

Press Release

Welspun Sattanathapuram Nagapattinam Road Private Limited

July 27, 2021



Rating Assigned

Total Bank Facilities Rated*	Rs. 1097.00 Cr.
Long Term Rating	ACUITE A/ Outlook: Stable (Assigned)

* Refer Annexure for details

Rating Rationale

Acuité has assigned its long-term rating of '**ACUITE A**' (**read as ACUITE A**) on the Rs. 1097.00 crore bank facilities of Welspun Sattanathapuram Nagapattinam Road Private Limited (WSNRP). The outlook is '**Stable**'.

About the Company

Welspun Sattanathapuram-Nagapattinam Road Pvt Ltd (WSNRP), is a Special Purpose Vehicle (SPV) incorporated on September 19, 2018. WSNRP was set up to implement the project for development, maintenance and management of 4 Laning of Sattanathapuram to Nagapattinam section of NH-45A (New NH- 332) from Km 123.800 to Km. 179.555 (Total Length – 55.755 Km) in Tamil Nadu under Bharatmala Pariyojna Phase - I under the category of Residual works of National Highway Development Programme (NHDP) under the Hybrid Annuity Model (HAM) model.

The project includes widening and upgrading the National Highway, the existing bridges/ structures/ culverts which are presently serving 2-lane traffic (7.0m wide) are to be widened to serve future 4-lane traffic. The major structures of the project consists of 6 Major Bridges, 27 Minor Bridges, 7 Flyovers, 9 VUP/LVUP, 2 ROB and 1 Trumpet.

Welspun Enterprises Ltd (WEL), the Parent/Sponsor Company, directly holds 70 percent stake and another 29.90 percent stake in the company through its 49 percent subsidiary - Grenoble Infrastructure Pvt Ltd (GIPL), while Giriraj Renewable Pvt Ltd directly holds 0.01 percent stake. The bid project cost was originally estimated at Rs. 2004.51 Cr vis-à-vis the expected revised Bid project cost of Rs.1,975.80 Cr (Basis the approval and recommendation from NHAI Project Director to NHAI Regional Office). This is to be funded through debt, sponsor's contribution and construction support from National Highway Authority of India (NHAI) in the ratio of 46.9 percent, 13.1 percent and 40 percent, respectively.

The concession agreement between WSNRP and NHAI was signed on December 03, 2018. The concession is granted to WSNRP for 15 years after the COD and during the concession, semi-annual annuity payment would be paid by NHAI to WSNRP. The original construction period is 730 days with additional COVID-related extension of 180 days.

The project has received the appointment date on October 05, 2020. The financial closure for the project is already in place with the consortium of lenders.

Welspun Enterprises Limited (WEL) – Parent/Sponsor Company

Welspun Enterprises Limited (WEL) is the infrastructure arm of Welspun Group promoted by Mr. B.K. Goenka and Mr. R R Mandawewala. WEL is an operating as well as holding company, executing Engineering Procurement and Construction (EPC) contracts for construction of roads, highways. The company has successfully executed Build Operate and Transfer (BOT) projects in the past and is presently focused on executing projects under Hybrid Annuity Model (HAM).

Besides a presence in road infrastructure through various SPVs, WEL is also engaged in oil and gas exploration activities through Welspun Natural Resources Private Limited (WNRPL). WNRPL in a joint venture with Adani Group has promoted Adani Welspun Exploration Limited. WNRPL has 4 Oil & Gas blocks of which one block is in Kutch, 2 blocks in Mumbai (under AWEL) and 1 block is in Palej (under WNRPL). WEL's equity shares are listed on Bombay stock exchange and National Stock exchange. As on 31 March 2021, the promoter and promoter group holds 50.20 percent of the equity in WEL.

Analytical Approach

Acuité has considered the standalone business and financial risk profile of WSNRP to arrive at this rating. The rating has been notched-up by considering support from its parent/sponsor company – Welspun Enterprises Limited (WEL) in the form of shortfall undertaking, corporate guarantee amongst others.

