

GMR Pochanpalli Expressways Limited

October 04, 2019

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating ¹	Rating Action
Long term Bank Facilities (Bank Guarantee)	20.00 (Rupees Twenty Crore Only)	CARE BBB-; Negative (Triple B Minus; Outlook: Negative)	Revised from CARE BBB; Stable (Triple B; Outlook: Stable)
Non-Convertible Debenture issue	353.10 (Reduced from 372.77) (Rupees Three Hundred Fifty Three Crore and Ten Lakhs Only)	CARE BBB-; Negative (Triple B Minus; Outlook: Negative)	Revised from CARE BBB; Stable (Triple B; Outlook: Stable)

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in rating of GMR Pochanpalli Expressways Ltd (GPEL) factors in the continuing increase in the exposure towards group companies, which was inconsistent with the terms of the Debenture Trust Deed and Trust & Retention Agreement (TRA) entered into by GPEL. This has weakened the strength of the structure as originally envisaged. Any delay in receipt of funds back from group companies would have bearing on the ability of the company to carry out the major maintenance work in ensuing years. The ratings takes cognizance of arbitration invoked against NHA1 for dispute on major maintenance.

The rating continues to draw comfort from the 'annuity' nature of the project revenues with no exposure to traffic risk coupled with low counterparty risk, satisfactory operational status of the project stretch, fixed price O&M contract and experienced sponsor.

Going forward, timely receipt of funds back from group companies and adherence with transaction structure shall remain key rating sensitivities. Also, any further increase in exposure to group companies shall also be a key monitorable from credit perspective.

Outlook: Negative

The revision in the outlook to Negative for GPEL is on account of expected deterioration in liquidity profile given the scheduled major maintenance in near to medium term coupled with uncertainty w.r.t. timely return of extended funds in the form of advances to the group companies which have weaker credit profile.

Detailed description of the key rating drivers

Key Rating Strengths

Annuity nature of project revenues thus eliminating traffic risk

The project revenues are linked with the annuity receivables from NHA1 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.

Established track record of annuity receipt and low counter party credit risk

The project has low counter party credit risk marked by established delay free track record of annuity receipt coupled with comfortable financial risk profile of NHA1 (rated CARE AAA; Stable). GPEL has received twenty annuities from NHA1 till now. The annuity payments are due semi-annually in mid of September and March of every year and have been regular without any delay.

Fixed price O&M agreement

For the maintenance of the project, GPEL has entered into a fixed price contract for the regular as well as the major O&M with GH1 (a wholly-owned subsidiary of GIL). The project stretch has been satisfactory since commercial operation in March 2009.

Maintenance of DSRA

The company is required to maintain DSRA as per the terms of the concession agreement. Earlier, the DSRA of Rs. 20 crore was funded in the form of deposits. However, during December, 2016, company has replaced the funded DSRA with the bank guarantee of Rs. 20.00 crore for fulfilling the DSRA requirement.

Experienced sponsor with long track record of operations

GMR Pochanpalli Expressways Limited is a special purpose vehicle promoted by GMR Highways Limited (GHL, 98.50%) along with GMR Infrastructure Limited (GIL, 1%) and GMR Energy Limited (GEL, 0.50%). GMR Infrastructure Limited is a holding

²Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications

company for the infrastructure business of GMR group which is a leading business house having significant experience in infrastructure sector viz. Airport, Power, Road etc. GMR Highways Limited, a subsidiary of GMR Infrastructure Limited, is the holding company for various road projects developed by the GMR group.

Key Rating Weaknesses

Weakening of structure with increase in exposure to group companies

GPEL has advanced additional funds to the tune of Rs. 56.52 crore during FY19 to group companies increasing the advances to group companies at Rs. 259.64 crore as on March 31, 2019 (PY: Rs. 203.12 crore). The total support to group companies stood at Rs. 303.11 crore including the interest accrued on loans and advances (PY: 251.86 crore). The transfer of funds is inconsistent with the structure originally envisaged and has diluted the strong credit quality inbuilt in the structure on which the rating took considerable comfort.

Arbitration invoked against NHAI for dispute on major maintenance

NHAI had levied penalty of Rs. 10.31 crore on the company for delay in major maintenance which the company had disputed and GPEL had invoked the arbitration proceedings against NHAI. The company has raised claim of Rs. 104 crore on NHAI for expenditure incurred on unwarranted major maintenance in FY15. Both the parties have submitted their arguments and are awaiting the decision of the tribunal.

Further, the company has to carry out major maintenance work in near to medium term. Although, the company has provided for major maintenance, however, part of such money has been extended as loans to group companies instead of being invested in permitted securities. Going forward the timely recovery of such loans would have bearing on the ability of GPEL to carry out the scheduled major maintenance in FY21 which would also be subject to outcome of arbitration proceedings.

Liquidity profile- Adequate

The company has adequate liquidity profile marked by stable annuity payments from NHAI and adequate cushion available between the cash generation and scheduled debt repayments. The liquidity profile of the company is also supported by cash and liquid investments of Rs. 49.82 crore (adjusted for margin money against bank guarantee) as on March 31, 2019.

Analytical approach: Standalone

Applicable Criteria

[Criteria on assigning Outlook to Credit Ratings](#)

[CARE's Policy on Default Recognition](#)

[Rating Methodology – Infrastructure Sector Ratings](#)

[Rating Methodology – Annuity Road Projects](#)

[Financial ratios – Non-Financial Sector](#)

About the Company

GMR Pochanpalli Expressways Private Limited (GPEL) was incorporated as a Special Purpose Vehicle (SPV) by the 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. As on March 31, 2017, GMR Highways Limited (GHL) along with GMR Infrastructure Limited (GIL) and GMR Energy Limited (GEL), held 100% stake of GPEL. 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 crore (payable semi-annually). GPEL has entered into a Concession Agreement (CA) with NHAI on March 31, 2006 for the project. The project cost of Rs. 702.26 crore has been funded by way of equity Rs.138 crore, preference shares of Rs.12.26 crore from the promoters and the balance Rs.552 crore by way of debt. The project achieved Commercial Operations Date (COD) on March 26, 2009.

Brief Financials (Rs. crore)	FY18 (A)	FY19 (A)
Total operating income	102.40	83.30
PBILDIT	64.29	66.71
PAT	11.16	5.59
Overall gearing (times)	2.55	2.35
Interest coverage (times)	1.31	1.12

A: Audited

Status of non-cooperation with previous CRA: NA

Any other information: NA

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

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Non-fund-based - LT-Bank Guarantees	-	-	-	20.00	CARE BBB-; Negative
Debentures-Non Convertible Debentures	April 15, 2010	9.38%	October 15, 2026	353.10	CARE BBB-; Negative

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Debentures-Non Convertible Debentures	LT	353.10	CARE BBB-; Negative	-	1)CARE BBB (SO); Stable (28-Dec-18)	1)CARE A- (SO); Stable (19-Jan-18)	1)CARE AA (SO) (14-Oct-16)
2.	Non-fund-based - LT-Bank Guarantees	LT	20.00	CARE BBB-; Negative	-	1)CARE BBB (SO); Stable (28-Dec-18)	1)CARE A- (SO); Stable (19-Jan-18)	-

Note on complexity levels of the rated instrument: CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

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