Press Release

Vishwa Samudra Vaishnodevi Expressway Pvt Ltd (VSVEPL)

June 24, 2024

Ratings:

Instrument / Facility	Amount (Rs. Crore)	Current Ratings	Previous Ratings	Rating Action	Complexity Indicator
Long Term Bank Facilities	756.50	IVR BBB+ / Stable (IVR Triple B Plus with Stable Outlook)	IVR BBB+ / Stable (IVR Triple B Plus with Stable Outlook)	Reaffirmed	Simple
Total	**756.50 (Rupees Seven hundred fifty-six crore and fifty lakh only)**				

Details of Facilities are in Annexure 1

Detailed Rationale:

The reaffirmation of the rating assigned to the bank facility of Vishwa Samudra Vaishnodevi Expressway Pvt Ltd factors in the inherent benefits of concession entered into with National Highways Authority of India (NHAI) on a hybrid annuity model (HAM) basis, including adequate right of way (ROW) and approvals, provision for change of scope, inflation indexation of construction, operations and maintenance (O&M) costs and interest payment on annuity during the operational period as per the concession agreement (CA). The rating also reflects low funding risk, operational track record and financial strength of the sponsor, Vishwa Samudra Engineering Pvt Ltd (VSEPL, rated IVR A/Stable/ A1) and articulation by the sponsor of need-based support during the construction and operational phases. These rating strengths are partially offset by the moderate implementation risk inherent in under-construction projects.

Key Rating Sensitivities:

Upward Factors

- Timely completion of the project within costs.
- Established track record of receipt of annuities from NHAI.

Downward Factors

- Inordinate delays in execution of the project and/or cost overruns or delays in any milestone payment leading to increased dependence on external borrowings, leading to deterioration in debt protection metrics.
- Deterioration in credit profile of sponsor, VSEPL.

Key Rating Drivers with detailed description

Key Rating Strengths:

Benefits of HAM and receipt of substantial ROW

Under the HAM concession agreement, 80% ROW has to be handed over at the 3H stage (land compensation determined) and major approvals have to be provided for declaration of the appointed date. VSVEPL has received ROW (99.2%), which is critical during the construction phase of the project. The other benefits of HAM include change of project scope if 100% ROW is not provided within 180 days of the appointed date. Further, the clause on provisional commercial operation date (PCOD), which states PCOD will be issued on completion of construction on the land made available up to 182 days from the appointed date thereby allowing for full annuities to be paid, as if all works of the project have been completed, is critical during the operational phase. The project also enjoys cost-escalation assurance provided by under the terms of the concession.

Furthermore, VSVEPL has signed a fixed-price, fixed-time contract with VSEPL, which has expertise and experience in the construction business and a track record of project execution. VSEPL has been awarded HAM projects funded by NHAI aggregating to Rs.5,883 crore. The said projects are being executed through SPVs, and the EPC works are being executed by VSEPL.

Low funding risk

Total bid project cost (BPC) is Rs 1870 crore. The company has completed the process of financial tie-up for project at a cost of Rs 1770 crore (94.7% of BPC), funded by NHAI grant of Rs 748 crore, debt of Rs 756.50 crore and balance through equity. Funding risk is low as the financial closure of the project has been achieved. Till March 31,2024 the company has incurred expenditure of Rs.1131.46 crore which was funded by promoter’s contribution of Rs. 192.75 crore (Rs 79.65 crore by way of equity and Rs.113.10 crore by way of subordinated debt), NHAI construction support, of Rs. 509.61 crore and debt of Rs.387.13 crore. Of NHAI's share, 40% will be given on project milestone basis. The company has achieved the second milestone as on December 26,2023 with penalty charges under Milestone-I for delays. Further VSEPL and Vishwa Samudra Holdings Pvt Ltd have provided unconditional & irrevocable corporate guarantee for the bank facilities availed by VSVEPL.

Expected operational and financial support from sponsor

VSVEPL will benefit from the operational and financial support of VSEPL, its parent company. Also, apart from cost overrun, VSEPL will fund any increase in O&M expense, major maintenance expense, creation of debt service reserve account (DSRA) and debt servicing during the operational phase. VSEPL has long standing experience in the engineering, procurement, and construction segment in the southern part of India. VSEPL has been awarded HAM projects funded by NHAI aggregating to Rs.5,883 crore. The sponsor has the financial flexibility to support its projects, if needed.

Concession Agreement with Strong Counterparty, NHAI

NHAI is an autonomous Government of India (GoI) authority under the Ministry of Road Transport and Highway (MoRTH). It was established on June 15, 1989, as per the National Highways Authority of India Bill, 1988. As a nodal agency, NHAI is the vehicle of GoI to achieve its national road infrastructure plans. As a result, it is strategically important to the GoI. The GoI has statutory and regulatory powers over NHAI and provides financial support to the authority in the form of budgetary allocations, apart from allocation of fuel cess funds, and additional budgetary resources. Project revenues (toll collections, revenue share, negative grant, and premium receivables) and demonstrated ability to raise funds at competitive borrowing costs underpins NHAI's financial flexibility. Financial resourcefulness of NHAI has been bolstered by its ability to monetise its operational assets through TOT and InvIT modes. NHAI has been awarding projects under HAM/EPC basis under its flagship programme 'Bharatmala Pariyojana'. These models require NHAI to provide upfront funds during construction as grants and annuities once the project is operational. The strong credit profile of NHAI provides comfort that the receipt of grant and annuities will be in a timely manner.