Key Rating Drivers

Strengths

- Strong Parentage/Sponsor; Demonstrated track record of WEL in executing road projects**

Welspun Enterprises Ltd (WEL) is the Sponsor/Parent Company, who are also the EPC contractors for the SPV - WSNRP. WEL has demonstrated strong execution capability in road projects (both HAM and BOT) as reflected by the completion of Welspun Delhi Meerut Expressway Pvt Ltd much ahead of its scheduled time. The company currently has portfolio of 7 road projects under Hybrid Annuity Model (HAM) including WSNRP and one BOT road project. Acuité believes that the parent company's successful track record of project execution capabilities is expected to support execution of this project as well.

While enumerating the support extended by WEL to WSNRP, Acuité takes cognizance of WEL's key strengths defined by its resourceful promoters, strong management team for executing highly value added work and in-house project monitoring, strong brand image, demonstrated execution capabilities in EPC segment, healthy order book providing medium-term revenue visibility, asset-light model by sub-contracting 90 percent of its EPC work, Diversified revenue with execution of multiple projects in hand; exhibits lower customer concentration risk, consistent addition in operating income and profitability with strong underlying assets, high demonstrated capability of buying and turning around projects with weaker balance sheet, or not closed financially or execution is stuck projects, Strong financial risk profile aided by low leveraged capital structure and healthy debt protection metrics. The aforesaid strengths are countervailed to an extent by susceptibility of operating performance to timely receipt of orders and execution of projects in hand, high dependence on sub-contractors and Working capital intensive nature of operations.

Acuité believes that the parent company's successful track record of project execution capabilities is expected to support execution of this project as well.

- Robust Sponsor Support**

WSNRP is of strategic importance to WEL; the same is demonstrated by the tangible support from WEL. The support has been in form of WSNRP being its 70 percent wholly-owned SPV (30 percent indirectly held through its subsidiaries – GIPL and Giriraj Renewables Pvt Ltd). The level of WEL's management involvement is indicated by WSNRP's common brand name, common management and centralized decision making at WEL's level. WEL is expected to infuse 13.1 percent of the project cost of Rs.1,975.8 Cr (without indexation – Rs.258.8 Cr) and 16.3 percent of the bid project cost of Rs.2,336.6 (with indexation – Rs.379.8 Cr). The WEL's contribution is expected to be infused in form of equity, zero percent compulsory convertible debentures (CCDs) and unsecured loans. Cumulative fund support has been to the tune of Rs.21.7 Cr as on March 31, 2021; majorly in form of CCDs. The balance portion of WEL's contribution is expected to be infused by FY2023 end. WEL has extended support to WSNRP by way of providing bank guarantee from its own sanctioned limits to avail mobilization advance from NHAI, which will eventually be shifted to WSNRPL limits under the sub-limit of Term Loan Facilities sanctioned by project lenders.

To count on the aforesaid financial support is the unconditional and irrevocable corporate guarantee and shortfall undertaking provided by WEL. The corporate guarantee is provided for the rated debt towards (a) any shortfall in the termination payment; (b) DSRA funding; and (c) debt re-sizing/infusion till the COD to meet a gross debt service coverage ratio of 1.25x in case of any reduction/deduction in the annuity. The corporate guarantee will be available till the debt serviceability period.

While the shortfall undertaking affirms that WEL will meet any deficits or delays in debt servicing, debt service reserve account (DSRA) and termination payment. As stipulated in the financing documents, WEL shall also bring in funds required in case of any escalation in costs beyond estimated completion cost (which includes any cost escalation during completion phase and O&M and MM expenses during operational phase) which may impact debt servicing or completion of the project, for paying interest

payments till the receipt of the first annuity and bridge the gap in case of any cash flow mismatch. Acuité believes that WSNRP will benefit from the operational and financial support from its parent/Sponsor Company over the medium to long term.

