DBL Infra Assets Private Limited

August 22, 2022

Ratings

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Non-Convertible Debentures – Tranche-I	582.70	**CARE BBB+; Stable (Triple B Plus; Outlook: Stable)**	Reaffirmed
Non-Convertible Debentures – Tranche-II	89.70	**CARE BBB+; Stable (Triple B Plus; Outlook: Stable)**	Reaffirmed
Non-Convertible Debentures – Tranche-III	323.00	**CARE BBB+; Stable (Triple B Plus; Outlook: Stable)**	Reaffirmed
Total long-term instruments	**995.40 (₹ Nine hundred ninety five crore forty lakh only)**		

Details of facilities in Annexure-1

Tranche-I and tranche-II NCDs are backed by cash flow coverage of three underlying Hybrid Annuity Model (HAM) projects which have achieved provisional commercial operations date (PCOD) and three near completion HAM projects.
Tranche-III NCDs are backed by cash flow coverage of four underlying Hybrid Annuity Model (HAM) projects under early stage of construction.

Detailed rationale and key rating drivers

For arriving at the ratings, CARE has taken a combined view of the HAM projects acquired by DIAPL and structure payment mechanism for the NCDs. The rating assigned to the NCDs of DIAPL continues to factor in stable revenue visibility from underlying HAM based projects with National Highways Authority of India (rated CARE AAA; Stable) as a counterparty. Low project leverage, benefit of cash flows pooling and average tail period of 25 months of DBL's HAM projects impart financial flexibility with adequate combined concession life coverage ratio for DIAPL at group level. Favorable structural covenants including - proposed creation of debt service reserve account (DSRA) for one quarter debt servicing requirement for the NCDs from the residual surplus generated from the project companies after fulfilling their operational and debt servicing requirement, permitting cash withdrawal only upon investor's consent, stipulation of benchmark debt/PBILDT and concession life coverage ratios on combined basis are other credit strengths. The repayments are structured to commence after a moratorium of two years towards coupon and three years for NCD thereby providing adequate time for refinancing, transfer or sale of the underlying project assets.
Furthermore, CARE takes cognisance of the fact that the parent i.e. Dilip Buildcon Limited (DBL, rated CARE A-; Stable / CARE A2+) has entered into a binding term sheet with Shrem InvIT for sale of ten HAM assets (including six assets under DIAPL), for which it has approached the investor of DIAPL for grant of No objection certificate (NOC). NOC is envisaged to be received by September 2022. Investor of DIAPL also has an option to opt for part pre-payment or full redemption of NCDs in lieu of issuance of NOC. DBL also plans to offer other under construction HAM assets in lieu of the said six HAM assets. Going forward, significant impact on the credit profile of the underlying projects and concession life coverage ratio upon receipt of NOC or significant delay in completion of the proposed projects offered in lieu shall be key rating monitorable.
The rating strengths, however, continue to be tempered by inherent project execution risk associated with under implementation HAM projects, sub-ordinate quality of the cash flow available after repayment of projects' senior debt and opex requirements, fulfillment of restricted payment covenants at each project SPV level and inherent refinancing risk. Nevertheless, demonstrated execution capability of parent i.e. DBL, as well as extension of corporate guarantee by DBL till achievement of provisional commercial operations date (PCOD) of respective SPV offer partial mitigation to project risk. Inherent O&M risk and interest rate risk associated with HAM projects are other credit weaknesses which shall influence the surplus built up towards NCD servicing.

Rating sensitivities

Positive factors – Factors that could lead to positive rating action/upgrade:

- Achievement of COD for the underlying projects in the respective pool enhancing the revenue visibility.

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

- Deterioration in the credit profile of the counterparty i.e. NHAI.
- Non availability of cash surplus from individual SPVs due to not meeting of restricted payment covenants at SPV level
- Deviation from envisaged timelines for stake sale of assets
- Deterioration in the credit profile of the under lying assets due to significant deduction of annuity or increase in O&M expenses
- Significant weakening in the credit profile of sponsor cum O&M contractor leading to deduction in annuities or cash trap at SPV level by lenders
- Non-adherence to any covenants as per the sanctioned terms

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

- Adverse terms of NOC significantly impacting the credit profile of underlying SPVs and concession life coverage ratio of the structure

Detailed description of the key rating drivers

Key rating strengths

Strong underlying asset portfolio of NHAI HAM projects: The proposed ten HAM assets shall be transferred under DIAPL in a phased manner and the debt raised in the form of NCDs at DIAPL and shall be utilised to buyout atleast 49% equity stake and unsecured loans in these projects from DBL. The portfolio of 10 assets can be divided as to: 3 operational projects that have achieved PCOD, near completion portfolio of three projects which are expected to achieve PCOD by December 2023 and 4 early-stage portfolio which expected to achieve COD by June 2023. The projects are based out of diverse locations across various states- Karnataka, Jharkhand, Madhya Pradesh, Maharashtra, Bihar and Chhattisgarh thus mitigating geographical risk and consequently reducing impact of force majeure in any region or particular project. Furthermore, all the ten SPVs have assured cash flows in the form of bi-annual construction annuity, interest annuity and O&M annuity post achievement of PCOD from strong counterparty (i.e. NHAI (rated CARE AAA; Stable).

