

Oriental Nagpur Betul Highway Limited

September 06, 2021

Ratings

| Sr. No. | Instrument | Amount (Rs. crore) | Rating ¹ | Rating Action |
|---------|-------------------------------------|---|---|---------------|
| 1. | Non-Convertible Debentures-Series A | 1,813.89 (Reduced from 1,901.59) | CARE AAA; Stable (Triple A; Outlook: Stable) | Reaffirmed |
| 2. | Non-Convertible Debentures-Series B | 199.46 (Reduced from 209.10) | CARE AAA; Stable (Triple A; Outlook: Stable) | Reaffirmed |
| 3. | Non-Convertible Debentures-Series-C | 106.36 (Reduced from 111.46) | CARE AAA; Stable (Triple A; Outlook: Stable) | Reaffirmed |
| | Total Instruments | 2,119.71 (Rs. Two thousand one hundred nineteen crore and seventy-one lakh only) | | |

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The reaffirmation of the ratings assigned to the long-term non-convertible debentures (NCDs) of Oriental Nagpur Betul Highway Limited (ONBHL) continue to derive strength from the fixed-annuity structure of the concession precluding any traffic risk, and the annuity provider being a strong counter-party viz. National Highways Authority of India (NHAI; rated 'CARE AAA; Stable'). The project has already witnessed a track record of timely receipt of full amount of thirteen semi-annual annuities. The ratings are further underpinned by structural measures put in place in the form of a trustee-administered escrow payment mechanism with a predefined waterfall covering utilization of annuity receipts, upfront creation of a debt service reserve account (DSRA) equivalent to peak amount of ensuing nine months of principal and interest payments, predefined appropriation of funds into major maintenance reserve account (MMRA), construction reserve account to take care of the pending work and additional reserve account of Rs.28.65 crore to meet any contingent requirements towards maintenance of the project. Furthermore, absence of interest rate risk in the fixed-coupon NCDs is also a credit positive.

The ratings also factor in the established track record of the existing O&M contractor, Oriental Structural Engineers Private Limited (OSEPL) in operating and maintaining road assets. During FY20, OSEPL had sold five assets to Oriental Infra Trust, an infrastructure investment trust (InvIT), of which ONBHL was one of the assets. Subsequent to the creation of the InvIT, the Oriental Infra Trust holds 100% stake in the SPV and is now the promoter.

The above strengths are offset, to some extent, by the residual exposure to risks pertaining to routine and major maintenance, and pending construction of toll plaza on the road stretch.

Rating Sensitivities

Negative sensitivities: Factors that could lead to negative rating action/ downgrade:

- Delay in receipt of annuities from NHAI
- Non-maintenance of the road affecting the quantum of the annuities
- Deterioration in the credit risk profile of the annuity provider viz. NHAI
- Non-adherence to waterfall mechanism and non-compliance of various covenants as per terms of the NCDs including continued maintenance of various reserves including DSRA, MMRA and additional reserve at all times and not meeting restricted payment conditions
- Any significant increase in routine and major maintenance expenses from envisaged levels

¹Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications.

Detailed description of the key rating drivers

Key Rating Strengths

Stable long-term revenue visibility due to underlying annuities from a strong counter-party, NHAI

ONBHL is an annuity-based project, under which the company receives semi-annual annuity from a strong counter party- NHAI, till the end of the concession period of 20 years ending in January 2032, providing visibility of stable long-term revenue. There is also an established track record of timely receipt of thirteen annuities from NHAI.

Structured payment mechanism in place

The ratings derive comfort from the presence of a pre-defined waterfall arrangement through a 'Trust and Retention Account' whereby the annuity payments are utilized for the payment of NCDs after meeting statutory dues, O&M and NHAI payments as defined under the waterfall mechanism. The company has already created a DSRA of Rs.292.98 crore equivalent to peak amount of ensuing nine months of principal and interest payments, a construction reserve account of Rs.8.83 crore and an additional reserve of Rs.28.65 crore to meet any exigencies towards maintenance of the project. The presence of these reserves provides adequate liquidity in case of any contingencies. Besides, restricted payments are to be permitted only when financial covenants are complied with, including at least 1.05x DSCR on two consecutive testing dates.

