



Press Release
Welspun Infracore Private Limited
July 31, 2023
Rating Upgraded

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	1256.00	ACUITE A+ Stable Upgraded Remove from Rating Watch	-
Total Outstanding Quantum (Rs. Cr)	1256.00	-	-

Rating Rationale

Acuite has upgraded its long-term rating to '**ACUITE A+**' (read as **ACUITE A plus**) from '**ACUITE A**' (read as **ACUITE A**) on the Rs.1,256.00 Cr bank facilities of Welspun Infracore Private Limited (WIFPL). The rating is removed from '**Under Watch with Developing Implications**' and the outlook is '**Stable**'.

Rationale for rating upgrade

The rating upgrade is majorly on account of completion of 8 – lane main carriage way of the project (~99% of the overall project work) and achievement of PCOD II from National Highways Authority of India (NHAI). The project has achieved fresh PCOD II for completion of 66.910 km w.e.f. March 28, 2023 after achieving PCOD I on March 31, 2022 for completion of 53.763 km. The final structure of the at project length @84 km was completed on June 20, 2023 and with the same the 8 – lane main carriage way of the project was completed. The rating also factors in the reduction of NHAI's share of toll revenue from ~16.5% in FY23 to ~4.5% in FY24YTD (April and May 2023). Furthermore, with the completion of the main carriage way, the company is now eligible to receive the entire amount of toll revenues without sharing it with NHAI. As per management, the company is currently under execution of a supplementary agreement with NHAI for the same. Furthermore, NHAI have approved the revision in toll rates effective from April 2023 including normal WPI hikes.

The rating also draws comfort from the strategic and favourable location of the road stretch which is a section or part of the NH-44 corridor that starts at Mukarba Chowk in Delhi state (15.500 Km) and ends at Panipat in Haryana State (86.00 Km) which traverses from North to South and is one of the busiest corridors. The stretch is a critical link between Delhi and Haryana, passing through commercial centres such as Sonpat, Panipat, Ambala, Ludhiana, Jalandhar, and Amritsar.

The rating also takes into account the presence of a well-defined TRA/Escrow and waterfall mechanism with Debt Service Reserve Account and Major Maintenance Reserve Account which is expected to provide further credit support to the company. Furthermore, the earlier term loan facility of Rs.1256 Cr. from IIFCL led consortium lenders was refinanced on favourable terms on March 23, 2023 and the outstanding amount of IIFCL facility of Rs.1173.80 Cr. was paid off on March 24, 2023 by Axis Bank indicative of healthy financial flexibility.

Acuite has also taken a note of execution of definitive agreements between Actis Highway Infra Limited and WEL towards divestment of 100% stake of the SPV to Actis. Currently, 49% stake have been divested to Actis and rest 51% will be divested once necessary approvals received from NHAI as per CA terms (which is one year post receiving PCOD II). Also, as per

the new sanction terms of the refinancing debt, all the SPVs taken over by Actis i.e. Welspun Delhi Meerut Expressway Private Limited (WDMEPL), Chikhali -Tarsod Highways Private Limited (CTHPL), MBL (CGRG) Road Limited (CGRG), MBL (GSY) Road Limited (GSY), Welspun Infra

Road Private Limited (WIRPL) and WIFPL will enter into an Inter Company Agreement whereby each of the SPVs agree that in case of any shortfall or delay in servicing of debt obligations, O&M expenses including asset management expenses in any of the SPV for any reason, other SPVs shall provide required amount in the form of Inter Corporate Loan or issues ICDs from their surplus cashflows to the SPV where delay or shortfall has occurred so as to regularize the account of that particular SPV.

The rating is however constraint on account of susceptibility of toll revenues towards volatility in traffic volume as there are alternate routes that are coming up around the vicinity of this road. Also, the company needs to conduct periodic maintenance and major maintenance as per timelines and the cost associated with the same will remain a key monitorable over the medium term.