- **Benefits derived under the Hybrid Annuity Model (HAM)**

The project executed under HAM model benefits from the upfront availability of right of way (80 percent) before declaring the appointment date, cost of the project being part funded by way of grants (40 percent), receipt of payments in the form of semi-annual annuities from the authority (for the remaining 60 percent of the project cost). The project also benefits from expected receipt of mobilization advance to the tune of 10 percent of the bid project cost at bank rates on declaration of appointed date and provision for granting deemed completion of the project in case 100 percent of the work is completed on the ROW which becomes available to it within 150 days of the appointed date. Other benefits include indexation done to the Bid Project Cost and Operation and Maintenance (O&M) cost to inflation and interest payments on residual annuities during the operational period. Inflation indexed BPC protects the developers against price escalation to an extent. Over and above, stringent clauses for levy of damages, encashment of performance security as well as requirement of additional performance security in case of delay in execution due to reasons attributed to the concessionaire also exert some pressure on the developer for ensuring timely execution.

In case of WSNRP, the company received appointment date on October 05, 2020; before 80 percent availability of the ROW on mutual agreement between the NHAI and WSNRP i.e. at 52.7 percent. This was on account of the prolonged delay of the receipt of the judgement on obtaining environmental clearance and Coastal Regulation Zone (CRZ) clearance. With present ROW availability of 83.19% total envisaged project land, Acuité believes that WSNRP will benefit from favorable clauses in the concession agreement under the HAM and face lower execution challenges vis-à-vis projects under BOT model.

- **Strong Counterparty linked revenue profile**

During the construction/implementation phase, cash flow is assured in form of 5 milestone achievement linked grants (on achievement of every 10-25 percent of physical progress covering the 40 percent of the project cost) along with mobilization advance. These grants would be against the indexed BPC.

During the operational phase, cash flow is assured in the form of annuity payments from NHAI on bi-annual basis covering 60 percent of the project completion cost along with interest at 'bank rate plus spread' on reducing balance and inflation indexed O&M annuity. O&M cost shall be inflation indexed (through a Price Index Multiple (PIM)), which is the weighted average of wholesale price index (WPI) and consumer price index (CPI) in the ratio of 70:30. The annuity nature of the income stream linked to inflation indexed O&M annuity and bank rate linked interest annuity is expected to result in assured cash flow. Moreover, it has low counterparty credit risk, NHAI being its counterparty.

- **Explicit waterfall mechanism through TRA/Escrow account with creation of DSRA & Major maintenance reserve (MMR)**

As per the consortium sanction terms, Debt service Reserve account (DSRA) equivalent to 2 quarters of debt service obligation (Principal + Interest) out of which 1 quarter DSRA to be created immediately on receipt of 1st annuity and remaining 1 quarter DSRA immediately after 2nd annuity. If in anytime, amount in DSRA is utilized to make payment towards debt obligations, the same is to be immediately replenished by WSNRP from surplus cash flows, to the extent of amount so utilized upon receipt of the NHAI annuity from the date of utilization. WSNRP shall maintain Trust and retention account (TRA)/ESCROW account for cash flow management. The TRA shall be defined by presence of waterfall mechanism for prioritizing withdrawals during the construction and operational period. WSNRP's receipts from the NHAI to be routed through an escrow/TRA account with a well-defined cash flow. The NHAI is to deposit all annuities, termination payments and so on into the escrow account. Acuité believes that presence of such well-defined waterfall mechanism through Escrow/TRA to ensure prioritizing of withdrawals and prompt debt repayments.

- **Structured features of the TL repayment vs annuity receipts**

WSNRP's principal repayment obligations are judiciously structured with the annuity payment receipts from the NHAI with a 90-day cushion available to the project lenders, i.e. the principal repayment date is 3 months after the forthcoming annuities are received. Repayment of term loan shall be in 27 structured half-yearly instalments commencing 9 months from COD. The first instalment has been scheduled to be repaid post 9 months of COD, which provides cushion in case of any delay in achieving COD or in receipt of first annuity. The project loan is to be amortised over 15 years and has a tail period of 3 annuities (the difference between the loan maturity and the concession maturity), which provides reasonable comfort

to the lenders. Also, the financing documents stipulate a minimum DSCR of 1.25x post the COD, a breach of which shall lead to the discontinuation of restricted payments, until cured. Besides, to the lender's comfort, in case, annuity payment is received from NHAI earlier than envisaged repayment schedule, WSNRP shall pay the respective instalment within 3 business days of receipt of such payment. To add, as per the financial documents, the project warrants 100 percent upfront equity to be bought in by promoters to meet the 30 percent of the physical progress and commence the drawn down of term loans.

