Nirmal BOT Limited

September 25, 2020

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Non-Convertible Debentures	**149.36 (reduced from Rs.163.48 crore)**	**CARE AAA; Stable (Triple A; Outlook: Stable)**	**Reaffirmed, removed from credit watch**
Total	**149.36 (Rupees One hundred and forty-nine crore and thirty six lakh only)**		

Details of instruments in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the long term non-convertible debentures of Nirmal BOT Limited (NBL) were placed on 'Credit Watch with Developing Implications' on account of an announcement by NBL vide a publication dated October 24, 2019 on the Bombay Stock Exchange (BSE), for the proposed sale of entire stake held by Highway Concessions One Private Limited (HCOPL, current 100% holding company) in NBL to Maple Highways Pte Ltd (MHPL) vide Share Purchase Agreement dated October 22, 2019. The transaction was subject to approvals from National Highways Authority of India (NHAI) and Life Insurance Corporation of India (LIC, the debenture holder) and the management expected it to conclude by March 2020. However, due to COVID-19 induced nationwide lockdown since March 2020, the validity of the agreement lapsed and there has been no renewal thereafter. Consequently, the rating has been removed from Credit Watch.

The rating assigned to the instrument of NBL continues to derive strength from the structured payment mechanism whereby biannual annuity is received from the National Highways Authority of India (NHAI, rated 'CARE AAA; Stable') in an escrow account for servicing of the NCDs. The rating derives comfort from the long track record of timely receipt of annuity payments, comfortable liquidity position of the company and good condition of the road reflected by full annuity receipts post completion of major maintenance activity undertaken in FY20. The rating also factors in the presence of Major Maintenance Reserve Account (MMRA) and Debt Service Reserve Account (DSRA) throughout the debt service period along with adequate operations and maintenance (O&M) expenses and major maintenance (MM) expenses assumed in the base case.

Rating Sensitivities

Negative Factors

- Deterioration in the credit profile of NHAI and occurrence of force majeure events
- Non-receipt/delayed/reduced receipt of annuities
- Non-adherence of the structured payment mechanism

Outlook: Stable

Detailed description of the key rating drivers

Key Rating Strengths

Structured payment mechanism for Non-Convertible Debentures (NCDs): The NCD program is based on the discounting of future NHAI annuity receivables of the company which in the absence of any revenue risk imparts significant comfort to the issue. The NCD's credit profile is also enhanced by an escrow mechanism as per the terms of the concession agreement to ensure proper utilization of annuity receipts and adherence to certain covenants, which further protect the interests of the debenture holders. However, any deterioration in the credit profile of NHAI (rated CARE AAA; Stable) could have a material adverse impact on the credit quality of the debentures.

The company is in receipt of timely NHAI annuity payments from April 2010 onwards. The bi-annual annuities of Rs.23.80 crore fall due on 29th April and 29th October each year. In FY19, NHAI had deducted an amount of approximately Rs.7.1 crore from the first semi-annual annuity as a penalty towards delay in carrying out 1st major maintenance due in FY15. In this regard, the Company had invoked arbitration on 12 January 2018 against the levy of damages by NHAI and the arbitration tribunal on 21 August 2019 unanimously overturned the penalty. NHAI is required to refund the penalty amount with interest to NBL, as per settlement agreement dated September 18, 2020. Nevertheless, NBL was insulated from the penalty impact by way of an indemnity from HCC, the previous sponsor, in respect of first major maintenance works.

Creation of Major Maintenance Reserve Account (MMRA) and Debt Service Reserve Account (DSRA): The company envisages major maintenance expenditure to be incurred every fifth year with first major maintenance to be undertaken five years from the COD (i.e. in FY15) as specified in Concession Agreement(CA). Second major maintenance was completed in FY2020 within estimated expenditure of Rs.33 crore. In order to prevent any stress on the cash flows in the year of major

[1]*Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications*

maintenance, NBL has regularly been funding the Major Maintenance Reserve Account (MMRA). MMRA balance stands at Rs.9.14 crore as on June 30, 2020.
Additionally, NBL has also created a fund based debt service reserve account (DSRA) for an amount equal to one annuity of the project ie, Rs.23.80 crore (DSRA as on June 30, 2020 was Rs.24.13 crore, which includes applicable interest). The balance in the DSRA acts as an additional safeguard to the debenture holders.

Low counterparty credit risk: Incorporated by the Government of India (GoI) under an Act of the Parliament as a statutory body, NHAI functions as the nodal agency for development, maintenance and management of the national highways in the country. NHAI is vested with executive powers for developing national highways in India by the Ministry of Road Transport & Highways (MoRTH). The mission of NHAI is to meet the nation's need for the provision and maintenance of national highway network to world standards within the strategic policy framework as set by GoI. NHAI's rating factors in the high level of support that it receives from GoI due to its strategic importance as the country's nodal agency for implementing various road sector projects including various phases of National Highways Development Programme (NHDP). The outlook on NHAI reflects the outlook on the sovereign, whose direct and indirect support continues to be the key rating driver. By virtue of being a quasi-government body, the risk arising from NHAI defaulting on the annuity payments is negligible. Any adverse variation in the credit profile of NHAI will influence the revenue visibility of various road projects and will be a key rating sensitivity for NBL.

Long operational history: The project received the provisional completion certificate from NHAI on July 22, 2009 and has been receiving timely annuity payments from NHAI since then. The final completion certificate was received on October 3, 2018.

