be completed by June 2022.

The rating continues to reflect healthy estimated debt protection metrics of the project and inherent benefits of the hybrid annuity model (HAM). The rating also reflects the strong management support, operating capability 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 and exposure to refinancing risk.

Analytical Approach

CRISIL Ratings has considered the standalone business and financial risk profiles of DBWHPL.

Key Rating Drivers & Detailed Description

Strengths

Healthy debt protection metrics

The project is expected to receive 60% of the bid project cost (BPC) from NHAI in the form of 30 semi-annual payments starting March 31, 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%. The ratio of debt to annuities receivable is expected to be healthy at 0.47 time (assuming entire NCD draw down and receipt of 100% annuity) and DSCR is likely to remain comfortably above 1 time throughout the debt tenure. Furthermore, gap of more than 30 days between the scheduled annuity payment date and the NCD repayment date provides a cushion in case of delay in receipt of annuity. DSRA of Rs 23.4 crore (equivalent to peak debt obligation of six months) has been created in line with the financing terms.

The first annuity (along with interest) and O&M payment was received on April 7, 2022, within 15 days from the due date as per the provisions of the CA. However, around Rs 3 crore has been withheld on account of pending documentation related

to GST payment and is likely to be reimbursed on submission of the necessary documents. Any significant delay or deduction in payment from NHAI will remain a rating sensitivity factor.

Inherent benefits of HAM

HAM has provisions such as de-linking/de-scoping of unavailable land, and allows for 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. Other benefits of HAM include indexation of the BPC and O&M cost to inflation and interest payments on residual annuity payments in the operational period.

The project received PCC with effect from September 24, 2021 (through a letter dated October 26, 2021) on 50.146 km (96% of the total project length). Based on information provided, majority of the project was completed as on May 5, 2022, and only minor work pertaining to punch list B is pending. 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 the entire project length.

Experienced management team

Dilip Buildcon Ltd (DBL; 'CRISIL A/Negative') had entered into a share purchase agreement (SPA) with Cube Highways in August 2019, wherein DBL will sell its entire shareholding in DBWHPL to Cube Highways in a phased manner, subject to the shareholding transfer restrictions set out in the CA, and various regulatory and lender approvals. Cube Highways has taken over 49% of equity shareholding and 100% of promoter loans. The balance shareholding is expected to be transferred in two months post complying with requisite conditions

Cube Highways has a well-equipped team of professionals for maintenance of the road. Transfer of maintenance activities and accounts of DBWHPL to Cube Highways is underway. The senior management of Cube Highways consists of experienced professionals with deep understanding of the technical specifications and advanced methods of O&M to proactively tackle the maintenance of the road projects. The company also has experienced finance and legal teams. It 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 a track record of doing so in other projects. Cube Highways is supported by strong sponsors such as Abu Dhabi Investment Authority (ADIA) and 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. However, the management's extensive experience should 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 the bank rate has increased recently, it had reduced significantly 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 the 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 mitigated by the sufficient time (90-120 days) available for refinancing the NCDs, stable cash flow and healthy debt protection metrics of the project and the 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 the debt. DSRA of Rs 23.4 crore, equivalent to six months of peak debt obligation, is also available. 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 be available from Cube Highways for any shortfall/deduction in annuity due to any issues in project completion, under the sponsor support agreement signed for the NCDs.

Outlook: Stable

CRISIL Ratings believes DBWHPL will 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
- Substantial delay in completion of balance work
- Any significant additional debt contracted

About the Company

DBWHPL is a special purpose vehicle incorporated on April 11, 2018, and is a 49:51 subsidiary of Cube Highways and DBL. It was established to undertake four-laning (from the existing two lanes) of the Sangli-Solapur (Borgaon to Watambare) section of National Highway 166 in Maharashtra on a design, build, operate and transfer basis under HAM. The total length of the road is 52 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. The AD was received on April 22, 2019, and the project received an extension of 180 days owing to pandemic-related disruptions. The project received PCC on September 24, 2021, ahead of schedule. The project cost is Rs 845 crore funded through NHA1 grant of Rs 412 crore, debt of Rs 310 crore, and the balance through equity and promoters' contribution.

DBL entered into an SPA with Cube Highways in August 2019, wherein DBL will sell its entire shareholding in DBWHPL to Cube Highways in a phased manner.

Key Financial Indicators

Particulars	Unit	2021	2020
Revenue	Rs.Crore	206	441
Profit After Tax (PAT)	Rs.Crore	-26	-15
PAT margin	%	-12.6	-3.4
Adjusted debt/adjusted networkth	Times	50.56	6.12
Interest coverage	Times	-0.24	-0.12

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

Any other information:

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

Financial covenants

DSCMR below 1.10 times 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
INE00OP07015	Non-convertible debentures	22-Feb-2022	6.32% (year 1)	31-May-2035	310.40	Complex	CRISIL AAA/Stable
INE00OP07023	Non-convertible debentures	22-Feb-2022	6.32% (year 1)	31-May-2035	23.40	Complex	CRISIL AAA/Stable
NA	Non-convertible debentures*	NA	NA	NA	0.09	Complex	CRISIL AAA/Stable

*Yet to be issued

Annexure - Rating History for last 3 Years

Instrument	Current			2022 (History)		2021		2020		2019		Start of 2019
	Type	Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Non Convertible Debentures	LT	333.89	CRISIL AAA/Stable	11-02-22	CRISIL AA+/Positive		--		--		--	--

			--	28-01-22	CRISIL AA+/Positive		--		--		--	--
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All amounts are in Rs.Cr.

Criteria Details

Links to related criteria

[The Rating Process](#)

[CRISILs criteria for rating annuity and HAM road projects](#)

[Understanding CRISILs Ratings and Rating Scales](#)

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