Key Rating Weaknesses:

Exposure to implementation risks

VSVEPL faces project implementation risk as the project is at construction stage, with its appointment date (AD) being September 26, 2022. As per Independent Engineer's (IE) report for the month of March 2024, the physical progress was 52.58% as on March 31, 2024, against the schedule physical progress of 81.19%. There has been delay in execution of work vis-s-vis the schedule due to factors like delay in work program, unprecedented rainfall during construction period, stoppage of works due to protests apart from delay in disbursement of compensation to landowners of building and other structures. NHAI has levied penalty charges of Rs.11.22 crores under Milestone-1 on the company (achieved on September 10, 2023). NHAI had withheld that amount and subsequently in the month of April 2024 when the bill was raised that amount was adjusted and NHAI has released it. The company has applied for EOT for Milestone III to NHAI vide letter dated April 08, 2024. As per the IE recommendation 90 days extension is sought, up to August 31, 2024, against the target date of May 18,2024. The approval is still pending. Once the approval for EOT for Milestone III is received the company will apply for extension of SCOD from September 26, 2024, to May 21, 2025. The fixed-price fixed-time EPC contract with VSEPL and its strong execution capabilities will support implementation. Any delay in project implementation is a key rating monitorable.

Analytical Approach: Standalone approach and parent notch up.

Applicable Criteria:

Criteria of assigning Rating Outlook

Rating Methodology – Infrastructure Companies

Financial Ratios & Interpretation (Non-Financial Sector)

Criteria on Parent Support

Criteria on Default Recognition

Complexity Level of Rated Instruments/Facilities

Liquidity – Adequate

Liquidity of the company is expected to remain adequate. The project is currently under construction and the funding for the cost of project has been tied up. The company will start receiving annuities from NHAI after the construction of project. The waterfall mechanism will ensure that annuity receivables will be escrowed to meet the principal repayment and interest payments. There is also a DSRA required to be maintained for six months along with principal and interest. Further there is support from Vishwa Samudra group in case of any exigency.

About the company:

VSVEPL is a special-purpose vehicle incorporated on December 29, 2021, for construction of four/six lane access-controlled expressway from Junction with Hiranagar Road near village Gurha Baildaran to Junction with Jammu Ring Road NH244A near Jakh village section as part of Delhi-Amritsar-Katra Expressway on HAM mode under Bharatmala Pariyojana. VSEPL has been awarded the contract and received Letter of Award on December 15, 2021, from NHAI. VSEPL controls 99.99% of the equity interest in VSVEPL. The CA for the project was executed between the company and NHAI on January 31, 2022, for a concession period, including construction period of 730 days from AD and fixed operations period of 15 years from COD. The company received AD on September 26, 2022.

Financials: Standalone (Rs. crore)

For the year ended/ As On*	31-03-2023	31-03-2024
	(Audited)	(Audited)
Total Operating Income	165.56	933.28
EBITDA	-3.87	51.28
PAT	-4.07	23.07
Total Debt	-	387.13
Adjusted Tangible Net-worth	128.49	215.35
Ratios		
EBITDA Margin (%)	NM	5.49
PAT Margin (%)	NM	2.46
Adjusted Overall Gearing Ratio (x)	0.00	1.80
Interest Coverage (x)	NM	2.25

**Classification as per Infomerics Standards; NM : Not meaningful*

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years:

Sr. No	Name of Instrument/ Facilities	Current Ratings (Year 2024-25)			Rating History for the past 3 years		
		Type	Amount (Rs. crore)	Rating	Date(s) & Rating assigned in 2023-24	Date(s) & Rating assigned in 2022-23	Date(s) & Rating assigned in 2021-22
1.	Term Loan	Long Term	756.50	IVR BBB+/ Stable	**(April 25, 2023)** IVR BBB+/ Stable	-	-

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About Infomerics:

Infomerics Valuation and Rating Private Ltd (Infomerics) was founded in the year 1986 by a team of experienced finance professionals for research and risk evaluation. Infomerics commenced its activities as External Credit Assessment Institution after obtaining registration from Securities Exchange Board of India (SEBI) and accreditation from Reserve Bank of India (RBI).

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Annexure 1: Details of Facilities:

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. crore)	Rating Assigned/ Outlook
Long Term Fund Based Bank Facility –Term Loan	-	-	March 31, 2037	756.50	IVR BBB+/ Stable

Annexure 2: List of companies considered for consolidated analysis: Not Applicable

Annexure 3: Facility wise lender details:

https://www.infomerics.com/admin/prfiles/len-VSVEPL-24june24.pdf

Annexure 4: Detailed explanation of covenants of the rated instrument/facilities: Not Applicable

Note on complexity levels of the rated instrument: Infomerics has classified instruments rated by it on the basis of complexity and a note thereon is available at https://www.infomerics.com/.