About the Company

Welspun Infracore Private Limited (WIFPL), is a Special Purpose Vehicle (SPV) incorporated in September 2019. WIFPL was set up to implement the project for the design, construction, development, operation, maintenance, management and toll collection of the 8-Laning of Mukarba Chowk Panipat Section of NH-1 (New NH-44) from 15.500 Km in Delhi State to 86.000 Km in Panipat, Haryana for a length of 70.500 Km under NHDP Phase IV through Public Private Partnership (PPP) on Build, Operate and Transfer (BOT) basis. The project includes strengthening of existing 8-lane from km 15+500 to km 29+300 and widening of existing 6-lane carriageway to 8-lane carriageway including construction of service roads along main carriageway on both sides (138.300 km), Slip Roads (31.920 km) and improvements of Bridge/Cross Drainage works, Vehicular/Cattle Underpasses and other road user facilities. The project was initially awarded to Mukarba Chowk - Panipat Toll Roads Limited (MCPTRL), an SPV of Essel Infracore Limited (EIL) through a Concession agreement dated 28 August 2015. The concession period was 17 years from the Appointed date, including a construction period of 2.5 years. Inability to provide technical and financial support by EIL, the project remained incomplete. Therefore, under the harmonious substitution of the sponsor guidelines of the NHAI, the Substitution Agreement was executed on 08 June 2020, and the project was awarded to Welspun Enterprises Ltd (WEL) through its SPV, Welspun Infracore Pvt Ltd. Welspun Enterprises Ltd (WEL), the Parent/Sponsor Company, earlier directly hold 100 percent stake in the company. However, in Dec, 2022, WEL executed definitive agreements with Actis Highway Infra Limited (Actis) and divested 100% stake in operating road concessions ("Highway Portfolio") i.e. 5 operating HAM projects and divested 49% stake of WIFPL. As on date, WEL has 51% and Actis has 49% stake in WIFPL and the fully divestment of the entire stake to Actis will be completed after one year of achieving COD and approval from NHAI.

Analytical Approach

Acuité has considered the standalone business and financial risk profile of WIFPL to arrive at this rating. Acuité has also taken a note of execution of definitive agreements between Actis Highway Infra Limited and WEL towards divestment of 100% stake of the SPV to Actis. Currently, 49% stake have been divested to Actis and rest 51% will be divested once necessary approvals received from NHAI as per CA terms (which is one year post receiving PCOD II).

Key Rating Drivers

Strengths

Strategic location of the project with favourable traffic volumes

The toll road stretch is a part of the NH-44 corridor that starts from Mukarba Chowk in Delhi state (15.500 Km) and ends at Panipat in Haryana State (86.00 Km). NH 44 is aligned in North - South direction and traverse through entire country, connecting some of the most important cities of Haryana, Punjab, Chandigarh, Himachal Pradesh, Jammu and Kashmir, Ladakh amongst others in North India and with parts of Delhi, Uttar Pradesh, Rajasthan, Madhya

Pradesh amongst others and Kanyakumari, Coimbatore, Bangalore and Hyderabad in South India. Major Industrial estates fall along the project road such as Kundli, Rai, Sonipat, Murthal, Barhi, Samalkha and Panipat. This is an existing 6-lane road where traffic is already plying, and the NHAI has been collecting the toll through Bhagan Toll plaza in Sonipat district of Haryana. This is the only toll plaza on the project road which is located at km 53.600 near Bhagan village in Sonipat District. The average annual daily traffic (AADT) for the aforementioned stretch is ~1 lakh passenger car units (PCUs) as of FY23 which constitutes roughly cars/LMV and remaining being others.

Acuité believes that WIFPL will continue to receive benefit from strategic location of the road surrounding major industrial estates over the medium term.

Completion of 8 – lane main carriage way and achievement of PCOD I I with healthy toll collections

The project was awarded to WIFPL by NHAI on June 8, 2020 under a Substitution Agreement from Mukarba Chowk - Panipat Toll Roads Limited (MCPTRL), an SPV of Essel Infraprojects Limited (EIL) after failing in completing the project due to inadequate financial and technical support from the sponsor. After facing several hindrances such as encroachment demolitions, HT Line shifting and specially a force majeure event of farmer's agitation which led to delay in completing the project, WIFPL received PCOD I on March 31, 2022 and started collecting tolls from April 06, 2022 with sharing ~16.5% of the toll revenues with NHAI. The project already had an existing 6-lane road where traffic was already plying and NHAI was collecting tolls.

