

GMR Pochanpalli Expressways Limited
September 07, 2020

Ratings

| Facilities/Instrument | Amount (Rs. crore) | Rating ¹ | Rating Action |
|--|---|----------------------|---|
| Non-Convertible Debenture issue | 353.10 (Rupees Three Hundred Fifty Three Crore and Ten Lakhs Only) | CARE D (Single D) | Revised from CARE BB (under credit watch with negative implication) and removed from credit watch (Double B; Under credit watch with negative implications) |
| Long term Bank Facilities (Bank Guarantee) | 20.00 (Rupees Twenty Crore Only) | CARE D (Single D) | Revised from CARE BB (under credit watch with negative implication) and removed from credit watch (Double B; Under credit watch with negative implications) |

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

CARE has revised the ratings of GMR Pochanpalli Expressways Limited (GPEL) to CARE D. Instruments with this rating are in default or are expected to be in default soon. The revision in the ratings of GPEL follows the delays in servicing of its debt obligations by the company.

Rating sensitivities**Positive Factors**

- Timely servicing of debt obligations for more than three months.

Detailed description of the key rating drivers**Key Rating Weaknesses*****Delays in servicing of debt obligations***

Earlier, GPEL had sought moratorium on debt service obligations due on April 15, 2020 from investor of NCDs pursuant to the Reserve Bank of India's (RBI) circular and Insurance Regulatory and Development Authority's (IRDA) circular in the context of outbreak of COVID-19. As confirmed by the investor and trustee, the moratorium has been rejected by the investor and there have been delays in servicing of debt obligations by the company.

Reduction in annuity leading to moderation in debt coverage indicators

NHAI has reduced the annuity to around Rs. 39 crore as per 22nd annuity received on March 26, 2020 against Rs. 54.18 crore as per concession agreement on account of delay in major maintenance of the stretch. The reduction in annuity has led to the moderation in the debt coverage indicators and has impacted the overall debt service capability of the company.

Adverse outcome of arbitration proceedings

GPEL had invoked the arbitration proceedings against NHAI on account of penalty levied by NHAI (Rs. 10.78 crore deducted from 18th annuity) for delay in completion of first periodic major maintenance of the stretch. The company had raised claim of Rs. 104 crore on NHAI for expenditure incurred on unwarranted major maintenance in FY15. On January 14, 2020, the Hon'ble Tribunal has pronounced the award and has directed the company to carry out the major maintenance irrespective of the roughness index. The tribunal has directed the company to commence the major maintenance with effect from April 01, 2020 and complete it within 9 months. The tribunal has also directed the NHAI to refund amount of Rs. 10.79 crore along with interest @12%.

Weakened strength of structure with continuing exposure to group companies

GPEL has advanced funds to group companies which stood 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 as on March 31, 2019 (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. Though, the company has recovered Rs. 18.23 crore from group companies in FY20, the company is yet to recover significant portion of advances from group companies.

Key Rating Strengths

¹Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications.

Annuity nature of project revenues thus eliminating traffic risk

The project revenues are linked with the annuity receivables from NHAI 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 NHAI (rated CARE AAA; Stable). GPEL has received twenty annuities from NHAI 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.

Analytical approach: Standalone

Applicable Criteria

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

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

[Rating Methodology – Infrastructure Sector Ratings](#)

[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 |
| PBILDT | 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 D |
| Debentures-Non Convertible Debentures (ISIN- INE808H07010) | April 15, 2010 | 9.38% | October 15, 2026 | 353.10 | CARE D |

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. | Debentures-Non Convertible Debentures | LT | 353.10 | CARE D | 1)CARE BB (Under Credit watch with Negative Implications) (28-Apr-20) | 1)CARE BBB-; Negative (04-Oct-19) | 1)CARE BBB (SO); Stable (28-Dec-18) | 1)CARE A-(SO); Stable (19-Jan-18) |
| 2. | Non-fund-based - LT-Bank Guarantees | LT | 20.00 | CARE D | 1)CARE BB (Under Credit watch with Negative Implications) (28-Apr-20) | 1)CARE BBB-; Negative (04-Oct-19) | 1)CARE BBB (SO); Stable (28-Dec-18) | 1)CARE A-(SO); Stable (19-Jan-18) |

Annexure 3: Complexity level of various instruments rated for this Company

| Sr. No. | Name of the Instrument | Complexity Level |
|---------|---------------------------------------|------------------|
| 1. | Debentures-Non Convertible Debentures | Simple |
| 2. | Non-fund-based - LT-Bank Guarantees | Simple |

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.

Contact us

Media Contact

Mradul Mishra
Contact no. – +91-22-6837 4424
Email ID: mradul.mishra@careratings.com

Analyst Contact

Puneet Kansal
Contact no. - +91-11-4533 3232
Email ID: puneet.kansal@careratings.com

Business Development Contact

Swati Agrawal
Contact no. : +91-11-4533 3200
Email ID: swati.agrawal@careratings.com

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