

## Oriental Nagpur Betul Highway Limited

August 11, 2022

### Ratings

Facilities/Instruments	Amount (₹ crore)	Rating <sup>1</sup>	Rating Action
Non-convertible debentures	1,645.62 (Reduced from 1,813.89)	CARE AAA; Stable (Triple A; Outlook: Stable)	Reaffirmed
Non-convertible debentures	180.96 (Reduced from 199.46)	CARE AAA; Stable (Triple A; Outlook: Stable)	Reaffirmed
Non-convertible debentures	96.56 (Reduced from 106.36)	CARE AAA; Stable (Triple A; Outlook: Stable)	Reaffirmed
<b>Total long-term instruments</b>	<b>1,923.14</b> <b>(₹ One thousand nine hundred twenty-three crore and fourteen lakh only)</b>		

Details of instruments/facilities in Annexure-1.

### Detailed rationale and key rating drivers

The reaffirmation of the ratings assigned to the long-term non-convertible debentures (NCDs) of Oriental Nagpur Betul Highway Limited (ONBHL) continues 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 15 semi-annual annuities till July 2022. 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 utilisation of annuity receipts, presence of a debt service reserve account (DSRA) equivalent to peak amount of ensuing nine months of principal and interest payments, pre-defined appropriation of funds into major maintenance reserve account (MMRA), construction reserve account to take care of the pending work and additional reserve account of ₹25.28 crore to meet any contingent requirements towards maintenance of the project. Furthermore, absence of interest rate fluctuation risk in the fixed-coupon NCDs is also a credit positive.

The ratings also factor in the established track record of the existing operations and maintenance (O&M) contractor, Oriental Structural Engineers Private Limited (OSEPL), in operating and maintaining road assets. During FY20 (refers to the period April 1 to March 31), 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 special purpose vehicle (SPV).

The above strengths are offset to an extent by the inherent O&M risk attached with the project.

CARE Ratings takes note of the Settlement Agreement signed between ONBHL and NHAI in March 2022, wherein the company has received the settlement amount of ₹582.75 crore (passed on to engineering, procurement and construction [EPC] contractor as per contractual arrangement) in full and final settlement towards all the claims, change of scope and all the other disputes arising under Concession Agreement (CA) and the matters related thereto. While the company may be required to construct the permanent toll plaza (TP) at a location decided by the Authority (temporary toll plaza already in operation), at its own cost as and when the land is made available by the Authority, the company is maintaining adequate construction reserve for the same thereby mitigating the construction risk.

### Rating sensitivities

#### Negative factors – Factors that could lead to negative rating action/downgrade:

- 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 the routine and major maintenance (MM) expenses from envisaged levels or deterioration in riding quality of the stretch resulting in deduction of annuities.

### 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 revenues. There is also an established track record of timely receipt of 15 semi-annual annuities from NHAI.

<sup>1</sup>Complete definition of the ratings assigned are available at [www.careedge.in](http://www.careedge.in) and other CARE Ratings Ltd.'s publications

**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 utilised 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 ₹290.41 crore equivalent to peak amount of ensuing nine months of principal and interest payments, a construction reserve account of ₹8.83 crore and an additional reserve of ₹25.28 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 SPVs, of which four BOT projects and two HAM projects are operational, one of the HAM projects has received PCOD-I for 73% of the project completion, while one HAM project is 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 ₹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**

**Exposure to O&M and MM risks:** The company is exposed to the inherent O&M risks associated with the operational BOT road projects, including the risk of any increase in the O&M and MM expenses. However, to mitigate this risk, the company has an existing fixed-rate O&M and MM agreement with OSEPL (subject to yearly pre-defined price escalation) for routine and MM for the entire tenor of the debentures, which crystallises the overall cash outflow towards O&M and MM. The company had completed the first MM during FY19-FY20 within the budgeted expenditure, and presently, the roughness index of the stretch is within a satisfactory range, thereby reflecting the good condition of the road. Additionally, there is an undertaking from OIT to meet additional O&M and MM 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: Strong**

The company has strong liquidity position and has been receiving semi-annual annuity of ₹290.80 crore (₹581.60 crore every year) in full, without any delays. Moreover, the company is maintaining a DSRA balance of ₹290.41 crore equivalent to nine months of peak ensuing principal and interest payment, construction reserve of ₹8.83 crore, additional reserve of ₹25.28 crore, MM reserve of ₹136.45 crore, funds of ₹182.86 crore towards payment of interest and principal instalment due till the receipt of next annuity and ₹54.84 crore of surplus funds towards statutory dues, O&M and surplus funds as on June 30, 2022.

