

## Press Release

### Palma Gumla Highways Private Limited

June 01, 2021

#### Rating Assigned



<b>Total Bank Facilities Rated*</b>	Rs. 325.71 Cr.
<b>Long Term Rating</b>	ACUITÉ A-/Stable (Assigned)

\* Refer Annexure for details

#### Rating Rationale

Acuite has assigned the long-term rating of **'ACUITÉ A-' (read as ACUITÉ A minus)** on the Rs 325.71 Cr bank facilities of Palma Gumla Highways Private Limited (PGHPL). The outlook is **'Stable'**.

The rating derives comfort from the financial and operational support from RKD Construction Private Limited (RKD) (rated at Acuite A/Stable/A1) to PGHPL. The rating also factors in the fact that the project is being developed on a hybrid annuity model (HAM) where revenue risk is low post commencement of project execution. Moreover, the company has achieved financial closure for fund its project. These rating strengths are partially offset by high implementation risk.

PGHPL was incorporated in September 2020 by RKD (99.96 percent stake) and Bharat Road Network Limited (0.04 percent stake). PGHPL is a special purpose vehicle to undertake 4 Laning of Palma Gulma section of NH 23 in the state of Jharkhand on Hybrid Annuity Model (HAM). The project covers a length of 63.17 Km at a project cost of Rs 1034.65 Cr.

The project was awarded by National Highway Authority of India (NHAI) for a concession period of 17-years including construction period of 2 years. The project's EPC contractor is RKD. PGHPL is managed by Mr Rohan Kumar Das who is the current Managing Director of RKD. PGHPL is eligible for mobilization advance from NHAI. The mobilization advance will be around 10% of the project cost which will be paid in two equal installments.

#### Analytical Approach

Acuite has derived the ratings of PGHPL from operational and strategic linkage with its parent entity.

#### Key Rating Drivers

##### Strengths

##### Strong parentage

PGHPL was promoted by RKD Construction Private Limited (rated at Acuite A/Stable/A1) and Bharat Road Network Limited in September 2020. RKD is the lead sponsor and EPC Contractor for Palma Gulma project. RKD is a reputed EPC player in Odisha and has almost four decades of experience in construction of roads and highways. The current order book of RKD comprises of 75 percent of orders related to construction, upgrading and widening of highways issued by NHAI. Moreover, the company has strong financial flexibility as reflected from its healthy financial risk profile and adequate liquidity profile. RKD will provide funding support to PGHPL in an equal proportion of capital and unsecured loans. The promoters of the company have infused Rs 30 Cr till April 2021 to carry out pre construction activities such as initial traffic and topographic survey, establishment of site camp etc. In addition, RKD has extended corporate guarantee to PGHPL for the construction period.

##### Low Revenue Risk

PGHPL has signed a concession agreement with NHAI for contractual payment in the form of grants and annuities. PGHPL will receive 40 percent of project cost in form of grants during the construction period. The remaining 60 percent of project cost shall be payable in the form of 30 semi-annual annuities spread over a period of 15 years post achievement of COD.

**Strong counter party**

The project is issued by NHAI which is a central government agency. NHAI is a nodal agency for awarding road and highway contracts in India. The Government of India (GOI) had established by NHAI in 1989 for the improvement of road transit infrastructure in India which will help the central government to achieve its economic and welfare functions. NHAI is strategically important to GoI.

**Low funding risk**

The project has received sanction approval for a term loan of Rs 323.71 Cr to partly finance the project. PGHPL is required to maintain a debt service reserve account (DSRA) equivalent to six months or one half yearly instalment that provides additional comfort. In addition, the company needs to open an escrow account with the bank where all payments from the principal have to be deposited. The debt will be repaid in 15 years and 8 months from the date of first disbursement (yet to avail) including 6 months of moratorium from date schedule commercial date of operation.

**Weaknesses****High implementation risk**

The project is in a nascent stage as PGHPL is yet to receive the appointment date. The company has already received 88 percent of Right of way (ROW) and the process to acquire remaining ROW is underway.

**Rating Sensitivity**

- Achievement of milestones as per schedule
- Deterioration in financial risk profile or liquidity profile of the sponsor

**Material Covenant**

None

**Liquidity Profile: Adequate**

The company has adequate liquidity profile marked by strong resource mobilization from its parent entity. However, company is yet to avail of any fund based or non-fund based facility as on date.

**Outlook: Stable**

Acuite believes the outlook on company will remain 'Stable' over the medium term backed by steady cash flow of annuity from the project along with strong sponsor support. The outlook may be revised to 'Positive' in case of significant progress in the project. Conversely, the outlook may be revised to 'Negative' in case of any time or cost overrun due to delay in getting requisite approvals.

**About the Rated Entity - Key Financials**

No financial closure

**Status of Noncooperation from other CRA (Not Applicable)**

None

**Any other information**

None

**Applicable Criteria**

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Infrastructure Entities - <https://www.acuite.in/view-rating-criteria-51.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>

**Note on complexity levels of the rated instrument**

<https://www.acuite.in/view-rating-criteria-55.htm>

**Rating History (Upto last three years)**

NA

**\*Annexure – Details of instruments rated**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr)	Ratings/Outlook
Proposed Term Loan	Not Applicable	Not Applicable	Not Applicable	2.00	ACUITE A-/Stable (Assigned)
Term Loan	February 2022	Not Applicable	March 2038	323.71	ACUITE A-/Stable (Assigned)

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**About Acuité Ratings & Research:**

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