Experienced O&M contractor with established track record in infrastructure sector

OSEPL, project manager of InvIT and the O&M contractor for ONBHL, has a long track record of about five decades in the construction industry with expertise and experience in roads and highways segment. OSEPL along with its wholly-owned subsidiary, Oriental Tollways Private Limited (OTPL) has a portfolio mix of eight BOT-Toll, BOT-Annuity and HAM projects under various special purpose vehicles (SPVs), of which four BOT projects and one HAM project is operational, while other three HAM projects are under execution. Additionally, during FY20, OSEPL constituted an InvIT by transferring five operational SPVs (one annuity road project, four toll road projects) to Oriental InfraTrust (OIT) for a total enterprise value of Rs. 11,638 crore. OSEPL along with its wholly owned subsidiary, OTPL, hold 60.45% stake in the InvIT.

Absence of interest rate risk

The NCDs have a fixed coupon rate throughout the tenure, which mitigates the risk of any fluctuation in the interest rate. Although Series B and Series C NCDs are subordinate to Series A NCDs and are placed lower in the waterfall, comfortable coverage indicators and presence of DSRA and other reserves for the entire NCD issue provide adequate cushion.

Key Rating Weaknesses

Residual construction risk

The construction of 0.32 km of service road and toll plaza on Maharashtra section is still pending due to non-availability of land. However, as per December 2020-LIE Report shared with CARE Ratings, the issue of land acquisition still persists. The company has requested for de-scoping of the work due to the unavailability of land. IE has recommended an amount of Rs.18.68 crore, towards negative CoS, to be recovered from the company, for which it has adequate funds available. However, going forward if ONBHL gets this land for construction; it can pose a risk if there are any delays in completion of the work or higher-than-envisaged expenditure.

Exposure to O&M and major maintenance risks

The company is exposed to inherent O&M risks associated with the operational BOT road projects, including the risk of any increase in O&M and major maintenance expenses. However, to mitigate this risk, the company has an existing fixed-rate O&M and major maintenance agreement with OSEPL (subject to yearly predefined price escalation) for routine and major maintenance for the entire tenor of the debentures, which crystallises the overall cash outflow towards O&M and major maintenance. It may be noted that the first major maintenance has been completed by the company during FY19/FY20 within the budgeted expenditure and presently, the roughness index of the stretch is within satisfactory range, thereby reflecting the good condition of the road. Additionally, there is an undertaking from OIT to meet additional O&M and major maintenance expenses beyond the budgeted requirements, which mitigates the risk to a large extent. However, going forward any significant deterioration in the credit risk profile of the O&M contractor which may adversely affect its ability to undertake proper maintenance of the road stretch may hinder revenue visibility and thereby pose a risk for ONBHL

Liquidity Analysis: Strong

The company has strong liquidity position and has been receiving semi-annual annuity of Rs.290.80 crore (Rs.581.60 crore every year) in full, without any delays. Furthermore, there is a gap of 41-42 days between the due date of annuity receipt and due date of redemption, providing cushion in case of any delay in annuity receipts. Moreover, the company is maintaining a DSRA balance of Rs.292.98 crore equivalent to nine months of peak ensuing principal and interest payment, construction reserve of Rs.8.83 crore, additional reserve of Rs.28.65 crore, major maintenance reserve of Rs.74.30 crore and Rs.49.95 crore of surplus funds towards statutory dues, O&M and surplus funds as on July 31, 2021.

Analytical approach: Standalone financial risk profile of the SPV and presence of a structured obligation mechanism in the form of trustee-administered TRA with a pre-defined waterfall covering utilization of annuity receipts and creation of various reserves has been considered in the analysis.

Applicable Criteria

[Criteria on assigning outlook to Credit Ratings](#)

[CARE's Policy on Default Recognition](#)

[Rating Methodology-Infrastructure Sector Ratings](#)

[Financial Ratios-Non-Financial Sector](#)

[Rating Methodology: annuity Road Projects](#)

[Liquidity Analysis of Non-financial sector entities](#)

About the Company

ONBHL is a special purpose vehicle (SPV), which was promoted by Oriental Tollways Private Limited (OTPL, a wholly-owned subsidiary of OSEPL) holding 47.97% stake and OSEPL holding 26.03% stake to undertake augmentation of two-lane carriageway of the existing section of NH-69 from km 3.00 to km 59.30 in Maharashtra and Km 137.00 to Km 257.40 in the state of Madhya Pradesh to a four-lane carriageway on Design, Build, Finance, Operate and Transfer (DBFOT - Annuity) basis under NHDP phase IV.

