

## Press Release

### Palma Gumla Highways Private Limited

August 29, 2022

### Rating Reaffirmed



Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	325.71	ACUITE A-   Stable   Reaffirmed	-
Total Outstanding Quantum (Rs. Cr)	325.71	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

### Rating Rationale

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

The rating continues to reflect strong financial and operational support from RKD Construction Private Limited (RKD) (rated at Acuite A/Stable/A1) to PGHPL. The rating also factors in low revenue and funding risk in the project. The counterparty risk is also minimal as issuing authority for the project is NHAI which is a central government agency. These rating strengths are partially offset by moderate implementation risk and nascent stage of the project.

### About the Company

PGHPL was incorporated in September 2020 by RKD (99.9% stake) and Bharat Road Network Limited (0.1% stake). PGHPL is a special purpose vehicle to undertake 4 laning of Palma Gumla 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. The appoint date for the project is 1 April 2022.

### Analytical Approach

Acuite has considered the standalone business and financial risk profile of Palma Gumla Highway Private Limited (HAM Project) and notched up the standalone rating by factoring in the financial and operational linkages with RKD Construction Pvt Ltd.

### Key Rating Drivers

### Strengths

## **Established track record in EPC business**

PGHPL was promoted by RKD Construction Private Limited 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. RKD has executed similar kinds of road projects in Odisha in EPC mode. This reduces implementation risk partially. Further, RKD has strong financial flexibility as reflected from its healthy financial risk profile and adequate liquidity profile.

EPC cost for the project is around Rs 869 Cr which is funded through Rs 101 Cr of promoter contribution, Rs 443 Cr of grant from NHAI as per concession agreement and remaining Rs 325 Cr from external borrowing which has been guaranteed by RKD. Promoter has already infused around Rs 60 Cr in the form of equity and unsecured loans to fund the project execution. The company has also availed Rs 103 Cr of mobilization advance from NHAI which will be adjusted against grants. However, the company is yet to avail the external borrowing which indicates currently company doesn't have any financial obligation.

## **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. PGHPL has availed mobilization advance which is around 10% of the project cost. The same will be adjusted against grants which will be paid in five equal instalments. The annuities are linked to bank rate hence additional financial burden due to hike in interest rate can be partially passed on to the principal. PGHPL will undertake O&M for the project during operational phase as financial assistance from NHAI. In addition, annuities calculation will consider the current price index which will mitigate the price fluctuation risk to a certain extent.

## **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.

## **Repayment mechanism**

PGHPL is required to maintain an escrow account as per concession agreement to track all cashflows from NHAI and expenses incurred related to project execution. Moreover, both principal and interest of sanctioned term loan will be deducted from the escrow account. The repayment of term loan will commence after 6 months of scheduled COD. The term loan will be repaid through 28 structured half yearly instalments. Further company is also required to maintain a DSRA equivalent to one half instalment and 6 months of interest.

## **Weaknesses**

### **Nascent Stage of execution**

The project is at nascent stage as execution has commenced in Q1FY23. The delay has been due to delay in getting statutory clearance from various government agencies. The overall physical progress of the project is around 8 percent till July 2022. Moreover, the company is yet to achieve its 1<sup>st</sup> mile stone which is due 230 days after the appointed date.

## **Rating Sensitivities**

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

## Material covenants

None

## Liquidity profile: Adequate

The company has adequate liquidity profile marked by strong resource mobilization from its parent entity. Promoter has infused substantial amount of funds to execute the order. In addition, company has received cash inflow of Rs 103 Cr from NHAI as mobilization advance against Bank Guarantee which is sublimit of sanctioned term loan. The said amount will be adjusted against grant. The repayment of term loan will commence after 6 months of scheduled COD which helps to mitigate liquidity mismatch.

## 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.

## Other Factors affecting Rating

None

## Key Financials

Particulars	Unit	FY 22 (Provisional)	FY 21 (Actual)
Operating Income	Rs. Cr.	3.72	0.00
PAT	Rs. Cr.	0.00	(1.35)
PAT Margin	(%)	0.00	0.00
Total Debt/Tangible Net Worth	Times	0.00	0.00
PBDIT/Interest	Times	0.00	0.00

## Status of non-cooperation with previous CRA (if applicable)

Not applicable

## Any other information

None

## Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Infrastructure Sector: <https://www.acuite.in/view-rating-criteria-51.htm>
- Application Of 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

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
01 Jun 2021	Proposed Term Loan	Long Term	2.00	ACUITE A-   Stable (Assigned)
	Term Loan	Long Term	323.71	ACUITE A-   Stable (Assigned)

## Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	2.00	ACUITE A-   Stable   Reaffirmed
Canara Bank	Not Applicable	Term Loan	28-02-2022	8.50	31-03-2039	323.71	ACUITE A-   Stable   Reaffirmed

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### About Acuité Ratings & Research

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