Adequate major maintenance and O&M expenses: Under the present structure, HCC (the previous sponsor) and HCOPL (current holding company) have provided a joint, several, unconditional and irrevocable undertaking to the debenture trustee to (i) make good any shortfall in meeting O&M/MM expenses, in case they exceed the budgeted numbers and (ii) make good any shortfall in annuity receipt from NHAI to NBL if such deduction is due to non-compliance in meeting O&M obligations under the concession agreement as observed by the independent consultant. Any overrun in O&M and MM expenses, vis-à-vis amounts as envisaged by the company is critical from credit perspective. However, the base case assumptions towards O&M and MM expenses are higher than CARE 's industry aggregates and therefore, the debt service coverage indicators are resilient even in various stressed scenarios.

Liquidity Analysis:
Liquidity: Strong - Liquidity is marked by fixed semi-annual annuity payments of ~Rs.24 crore and linked semi-annual debt repayments having an amount lower than the amount of annuities. Comfortable liquidity position is also reflected by the cash and cash equivalents of Rs.47.13 crore [including DSRA (in the form of fixed deposit) of Rs.24.13 crore, MMRA (in mutual funds) of Rs.9.14 crore, other IDFC mutual fund investments of Rs.13.70 crore (including major maintenance retention money of Rs.4 crore) and free cash and bank balance of Rs.0.17 crore] outstanding as on June 30, 2020. Further, there is no other external debt present in the company, only interest on subordinate debt of Rs.31.50 crore from the holding company HCOPL having fixed interest at 12%.

Analytical approach: CARE has analysed NBL's credit profile by considering the structured payment mechanism; [biannual annuity is received from the National Highways Authority of India (NHAI) (rated 'CARE AAA; Stable' for bonds) in an escrow account for servicing of the NCD] and adequate built in liquidity cushions with favourable credit protection mechanisms.

Applicable Criteria
Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings
CARE's Policy on Default Recognition
Rating Methodology - Infrastructure Sector Ratings
Financial Ratios - Non Financial Sector
Liquidity Analysis of Non-Financial Sector Entities

About the Company
Nirmal BOT Limited (NBL) is a special purpose vehicle (SPV) which was incorporated on September 19, 2006, to undertake improvement, rehabilitation/strengthening of the existing two-lane road of the Kadtal-Armur section [278 km to 308 km of National Highway (NH)-7] and widening it to four-lane divided carriageway on a Build, Operate and Transfer (BOT) - annuity basis. The concession is for a period of 20 years from the Commencement Date as per Concession Period, i.e., October 30, 2007, including a 24-month implementation period.

NBL was promoted by HCC Concessions Ltd (HCC-Con), a step-down subsidiary of HCC. On December 5, 2014, HCC-Con had announced sale of its 100% stake in NBL (including all assets and liabilities) to Highway Concessions One Private Limited (HCOPL). HCOPL had acquired 74% upfront and the balance 26% stake was transferred in March 2019 upon receipt of requisite approval from NHAI.
As on October 24, 2019, NBL had announced the sale of entire stake held by HCOPL to Maple Highways Pte Ltd [a subsidiary of Caisse de dépôt et placement du Québec (CDPQ), a Canadian pension fund manager]. However, due to COVID-19 induced lockdown in the country, the agreement lapsed and as confirmed by company there was no renewal thereafter.

Brief Financials (Rs. crore)	**FY19 (A)**	**FY20 (A)**
Total operating income	30.03	70.29
PBILDT	23.07	28.46
PAT	-0.03	9.21
Overall gearing (times)	NM	NM
Interest coverage (times) (for senior debt)	1.41	1.87
Interest coverage (times) (for senior and subordinate debt)	1.12	1.50

A: Audited; NM: Not Meaningful; Note: The financials are classified as per CARE's internal standards

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 is given in Annexure-3

Complexity level of various instruments rated for this company: Annexure 4

Annexure-1: Details of Instruments

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Debentures-Non Convertible Debentures	INE784J07019	December 16, 2010	9.38	May 18, 2026	149.36	CARE AAA; Stable

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 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based - LT-Term Loan	LT	-	-	-	-	-	-
2.	Debentures-Non Convertible Debentures	LT	149.36	CARE AAA; Stable	-	1)CARE AAA (Under Credit watch with Developing Implications) (05-Nov-19)	1)CARE AAA (SO); Stable (07-Feb-19)	1)CARE AAA (SO); Stable (23-Jan-18)

Annexure-3: Detailed explanation of covenants of the rated instruments

Non-Convertible Debentures	Detailed explanation
A. Financial covenants	
I. Debt service coverage ratio (DSCR)	Minimum DSCR of 1.20 to be maintained throughout the tenure of the NCD issue
II. Subordinate debt repayment	Subordinate debt to not be repaid until full repayment of NCDs.
III. Debt Service Reserve Account (DSRA) and Major Maintenance Reserve Account (MMRA)	Funded DSRA equivalent to one semi-annuity ie Rs.23.80 crore and MMRA as per projections given in business plan to be created and maintained
B. Non-financial covenants	
I. No Guarantee	No guarantees to be given to any third party
II. Winding up	Debenture trustee to be promptly informed if an application of winding up is made against NBL.
III. No acquisitions	The company shall not acquire any entity, unless permitted by Concession Agreement.

Annexure 4: Complexity level of various instruments rated for this company

Sr No	Name of instrument	Complexity level
1	Debentures-Non Convertible Debentures	Simple

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

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CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

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