In June 2019, OSEPL had sold five assets to Oriental Infra Trust (InvIT) of which ONBHL was one of the assets.

As per the concession agreement (CA) signed between NHAI and ONBHL on August 30, 2010, the concession period is 20 years (including a construction period of 3.5 years) from the appointed date (which is January 20, 2012). The scheduled date of project completion (SPCD) was July 17, 2015. However, ONBHL received the provisional commercial operations date (PCOD) with effect from February 18, 2015, which was five months ahead of SPCD. The total project cost of Rs.3,515 crore was financed through term debt of Rs.2,790 crore and equity and subordinate debt from the promoters of Rs.362.50 crore each.

Till August 2021, ONBHL has received thirteen semi-annual annuities along with a bonus annuity from NHAI. The Series A and Series B NCDs were issued by the company to refinance the existing debt and to invest in the other projects of the group as per the approval of NHAI and Series C was issued for investment as equity in the under-construction Binjhabahal-Telebani project.

| Brief Financial (Rs. Crore)-Standalone | FY20 (A) | FY21 (A) |
|--|----------|----------|
| Total operating income* | 627.46 | 541.08 |
| PBILDIT | 551.85 | 488.74 |
| PAT | 224.02 | 216.08 |
| Overall gearing (times) | 2.35 | 2.04 |
| Interest coverage (times) | 2.14 | 1.92 |

A: Audited

*Excludes profit on sale of Mutual Funds

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

Covenants of rated instrument/ facility: Detailed explanation of rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated for this company: Annexure 4