**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 utilisation of annuity receipts and creation of various reserves has been considered in the analysis.

### **Applicable criteria**

[Criteria on assigning outlook to credit ratings](#)

[CARE Ratings' policy on default recognition](#)

[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 3.00 km to 59.30 km in Maharashtra and 137.00 km to 257.40 km 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 ₹3,515 crore was financed through term debt of ₹2,790 crore and equity and subordinate debt from the promoters of ₹362.50 crore each.

Till August 2021, ONBHL has received 15 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.

Subsequent to signing of Settlement Agreement between NHAI and ONBHL, the annuity payment schedule has been revised, wherein the due dates for the annuities shall now be due on 11<sup>th</sup> of April and 11<sup>th</sup> of October every year vis-à-vis earlier due dates of 18<sup>th</sup> of February and 18<sup>th</sup> of August of every year.

<b>Brief Financial (₹ Crore)-Standalone</b>	<b>FY21 (A)</b>	<b>FY22 (A)</b>	<b>Q1FY23 (UA)</b>
Total operating income	475.26	1,184.64*	NA
PBILDT	422.92	404.04	NA
PAT	216.09	164.99	NA
Overall gearing (times)	2.05	1.88	NA
Interest coverage (times)	1.67	1.71	NA

A: Audited; UA: Unaudited; NA: Not available

\*Includes the settlement claim received from NHAI.

**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 instruments/facilities:** 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 (₹ crore)	Rating assigned along with Rating Outlook
Debentures-Non-convertible debentures (Series A)	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	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	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
	26-Dec-17	INE105N07753	9.00%	30-Mar-28	5.70	CARE AAA; Stable
	26-Dec-17	INE105N07761	9.00%	30-Sep-28	5.80	CARE AAA; Stable
	26-Dec-17	INE105N07779	9.00%	30-Mar-29	6.00	CARE AAA; Stable
26-Dec-17	INE105N07787	9.00%	30-Sep-29	6.10	CARE AAA; Stable	
26-Dec-17	INE105N07795	9.00%	30-Mar-30	6.26	CARE AAA; Stable	

**Annexure-2: Rating history for the last three years**

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Bonds	-	-	-				
2	Debentures-Non-convertible debentures	LT	1645.62	CARE AAA; Stable	-	1)CARE AAA; Stable (06-Sep-21)	1)CARE AAA; Stable (28-Oct-20)	1)CARE AAA; Stable (06-Jan-20)
3	Debentures-Non-convertible debentures	LT	180.96	CARE AAA; Stable	-	1)CARE AAA; Stable (06-Sep-21)	1)CARE AAA; Stable (28-Oct-20)	1)CARE AAA; Stable (06-Jan-20)
4	Debentures-Non-convertible debentures	LT	96.56	CARE AAA; Stable	-	1)CARE AAA; Stable (06-Sep-21)	1)CARE AAA; Stable (28-Oct-20)	1)CARE AAA; Stable (06-Jan-20)

\*Long term/Short term.

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

Name of the Instrument	Detailed explanation
<b>A. Financial covenants</b>	
<b>Debt service coverage ratio</b>	Debt service coverage ratio (DSCR) shall not be lower than 1.05 during the tenor of the NCD.
<b>B. Non-financial covenants</b>	
<b>O&amp;M contract and MM contract</b>	<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> <p>(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</p> <p>(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&amp;M Contractor fails to comply with any notice/intimation by the Independent Engineer in relation to O&amp;M of the project, within the period (as may be extended) stipulated in such notice/intimation.</p> <p>b. The company shall not replace or terminate the O&amp;M contract and/or the MM 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&amp;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 Instrument	Complexity Level
1	Debentures-Non-convertible debentures	Complex

**Annexure-5: Bank lender details for this company:** Not applicable

**Note on complexity levels of the rated instruments:** CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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