



Press Release
Palma Gumla Highways Private Limited
November 27, 2023
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	-	-

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**'.

Rationale for rating reaffirmation

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. Further, PGHPL has achieved 65 percent physical progress as of 31st October 2023 and is expected to achieve 3rd milestone (75% completion) by early December 2023.

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.

Unsupported Rating

Acuite BB/Stable

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 Gumla 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 869.27 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. As of October 31, 2023 company has incurred 69 percent of the project cost i.e. Rs. 869.27Cr, which has been funded by promoter infusion of Rs.93.78 Cr in the form of equity and unsecured loans. Rs. 349 Cr in the form of grants and advances received from NHAI and balance Rs.158.83 Cr vide term loan.

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 is being 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 maintaining 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 12 months from 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

Moderate Implementation Risk

PGHPL has achieved 65% physical progress as of 31st Oct 2023 and will achieve the 3rd milestone by early December 2023 against scheduled date of October 3rd, 2023 which is within the grace period (up-to 90 days) allowed in the agreement.

Further, the implementation risk is also mitigated to some extent considering RKD's established experience of over four decades in construction of roads and highways and strong operational and funding support.

Rating Sensitivities

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

All Covenants

Not Applicable

Liquidity Position

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 received cash inflow of Rs 103 Cr from NHA as mobilization advance against Bank Guarantee which is sublimit of sanctioned term loan. The said amount is being adjusted against grant. The repayment of term loan will commence from 31st March 2025 that is one year from the scheduled COD which helps to mitigate liquidity mismatch.

Outlook: Stable

Acuité believes the outlook on company will remain 'Stable' over the medium term backed by expected 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 23 (Provisional)	FY 22 (Actual)
Operating Income	Rs. Cr.	6.56	3.72
PAT	Rs. Cr.	(0.40)	(0.26)
PAT Margin	(%)	(6.09)	(7.12)
Total Debt/Tangible Net Worth	Times	0.35	0.11
PBDIT/Interest	Times	(123.17)	(377.00)

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

In order to inform the investors about complexity of instruments, Acuite has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuite's categorisation of the instruments across the three categories is based on factors like variability of the returns to the investors, uncertainty in cash flow patterns, number of counterparties and general understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels of risk. For more details, please refer Rating Criteria "Complexity Level Of Financial Instruments" on www.acuite.in.

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
29 Aug 2022	Proposed Long Term Bank Facility	Long Term	2.00	ACUITE A- Stable (Reaffirmed)
	Term Loan	Long Term	323.71	ACUITE A- Stable (Reaffirmed)
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	Complexity Level	Quantum (Rs. Cr.)	Rating
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	Simple	2.00	ACUITE A- Stable Reaffirmed
Canara Bank	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	323.71	ACUITE A- Stable Reaffirmed

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About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI) for Bank Loan Ratings under BASEL-II norms in the year 2012. Acuité has assigned ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Kanjurmarg, Mumbai.

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