Annexure-1: Details of Instruments/Facilities

| Name of the Instrument | Date of Issuance | ISIN No. | Coupon Rate (%) | Maturity Date | Size of the Issue (Rs. Crore) | Rating assigned along with Rating Outlook |
|---|------------------|--------------|-----------------|---------------|-------------------------------|---|
| Debentures- Non-Convertible Debentures (Series A) | 16-Nov-16 | INE105N07100 | 8.28% | 30-Sep-21 | 82.35 | CARE AAA; Stable |
| | 16-Nov-16 | INE105N07118 | 8.28% | 30-Mar-22 | 85.92 | CARE AAA; Stable |
| | 16-Nov-16 | INE105N07126 | 8.28% | 30-Sep-22 | 87.70 | CARE AAA; Stable |
| | 16-Nov-16 | INE105N07134 | 8.28% | 30-Mar-23 | 91.43 | CARE AAA; Stable |
| | 16-Nov-16 | INE105N07142 | 8.28% | 30-Sep-23 | 92.98 | CARE AAA; Stable |
| | 16-Nov-16 | INE105N07159 | 8.28% | 30-Mar-24 | 96.94 | CARE AAA; Stable |
| | 16-Nov-16 | INE105N07167 | 8.28% | 30-Sep-24 | 98.49 | CARE AAA; Stable |
| | 16-Nov-16 | INE105N07175 | 8.28% | 30-Mar-25 | 102.76 | CARE AAA; Stable |
| | 16-Nov-16 | INE105N07183 | 8.28% | 30-Sep-25 | 118.20 | CARE AAA; Stable |
| | 16-Nov-16 | INE105N07191 | 8.28% | 30-Mar-26 | 123.25 | CARE AAA; Stable |
| | 16-Nov-16 | INE105N07209 | 8.28% | 30-Sep-26 | 125.27 | CARE AAA; Stable |
| | 16-Nov-16 | INE105N07217 | 8.28% | 30-Mar-27 | 105.94 | CARE AAA; Stable |
| | 16-Nov-16 | INE105N07225 | 8.28% | 30-Sep-27 | 93.37 | CARE AAA; Stable |
| | 16-Nov-16 | INE105N07233 | 8.28% | 30-Mar-28 | 97.40 | CARE AAA; Stable |
| | 16-Nov-16 | INE105N07241 | 8.28% | 30-Sep-28 | 98.41 | CARE AAA; Stable |
| | 16-Nov-16 | INE105N07258 | 8.28% | 30-Mar-29 | 102.68 | CARE AAA; Stable |
| | 16-Nov-16 | INE105N07266 | 8.28% | 30-Sep-29 | 103.54 | CARE AAA; Stable |
| 16-Nov-16 | INE105N07274 | 8.28% | 30-Mar-30 | 107.26 | CARE AAA; Stable | |
| Debentures- Non-Convertible Debentures (Series B) | | | | | | |
| | 16-Nov-16 | INE105N07373 | 8.78% | 30-Sep-21 | 9.05 | CARE AAA; Stable |
| | 16-Nov-16 | INE105N07381 | 8.78% | 30-Mar-22 | 9.45 | CARE AAA; Stable |
| | 16-Nov-16 | INE105N07399 | 8.78% | 30-Sep-22 | 9.64 | CARE AAA; Stable |
| | 16-Nov-16 | INE105N07407 | 8.78% | 30-Mar-23 | 10.05 | CARE AAA; Stable |
| | 16-Nov-16 | INE105N07415 | 8.78% | 30-Sep-23 | 10.22 | CARE AAA; Stable |
| | 16-Nov-16 | INE105N07423 | 8.78% | 30-Mar-24 | 10.66 | CARE AAA; Stable |
| | 16-Nov-16 | INE105N07431 | 8.78% | 30-Sep-24 | 10.83 | CARE AAA; Stable |
| | 16-Nov-16 | INE105N07449 | 8.78% | 30-Mar-25 | 11.30 | CARE AAA; Stable |
| | 16-Nov-16 | INE105N07456 | 8.78% | 30-Sep-25 | 13.00 | CARE AAA; Stable |
| | 16-Nov-16 | INE105N07464 | 8.78% | 30-Mar-26 | 13.55 | CARE AAA; Stable |
| | 16-Nov-16 | INE105N07472 | 8.78% | 30-Sep-26 | 13.77 | CARE AAA; Stable |
| | 16-Nov-16 | INE105N07480 | 8.78% | 30-Mar-27 | 11.65 | CARE AAA; Stable |
| | 16-Nov-16 | INE105N07498 | 8.78% | 30-Sep-27 | 10.27 | CARE AAA; Stable |
| | 16-Nov-16 | INE105N07506 | 8.78% | 30-Mar-28 | 10.71 | CARE AAA; Stable |
| | 16-Nov-16 | INE105N07514 | 8.78% | 30-Sep-28 | 10.82 | CARE AAA; Stable |
| | 16-Nov-16 | INE105N07522 | 8.78% | 30-Mar-29 | 11.29 | CARE AAA; Stable |
| 16-Nov-16 | INE105N07530 | 8.78% | 30-Sep-29 | 11.38 | CARE AAA; Stable | |
| 16-Nov-16 | INE105N07548 | 8.78% | 30-Mar-30 | 11.82 | CARE AAA; Stable | |
| Debentures- Non-Convertible Debentures (Series C) | | | | | | |
| | 26-Dec-17 | INE105N07621 | 9.00% | 30-Sep-21 | 4.80 | CARE AAA; Stable |
| | 26-Dec-17 | INE105N07639 | 9.00% | 30-Mar-22 | 5.00 | CARE AAA; Stable |
| | 26-Dec-17 | INE105N07647 | 9.00% | 30-Sep-22 | 5.10 | CARE AAA; Stable |
| | 26-Dec-17 | INE105N07654 | 9.00% | 30-Mar-23 | 5.40 | CARE AAA; Stable |
| | 26-Dec-17 | INE105N07662 | 9.00% | 30-Sep-23 | 5.50 | CARE AAA; Stable |
| | 26-Dec-17 | INE105N07670 | 9.00% | 30-Mar-24 | 5.70 | CARE AAA; Stable |
| | 26-Dec-17 | INE105N07688 | 9.00% | 30-Sep-24 | 5.80 | CARE AAA; Stable |
| | 26-Dec-17 | INE105N07696 | 9.00% | 30-Mar-25 | 6.00 | CARE AAA; Stable |
| | 26-Dec-17 | INE105N07704 | 9.00% | 30-Sep-25 | 6.90 | CARE AAA; Stable |
| | 26-Dec-17 | INE105N07712 | 9.00% | 30-Mar-26 | 7.20 | CARE AAA; Stable |
| | 26-Dec-17 | INE105N07720 | 9.00% | 30-Sep-26 | 7.40 | CARE AAA; Stable |
| 26-Dec-17 | INE105N07738 | 9.00% | 30-Mar-27 | 6.20 | CARE AAA; Stable | |
| 26-Dec-17 | INE105N07746 | 9.00% | 30-Sep-27 | 5.50 | CARE AAA; Stable | |

