

Rating Rationale

November 30, 2023 | Mumbai

Oriental Nagpur Betul Highway Limited

Rating reaffirmed

Rating Action

Rs.1373.51 Crore (Reduced from Rs.1557.92 Crore) Non Convertible Debentures	CRISIL AAA/Stable (Reaffirmed)
Rs.151.05 Crore (Reduced from Rs.171.32 Crore) Non Convertible Debentures	CRISIL AAA/Stable (Reaffirmed)
Rs.80.56 Crore (Reduced from Rs.91.46 Crore) Non Convertible Debentures	CRISIL AAA/Stable (Reaffirmed)

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1 crore = 10 million

Refer to Annexure for Details of Instruments & Bank Facilities

Detailed Rationale

CRISIL Ratings has reaffirmed its 'CRISIL AAA/Stable' rating on the non-convertible debentures (NCDs) of Oriental Nagpur Betul Highway Ltd (ONBHL). Also, CRISIL Ratings has **withdrawn** its rating on the NCDs aggregating Rs 215.58 crore on receipt of payment confirmation from the debenture trustee. The rating action is in line with CRISIL Ratings policy on withdrawal of ratings of debt instruments.

The rating continues to reflect the stable revenue profile of the company, given the annuity-based model of the highway project; the well-defined structured payment waterfall mechanism that stipulates creation of a debt service reserve account (DSRA) to cover debt obligations over the next nine months; and the adequate legal structure of the transaction. These strengths are partially offset by exposure to risks related to operations and maintenance (O&M), major maintenance and pending construction of a toll plaza in Maharashtra.

Analytical Approach

CRISIL Ratings has considered the standalone business and financial risk profiles of ONBHL, owing to its well-monitored trustee mechanism separating cash flow and security. Any payment to the parent, Oriental Infratrust, can be made only after checking all conditions with the trustee, in line with the financing agreements.

Key Rating Drivers & Detailed Description

Strengths:

- **Stable revenue profile given the annuity-based model of the highway project:** ONBHL receives annuity payments from the National Highways Authority of India (NHAI; 'CRISIL AAA/Stable'). Under the annuity concept, NHAI makes a fixed semi-annual payment over the concession period to the concessionaire. As the concessionaire bears no traffic risk, the project is insulated from any demand risk.

Till date, ONBHL has received 18 annuity payments amounting to a total of Rs 5231.81 crore, commencing August 21, 2015, with no major delay or deduction. The annuity nature of the project and the strong counterparty mitigate risk of delay in payments. Any significant delay in receipt of the fixed annuity payment will remain a key rating sensitivity factor.

- **Well-defined structured payment waterfall mechanism:** The waterfall mechanism ensures that annuity proceeds are used to service payouts towards NCDs, once the statutory dues and payments towards NHAI are fulfilled. As per existing terms, DSRA of Rs 287.18 crore, which is equivalent to principal and interest obligation for nine months, is maintained. Subsequent to preponement of annuities, there is a cushion of more than five months between receipt of the annuity and debt repayment. The DSRA also provides adequate liquidity in case of delay in annuity payment. Moreover, there is an additional reserve of Rs 25 crore over and above the DSRA to cover any excess O&M or major maintenance cost. In case the additional reserve is withdrawn, project cash lying in the ONBHL surplus cash account needs to be mandatorily transferred in accordance with written instructions issued by the debenture trustee.
- **Healthy financial risk profile:** The financial risk profile should remain healthy with DSCR (debt service coverage ratio under CRISIL Ratings' projection of expenses) above one time throughout the tenure of debt.

The company has a healthy track record of 18 timely annuity payments, satisfactory upkeep of the road since its commissioning in February 2015 (as demonstrated through latest Lenders' Independent Engineer Report and road quality test reports [such as BBD survey and Road Roughness Measurement Tests]), and completion of the first major maintenance reserve (MMR) cycle within budgeted cost and transfer of the asset to Oriental Infratrust in fiscal 2020.