Post PCOD for 53.763 KM in the month of March 2022, the project has also achieved the fresh PCOD-II for completion of 66.910 KM w.e.f. 28 March 2023. The final pending structure of the at project length @84 km was completed on June 20, 2023 and with the same the 8 – lane main carriage way of the project was completed and accordingly the NHAI's share of toll revenue has also been proportionately reduced to only ~4.5% in FY24YTD (April and May 23) from earlier sharing ratio of ~16.5% in FY23. In this regard, NHAI has also approved the revised Toll Rates from April 2023 which includes normal WPI hikes and accordingly the toll rates have been also increased from April 2023. Accordingly, as the overall toll rates have also increased the net recovery to concessionaire has also increased with reduction in the NHAI's share of toll revenue. The toll revenue details for the month of from May 2023 onwards showcased that the avg. daily toll revenue is now improved to ~ Rs. 95 lakh vis a vis avg. daily revenue of ~ Rs. 86 Lakhs in FY 2023. Furthermore, with the completion of the main carriage way, the company is now eligible to receive the entire amount of toll revenues without sharing it with NHAI. Acuité believes the toll revenues of the company will continue to remain healthy over the medium term on account of completion of main carriageway and revision of toll rates by NHAI.

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

As per the new sanction terms, the company have to create Debt service Reserve account (DSRA) equivalent to 6 months of Interest and 2 quarter principal payments. If in anytime, amount in DSRA is utilized to make payment towards debt obligations, the same is to be immediately replenished by WIFPL from surplus cash flows. The company has already created DSRA of ~80 Cr. as on 28 June, 2023. WIFPL 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. Apart from the first charges on movable and intangible assets, escrow, DSRA, MMR, term loans are also secured by way of pledging of 51 percent of the borrower's share (2% held by WEL and 49% held by Actis) and creation of security by way of Indenture of mortgage (IOM) for perfection of security.

Acuité believes that presence of such well-defined waterfall mechanism through Escrow/TRA to ensure prioritizing of withdrawals and prompt debt repayments.

Weaknesses

Susceptibility of toll revenue to volatility/diversion in traffic volume to alternative routes

The project remains exposed to risks inherent in BOT (toll) road projects, including risks arising from variation in traffic volumes over the project stretch and its dependence on the economic activity in the surrounding regions, movement in WPI (for a toll rate hike), political acceptability of toll rate hike, development/improvement of alternate routes and the likelihood of toll leakages. There are couple of alternate routes coming up around the vicinity of the road such as Delhi Amritsar Katra Expressway and Delhi Panipat Regional Rapid Transit System. Any diversion of traffic due to these alternate routes may have an impact on toll collections of the company. The cash flows of a toll-based project are dependent on traffic volumes which in turn are largely influenced by the level of economic activity in and around the area of operation. However, a clause in the concession agreement exists for modifying the concession period for the variation in actual traffic volume from targeted traffic volume, which mitigates the variation in revenue risk from traffic volume variations to some extent. In the event of a project's cash flows being insufficient to meet its debt servicing commitments/maintenance commitments, the support would be required to be extended from WEL.

Operation & Maintenance risk

Periodic maintenance for the WIFPL will be due by FY2028 as the last periodic maintenance was due in FY2021. WIFPL's ability to execute planned major maintenance (MM) expenditures within stipulated timelines and budgeted cost will remain critical over the medium to long term.

ESG Factors Relevant for Rating

The infrastructure development industry has a significant social impact as it is a labour intensive business. Social issues significant for the industry are community support and development, employee safety and human rights. Governance issues relevant include board and management compensation, shareholder's rights and board diversity. The extent of direct or indirect emissions and the efficiency of deployment of vehicle fleets and heavy machinery has a considerable impact in the environmental performance of this industry. Since material costs are relatively high, strategies should be in place to reduce wastages and recycle raw materials to the extent possible to minimize the environmental impact. WIFPL is executing a Build-Operate-Transfer (BOT) project currently. The completion of this project is a significant step towards better connectivity and development in Delhi and Haryana states as major industrial zone falls in between this toll road. The company has designated committees for CSR, Risk management, stakeholders relationship, nomination and remuneration amongst others. Under its environment initiatives, the company has a policy in place for reduction in air pollution and waste. The social initiatives of WIFPL include policies on human rights and service quality standards.