| Name of the Instrument | Date of Issuance | ISIN No. | Coupon Rate (%) | Maturity Date | Size of the Issue (Rs. Crore) | Rating assigned along with Rating Outlook |
|------------------------|------------------|--------------|-----------------|---------------|-------------------------------|---|
| | 26-Dec-17 | INE105NO7753 | 9.00% | 30-Mar-28 | 5.70 | CARE AAA; Stable |
| | 26-Dec-17 | INE105NO7761 | 9.00% | 30-Sep-28 | 5.80 | CARE AAA; Stable |
| | 26-Dec-17 | INE105NO7779 | 9.00% | 30-Mar-29 | 6.00 | CARE AAA; Stable |
| | 26-Dec-17 | INE105NO7787 | 9.00% | 30-Sep-29 | 6.10 | CARE AAA; Stable |
| | 26-Dec-17 | INE105NO7795 | 9.00% | 30-Mar-30 | 6.26 | CARE AAA; Stable |

Annexure-2: Rating History of last three years

| Sr. No. | Name of the Instrument/Bank Facilities | Current Ratings | | | Rating history | | | |
|---------|--|-----------------|--------------------------------|------------------|---|---|---|---|
| | | Type | Amount Outstanding (Rs. crore) | Rating | Date(s) & Rating(s) assigned in 2021-2022 | Date(s) & Rating(s) assigned in 2020-2021 | Date(s) & Rating(s) assigned in 2019-2020 | Date(s) & Rating(s) assigned in 2018-2019 |
| 1. | Bonds | - | - | - | - | - | - | - |
| 2. | Debentures-Non-Convertible Debentures | LT | 1813.89 | CARE AAA; Stable | - | 1)CARE AAA; Stable (28-Oct-20) | 1)CARE AAA; Stable (06-Jan-20) | 1)CARE AAA (SO); Stable (15-Feb-19) |
| 3. | Debentures-Non-Convertible Debentures | LT | 199.46 | CARE AAA; Stable | - | 1)CARE AAA; Stable (28-Oct-20) | 1)CARE AAA; Stable (06-Jan-20) | 1)CARE AAA (SO); Stable (15-Feb-19) |
| 4. | Debentures-Non-Convertible Debentures | LT | 106.36 | CARE AAA; Stable | - | 1)CARE AAA; Stable (28-Oct-20) | 1)CARE AAA; Stable (06-Jan-20) | 1)CARE AAA (SO); Stable (15-Feb-19) |

Annexure-3: Detailed explanation of covenants of the rated instruments

| Name of the Instrument | Detailed explanation |
|--|---|
| A. Financial covenants | |
| Debt Service Coverage Ratio | The Issuer shall comply with the following financial covenant: Debt Service Coverage Ratio (DSCR) shall not be lower than 1.05 during the tenor of the NCD. |
| B. Non-financial covenants | |
| O&M Contract and Major Maintenance Contract | <p>a. The debenture holders (acting through the Trustee) will have an unconditional right to replace/ substitute a contractor and appoint such other person in its place at any time on the occurrence of any of the following events:</p> <ul style="list-style-type: none"> (i) If in the opinion of the Trustee (acting on approved instructions) the contractor is unable to carry on the relevant activities in accordance with the project agreements; or (ii) if either the NHAI or any independent consultant (appointed by the trustee) has informed the company or other project participants about any non-compliance with any project agreement, or the O&M Contractor fails to comply with any notice/ intimation by the Independent Engineer in relation to O&M of the project, within the period (as may be extended) stipulated in such notice/ intimation. <p>b. The company shall not replace or terminate the O&M Contract and/ or the Major Maintenance Contract, without prior consent of the trustee, and all payments to be made to the contractor shall be in accordance with the fixed rate O&M contract and/ or the MM Contract (as the case may be) and the Base Case Plan. Provided that however any amounts received by the company towards change in scope would be permitted to be paid to the relevant contractor in addition to the amounts mentioned in the relevant fixed-rate contract and the base case business plan, in the manner as permitted under the Supplementary Escrow Agreement.</p> <p>c. Other than as specifically provided above , upon request of the trustee (acting on approved instructions), the company shall replace or consent to the replacement of any person (other than the company) as party to any project agreement in accordance with the provisions of such project agreement.</p> |

Annexure 4: Complexity level of various instruments rated for this company

| Sr. No. | Name of the Instrument | Complexity Level |
|---------|---------------------------------------|------------------|
| 1. | Debentures-Non-Convertible Debentures | Complex |

Note on complexity levels of the rated instrument: CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

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