Weaknesses:

- **Exposure to O&M and major maintenance risk:** Timely and full release of annuity from NHAI largely depends on proper road maintenance. Furthermore, frequent occurrence of material breaches in the O&M and major maintenance requirement may lead to termination of the contract. However, the routine nature of O&M expenses, fixed-price contract with O&M contractor (OSE, which has extensive experience in road construction), low O&M cost against annuity receipts, and adequate budgeting for O&M and major maintenance expenses, as per the base case business plan, mitigate the aforementioned risks.
- **Susceptibility to risks related to pending construction:** Construction of the toll plaza on the Maharashtra section is still pending and awaiting approval from the relevant authority. However, the risk of completion of balance work is mitigated by construction reserve of Rs 8.73 crore as on October 15, 2023. Any increase in the construction cost not funded by sponsors will remain a rating sensitivity factor.

Liquidity: Superior

Liquidity is likely to remain sufficient over the medium term, with expected DSCR of more than one time during the tenure of the NCDs. The company receives semi-annual annuity aggregating to ~Rs 580 crore per annum. This, along with interest on annuity and O&M payments, will suffice to meet debt repayments of about Rs 361 crore and Rs 389 crore, and interest payments in fiscals 2024 and 2025 respectively. The company has a DSRA of Rs 287.18 crore, O&M reserves of Rs 26.20 crore, major maintenance reserve of Rs 196.13 crore, an additional reserve of Rs 25 crore, and construction reserve of Rs 8.73 crore as on October 15, 2023.

Outlook: Stable

Cash flow should remain stable over the medium term, given the fixed annuity receipts from NHAI and low (as a percentage of annuity inflow) regular O&M expenses.

Rating Sensitivity factors**Downward factors:**

- Significant cost overrun in periodic O&M activities
- Substantial decline (from semi-annual annuity amount of Rs 285 crore post taxes) or delay in receipt of annuity inflow
- Failure to adhere to the well-defined structure

About the Company

ONBHL was incorporated in June 2010, to augment the existing two-lane carriageway of Nagpur-Saoner-Betul section of NH-69 from 3-59.3 km in Maharashtra and 137-257.4 km in Madhya Pradesh, to a four-lane carriageway on design, build, finance, operate and transfer basis, under phase IV of the National Highways Development Project. ONBHL was earlier promoted by OSE and Oriental Tollways Pvt Ltd (OTPL), which held 26.03% and 73.97% stakes, respectively. However, the special-purpose vehicle was transferred to Oriental Infratrust in fiscal 2020. (Around 59% of the trust is being held by OSE and OTPL).

ONBHL signed a concession agreement with NHAI in August 2010, for 20 years, including the construction period. Commercial operations began in February 2015.

About OSEPL

Incorporated in 1971, OSEPL is a construction company promoted by Mr K S Bakshi, Mr PS Sethi and Mr AS Bakshi. It undertakes engineering, procurement, and construction projects, including construction of rigid and flexible pavements for roads, highways and airfields, bridges, and earthwork. The company has completed many infrastructure development projects, with specialisation in highways and runways.

Key Financial Indicators

Financials as on / for the period ended March 31*		2023	2022
Operating income	Rs crore	417	1185
Profit after tax (PAT)	Rs crore	213	165
Adjusted debt/adjusted networkth	Times	1.65	1.88
PAT margin	%	51.10	13.93
Adjusted interest coverage	Times	2.02	2.02

*As per analytical adjustments made by CRISIL Ratings

Any other information:

The NCDs were issued in three series, Series A, B and C. Series B and C are subordinate to Series A, as per NHAI guidelines, to indicate preference in case of termination payments. Strength of cash flow provides sufficient cushion for meeting debt obligation even in high-stress scenarios. Availability of a pari-passu DSRA and additional reserve further support subordinated series of NCDs.

Salient features of NCDs

- NCDs Series A, B and C have been issued in three series with semi-annual interest and repayment.
- Tenure for Series A and B is 14 years (maturing at least 30 days after annuity to be received in February 2030). Tenure for Series C is 12 years (maturing at least 30 days after annuity to be received in February 2030).
- Upfront creation of liquidity in the form of a DSRA for nine months of peak principal and interest payments (with at least 50% as cash and balance as a guarantee from a 'CRISIL AAA' rated non-banking financial company).