- **Interest related risk mitigated through carving out of IDC during construction phase and maintenance of DSRA during operational phase along with shortfall undertaking from WEL**

Financial risks take the form of an annual variable interest rate which is linked to the marginal cost of lending rate of the individual lenders (1 Yr MCLR + spread). Any significant fluctuations in interest rates or absence of timely sponsor support is expected to be credit negative. The company will be servicing interest portion during construction period through the IDC. According to the financial documents, WSNRP is to maintain DSRA of 3 months' interest service in the form of fixed deposits from project cash flows (on receipt of 1st and 2nd annuity). The absence of debt service reserve account elevates the project risk profile. However, Acuité draws comfort from the presence of sponsor undertakings for making necessary payments in case of any such shortfall.

Weaknesses

- **Moderate Implementation and funding risk**

Given WSNRP received its appointment date on October, 2020, the Company has already started mobilization of resources at initial construction activities at site. WSNRP has incurred Rs.143.93 Cr as on March 31, 2021 (with indexation). Of which, 70 -75 percent has been incurred as EPC cost and remaining being other cost. This cost has been funded through mix of mobilisation advance of Rs.150 Cr (eligible for total mobilisation advance of max 10 percent of the BPC i.e. ~Rs.200 Cr; will be lower depending on the revised BPC). Remaining portion has been funded through promoter's equity of Rs.21.7 Cr.

Notably, WSNRP has overcome the challenges of achieving the appointment date after a wait of 2 years in October 2020 with ROW availability as on date being 83.2 percent covering length of 46.38 Kms of the total 55.76 Kms. WSNRP was awarded tender for one of the package under the tender of covering area between Villupuram to Nagapattinam. This was a part of the Rs.11,000 Cr package planned by the Transport Ministry for better connectivity of Tamil Nadu-Puducherry with Karaikal port (tenders were floated in 4 packages). After a wait since the signing of the CA on 3rd December 2018; in January 2021, Supreme Court gave nod to NH45-A Villupuram-Nagapattinam Highway project stating that there is no requirement for obtaining Environmental Clearances for the said project as land acquisition is not more than 40 meters on existing alignments and 60 meters on realignments or by passes. Besides, the said area is not passing through a hilly terrain and is already witnessing a decent traffic.

WNSRP's project is exposed to moderate funding risk despite the debt being tied-up with a consortium of lenders. WSNRP could tie-up for debt within 150 days of signing the concession agreement. Moreover, the project sites comfort and support from lenders despite a delay in receiving the appointment date. Nevertheless, the project is yet to witness the significant amount of 100 percent of the promoter's equity contribution, timely receipt of the grants and disbursement of the term loans. The above risk is mitigated to an extent asserting factors like strong financial risk profile of the sponsor and track record of timely support to its other HAM projects.

Acuité believes that timely promoter support and receipts of grants to achieve the COD as envisaged will remain key monitorable over the medium term.

- **Moderate O&M Risk; albeit mitigated partially through lower O&M Cost due to rigid pavement and fixed price O&M contract with sponsor**

WSNRP will enter into a fixed-price and fixed-time O&M contract subject to indexation with WEL for taking up routine and major maintenance expenses, latest by 3 months prior to envisage COD or SCOD (Scheduled Commercial Operations Date), whichever is earlier. WEL, in turn, will enter into back-to-back contracts with its sub-contractors to naturally hedge in case of any price risk. The duration of the O&M contract shall be for the entire concession period. WEL has a reasonable experience in operating and maintaining road projects. Further, WEL has extended undertaking to infuse funds in case of cost overrun in O&M expenses and periodic maintenance expenses. WSNRP to create major maintenance reserve (MMR) to meet exigencies in any given point of time during the operational phase.