Rating Sensitivities

- Average DSCR below 1.2x
- 100% divestment by WIFPL to Actis
- Diversion of traffic towards alternate routes impacting toll revenues

Material covenants

WIFPL is expected to maintain DSCR to not fall below 1.2x at any given point of time. Any adverse deviation from such threshold levels might attract penalty.

Liquidity Position Adequate

WIFPL's liquidity is expected to remain adequate with adequate toll collections as against operational expenses and servicing debt obligations. Furthermore, the earlier term loan facility of Rs.1256 Cr. from IIFCL led consortium lenders was refinanced on favourable terms on March 23, 2023 and the outstanding amount of IIFCL facility of Rs.1173.80 Cr. was paid off on March 24, 2023 by Axis Bank indicative of healthy financial flexibility. Also, out of the undisbursed amount from the earlier lenders of Rs.39.22 Cr., Rs.30 Cr. has been disbursed by Axis Bank and the balance undisbursed amount of Rs.9.22 Cr. (from originally approved facility of Rs.1256 Cr.) and fresh approved sub debt facility of Rs.24 Cr. vide NHAI's approval was considered by Axis Bank totalling to the amount of Rs.1254.40 Cr. The liquidity position is also supported with presence of a well-defined TRA/Escrow and waterfall mechanism with Debt Service Reserve Account and Major Maintenance Reserve Account.

Outlook: Stable

Acuité believes that the outlook on WIPL's rated facilities will remain 'Stable' over the medium term on account of completion of project and achieving of PCOD II. The outlook may be revised to 'Positive' in case the company registers a significant improvement in cash inflows and increase in toll collections. Conversely, the outlook may be revised to 'Negative' in case of any deterioration in the credit metrics of WIFPL and moderation in traffic volumes.

Other Factors affecting Rating

None

Key Financials

Particulars	Unit	FY 23 (Provisional)	FY 22 (Actual)
Operating Income	Rs. Cr.	788.94	414.60
PAT	Rs. Cr.	(7.04)	1.14
PAT Margin	(%)	(0.89)	0.27
Total Debt/Tangible Net Worth	Times	9.56	4.06
PBDIT/Interest	Times	2.21	169.00

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

BRICKWORK Ratings vide its press release dated June 02, 2023, downgraded Welspun Infracore Pvt Ltd (WIFPL) to BWR BB/stable as "ISSUER NOT CO-OPERATING" on account of lack of adequate information required for monitoring of ratings.

Any other information

None

Applicable Criteria

- Default Recognition :- <https://www.acuite.in/view-rating-criteria-52.htm>
- Service Sector: <https://www.acuite.in/view-rating-criteria-50.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, Acuité has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuité'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
20 Mar 2023	Term Loan	Long Term	55.00	ACUITE A (Ratings Under Watch)
	Term Loan	Long Term	100.00	ACUITE A (Ratings Under Watch)
	Term Loan	Long Term	350.00	ACUITE A (Ratings Under Watch)
	Term Loan	Long Term	65.00	ACUITE A (Ratings Under Watch)
	Term Loan	Long Term	300.00	ACUITE A (Ratings Under Watch)
	Term Loan	Long Term	386.00	ACUITE A (Ratings Under Watch)
20 Dec 2021	Term Loan	Long Term	350.00	ACUITE A Stable (Assigned)
	Term Loan	Long Term	65.00	ACUITE A Stable (Assigned)
	Term Loan	Long Term	386.00	ACUITE A Stable (Assigned)
	Term Loan	Long Term	100.00	ACUITE A Stable (Assigned)
	Term Loan	Long Term	55.00	ACUITE A Stable (Assigned)
	Term Loan	Long Term	300.00	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	1.60	ACUITE A+ Stable Upgraded Remove from Rating Watch
Axis Bank	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	1254.40	ACUITE A+ Stable Upgraded Remove from Rating Watch

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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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