Note on complexity levels of the rated instrument:

CRISIL Ratings' complexity levels are assigned to various types of financial instruments and are included (where applicable) in the 'Annexure - Details of Instrument' in this Rating Rationale.

CRISIL Ratings will disclose complexity level for all securities - including those that are yet to be placed - based on available information. The complexity level for instruments may be updated, where required, in the rating rationale published subsequent to the issuance of the instrument when details on such features are available.

For more details on the CRISIL Ratings` complexity levels please visit www.crisilratings.com. Users may also call the Customer Service Helpdesk with queries on specific instruments.

Annexure - Details of Instrument(s)

ISIN	Name of the instrument	Date of Allotment	Coupon Rate (%)	Maturity Date	Issue size (Rs.Crore)	Complexity Level	Rating assigned with outlook
INE105N07159	NCDs	16-Nov-16	8.28%	30-Mar-24	96.94	Simple	CRISIL AAA/Stable
INE105N07167	NCDs	16-Nov-16	8.28%	30-Sep-24	98.49	Simple	CRISIL AAA/Stable
INE105N07175	NCDs	16-Nov-16	8.28%	30-Mar-25	102.76	Simple	CRISIL AAA/Stable
INE105N07183	NCDs	16-Nov-16	8.28%	30-Sep-25	118.2	Simple	CRISIL AAA/Stable
INE105N07191	NCDs	16-Nov-16	8.28%	30-Mar-26	123.25	Simple	CRISIL AAA/Stable
INE105N07209	NCDs	16-Nov-16	8.28%	30-Sep-26	125.27	Simple	CRISIL AAA/Stable
INE105N07217	NCDs	16-Nov-16	8.28%	30-Mar-27	105.94	Simple	CRISIL AAA/Stable
INE105N07225	NCDs	16-Nov-16	8.28%	30-Sep-27	93.37	Simple	CRISIL AAA/Stable
INE105N07233	NCDs	16-Nov-16	8.28%	30-Mar-28	97.4	Simple	CRISIL AAA/Stable
INE105N07241	NCDs	16-Nov-16	8.28%	30-Sep-28	98.41	Simple	CRISIL AAA/Stable
INE105N07258	NCDs	16-Nov-16	8.28%	30-Mar-29	102.68	Simple	CRISIL AAA/Stable
INE105N07266	NCDs	16-Nov-16	8.28%	30-Sep-29	103.54	Simple	CRISIL AAA/Stable
INE105N07274	NCDs	16-Nov-16	8.28%	30-Mar-30	107.26	Simple	CRISIL AAA/Stable
INE105N07423	NCDs	16-Nov-16	8.78%	30-Mar-24	10.66	Simple	CRISIL AAA/Stable
INE105N07431	NCDs	16-Nov-16	8.78%	30-Sep-24	10.83	Simple	CRISIL AAA/Stable
INE105N07449	NCDs	16-Nov-16	8.78%	30-Mar-25	11.3	Simple	CRISIL AAA/Stable
INE105N07456	NCDs	16-Nov-16	8.78%	30-Sep-25	13	Simple	CRISIL AAA/Stable
INE105N07464	NCDs	16-Nov-16	8.78%	30-Mar-26	13.55	Simple	CRISIL AAA/Stable
INE105N07472	NCDs	16-Nov-16	8.78%	30-Sep-26	13.77	Simple	CRISIL AAA/Stable
INE105N07480	NCDs	16-Nov-16	8.78%	30-Mar-27	11.65	Simple	CRISIL AAA/Stable
INE105N07498	NCDs	16-Nov-16	8.78%	30-Sep-27	10.27	Simple	CRISIL AAA/Stable
INE105N07506	NCDs	16-Nov-16	8.78%	30-Mar-28	10.71	Simple	CRISIL AAA/Stable
INE105N07514	NCDs	16-Nov-16	8.78%	30-Sep-28	10.82	Simple	CRISIL AAA/Stable
INE105N07522	NCDs	16-Nov-16	8.78%	30-Mar-29	11.29	Simple	CRISIL AAA/Stable
INE105N07530	NCDs	16-Nov-16	8.78%	30-Sep-29	11.38	Simple	CRISIL AAA/Stable
INE105N07548	NCDs	16-Nov-16	8.78%	30-Mar-30	11.82	Simple	CRISIL AAA/Stable
INE105N07670	NCDs	26-Dec-17	9.00%	30-Mar-24	5.7	Simple	CRISIL AAA/Stable
INE105N07688	NCDs	26-Dec-17	9.00%	30-Sep-24	5.8	Simple	CRISIL AAA/Stable
INE105N07696	NCDs	26-Dec-17	9.00%	30-Mar-25	6	Simple	CRISIL AAA/Stable
INE105N07704	NCDs	26-Dec-17	9.00%	30-Sep-25	6.9	Simple	CRISIL AAA/Stable
INE105N07712	NCDs	26-Dec-17	9.00%	30-Mar-26	7.2	Simple	CRISIL AAA/Stable
INE105N07720	NCDs	26-Dec-17	9.00%	30-Sep-26	7.4	Simple	CRISIL AAA/Stable
INE105N07738	NCDs	26-Dec-17	9.00%	30-Mar-27	6.2	Simple	CRISIL AAA/Stable
INE105N07746	NCDs	26-Dec-17	9.00%	30-Sep-27	5.5	Simple	CRISIL AAA/Stable
INE105N07753	NCDs	26-Dec-17	9.00%	30-Mar-28	5.7	Simple	CRISIL AAA/Stable
INE105N07761	NCDs	26-Dec-17	9.00%	30-Sep-28	5.8	Simple	CRISIL AAA/Stable
INE105N07779	NCDs	26-Dec-17	9.00%	30-Mar-29	6	Simple	CRISIL AAA/Stable
INE105N07787	NCDs	26-Dec-17	9.00%	30-Sep-29	6.1	Simple	CRISIL AAA/Stable
INE105N07795	NCDs	26-Dec-17	9.00%	30-Mar-30	6.26	Simple	CRISIL AAA/Stable