Besides, WSNRP relatively has a lower O&M cost to incur throughout its concession period post COD given the rigid (concrete) road/pavement vis-à-vis that of Bitumen. It is observed that the indexed O&M and MMR cost is around 6 percent (Rs.122.1 Cr) of the total BPC which is relatively lower than other SPVs of similar nature. O&M requirement for a project depends on a lot of factors such as structure of the road, material used for road (Bitumen or Concrete road), Number of bridges/structures in the project. Rigid road (Concrete road) have higher construction cost but its O&M cost is significantly lower than Bitumen Road. Number of structures/ bridges/ Culverts also reduces the O&M cost. As per NHAI and in general, the expected life of Rigid Pavement is of 30 years. WSNRP project, being a Rigid Pavement project, is being constructed to last 30 years and it will not need periodic major maintenance for rigid pavement in 15 years of concession period.

Liquidity Position: Adequate

WSNRP's liquidity is expected to be adequate over the longer run. The term loan repayments are expected to begin in FY2024, 9 months post COD. The Sponsor/parent Company has provided the corporate guarantee for the SPV. The availability of corporate guarantee, the repayment schedule and the proposed creation and maintenance of debt service reserve account (DSRA) will remain key monitorables over the medium term. Further, the liquidity of the parent company is comfortable. As on March 31, 2021, the company has cash and cash equivalents of Rs.315 Cr. Acuité believes that liquidity will remain adequate yet improve over the medium term.

Rating Sensitivities

Positive

- Timely achievement of the COD without any major cost overruns and timely receipts of the grants
- Timely financial support from its parent, WEL
- Average DSCR above 1.25x (threshold as per the financial documents) on a sustained basis.

Negative

- Significant delays or deduction in grants/annuities, resulting in weakening of coverages, and the absence of timely sponsor support on a sustained basis
- Average DSCR below 1.25x
- Non-creation of DSRA on timely basis or depletion in DSRA
- Deterioration in the NHAI's or WEL's credit profile.
- Significant negative deviation in the revised bid project cost which is expected to be approved by the regional office of NHAI.

Outlook: Stable

Acuité believes that WSNRP will continue to benefit over the medium to long term due to its strong parentage, operational and financial support from WEL. The outlook may be revised to 'Positive' in case of timely commercialization of the project, leads to improvement in cash inflows, while maintaining its capital structure. Conversely, the outlook may be revised to 'Negative' in case delay in full commercialization leads to lower-than-expected revenues and profitability or any significant delay in sponsor support leading to deterioration of its financial risk profile and liquidity.

About the Rated Entity - Key Financials

	Unit	FY21 (Actual)	FY20 (Actual)
Operating Income	Rs. Cr.	38.38	6.90
PAT	Rs. Cr.	2.39	0.81
PAT Margin (%)	(%)	6.23	11.74
Total Debt/Tangible Net Worth	Times	-	-
PBDIT/Interest	Times	2.55	1.15

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

WSNRP's rating was downgraded and migrated to 'Issuer Non-Cooperating' by Brickwork Ratings, through its rating rationale dated June 30, 2021. The reason provided by Brickwork Ratings is non-furnishing of information by WSNRP.

Any other information

None

Any Material Covenants

WSNRP is expected to maintain certain ratios at threshold levels viz. Gross DSCR at 1.25x, Interest coverage ratio (ICR) at 1.15x and Debt/EBITDA at 9x. Any adverse deviation from such threshold levels might attract penalty ranging from 10bps to 50 bps per annum.

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>
- Criteria For Group And Parent Support - <https://www.acuite.in/view-rating-criteria-47.htm>

Note on complexity levels of the rated instrument

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

Rating History (Upto last three years)

Not Applicable

*Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Term Loan	April 2019	2 yr MCLR + 1.10% (During construction period)	March 2037	575.00*	ACUITE A/Stable (Assigned)
Term Loan	April 2019		March 2037	347.15#	ACUITE A/Stable (Assigned)
Term Loan	April 2019		March 2037	100.00	ACUITE A/Stable (Assigned)
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	74.85	ACUITE A/Stable (Assigned)

*Mobilisation Bank Guarantee is sub-limit of Term loan up to Rs.110.25 Cr

#Mobilisation Bank Guarantee is sub-limit of Term loan up to Rs.110.25 Cr, performance bank guarantee (PBG) upto Rs.101.00 Cr & LC upto Rs.200.00 Cr

@Coupon rates are subject to change during construction and operational period; the mentioned coupon rates are assumptions taken as per the financial documents submitted by WSNRP.

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About Acuité Ratings & Research:

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