Annexure - Details of Rating Withdrawn

ISIN	Name of the instrument	Date of Allotment	Coupon Rate (%)	Maturity Date	Issue size (Rs. Crore)	Complexity Level	Rating assigned with outlook
INE105N07134	NCDs	16-Nov-16	8.28%	30-Mar-23	91.43	Simple	Withdrawn
INE105N07142	NCDs	16-Nov-16	8.28%	30-Sep-23	92.98	Simple	Withdrawn
INE105N07407	NCDs	16-Nov-16	8.78%	30-Mar-23	10.05	Simple	Withdrawn
INE105N07415	NCDs	16-Nov-16	8.78%	30-Sep-23	10.22	Simple	Withdrawn

INE105N07654	NCDs	26-Dec-17	9.00%	30-Mar-23	5.4	Simple	Withdrawn
INE105N07662	NCDs	26-Dec-17	9.00%	30-Sep-23	5.5	Simple	Withdrawn

Annexure - Rating History for last 3 Years

Instrument	Type	Current		2023 (History)		2022		2021		2020		Start of 2020
		Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Non Convertible Debentures	LT	1605.12	CRISIL AAA/Stable		--	30-12-22	CRISIL AAA/Stable	11-02-21	CRISIL AAA/Stable	11-12-20	CRISIL AAA/Stable	CRISIL AAA/Stable
			--		--	07-01-22	CRISIL AAA/Stable		--	23-01-20	CRISIL AAA/Stable	--

All amounts are in Rs.Cr.

Criteria Details**Links to related criteria**

[CRISILs Approach to Financial Ratios](#)

[CRISILs criteria for rating annuity and HAM road projects](#)

[Understanding CRISILs Ratings and Rating Scales](#)

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