Low project leverage, cash pooling mechanism and benefit of tail period aiding debt protection indicators and financial flexibility: All the ten SPVs have been sufficiently bid above NHAI cost. Furthermore, the project leverage i.e. sanctioned project debt by expected completion cost (i.e. inflated bid project cost) is also low at 28% for the pool of 10 SPVs resulting into strong debt coverage indicators at SPV levels and generation of sizeable combined free cash flow post debt servicing at SPV level and creation of stipulated debt service reserve account (DSRA) and major maintenance reserve account (MMRA). DIAPL derives strength from cash pooling mechanism offering revenue diversity. Furthermore, average tail period of 25 months for underlying HAM projects is expected to translate into adherence of minimum concession life coverage ratio (CLCR) of 1.20 times as per the terms of the structure aiding financial flexibility.

Favorable covenants of the debt structure: Outstanding amount of NCDs is Rs.702.70 crore. The tenor of the instrument is 5 years from the date of allotment of tranche-I with moratorium of two years in interest servicing and three years in repayment. Hence, availability of adequate moratorium provides head room for the stake sale of the assets in the interim period apart from protecting the cash flows of the pool till generation of sizeable free cash flow from underlying HAM projects. DSRA of one quarter debt servicing requirement is to be created from project cash flow by March 2023. DIAPL shall not be allowed to withdraw cash surplus without the consent of the NCD investor. Hence, DSRA and cash trap mechanism are expected to provide some cash flow cushion at the time of NCD redemption with premium. DIAPL is also required to maintain combined CLCR of 1.20 times which shall be tested annually and DIAPL is required to offer additional asset to the investor in case of breach of covenants. Combined total debt/PBILDT is also not expected to exceed threshold level of 5 times post achievement of PCOD for all 10 HAM projects.

Key Rating Weaknesses

Inherent project execution risk partly offset by proposed corporate guarantee of DBL till achievement of PCOD and its demonstrated execution track record: DIAPL is exposed to inherent project execution risk attached with completion of balance construction work in the HAM projects. Nevertheless, demonstrated execution capability of DBL marked by on time or ahead of schedule progress in all of its HAM projects and extension of corporate guarantee by DBL till achievement of PCOD of respective HAM project partly mitigate the execution risk.

Availability of subordinate cash flow of SPVs for the debt servicing of NCDs along with refinancing risk: NCD raised by DIAPL shall be redeemed from free cash flow post adhering waterfall mechanism and meeting restricted payment covenants of lenders at each project SPV level. Hence, free cash flow available for NCD redemption is sub-ordinate to the cash flow of underlying HAM SPVs. Furthermore, cash trap exercised by the lender of HAM SPV in case of lower debt coverage indicators or non-adherence to the loan covenants may restrict the generation of free cash flow for debt servicing of NCDs. However, expectations of strong debt coverage indicators at SPV level mitigate the risk related to cash trap exercised at SPV level. DIAPL is exposed to inherent risk related to timely refinancing of the NCDs or sale the stake in its HAM SPVs due to sizeable redemption in FY26 and FY27. However, adequate CLCR, assured cash flows from a strong counterparty and sufficient moratorium period mitigate the refinancing to an extent.

O&M and interest rate risk: All ten HAM SPVs are exposed to inherent O&M and MM risk associated with the projects. Furthermore, all the stretches are to be constructed on flexible pavement basis which is more subject to wear and tear and leads to higher O&M expenses. However, all the SPVs upon achievement of PCOD shall enter into fixed price O&M and MM contract with DBL which provides some cushion. Moreover, non-linear transmission of bank rate over lending rate also exposes the cash flow to inherent interest rate risk.

Liquidity: Adequate

Proposed creation of DSRA, restriction on withdrawal of surplus and corporate guarantee of DBL are expected to aid the liquidity of DIAPL in the near term.

Analytical approach: Combined cash flows of all the ten SPVs. Cash pooling of 10 SPVs have been considered for analytical approach and free cash flow available after debt servicing and creation of DSRA and MMRA at SPV level is available for the NCD redemption. Hence, combined sub-ordinate cash flow under cash pooling of 10 SPVs is available for the debt servicing of NCDs of DIAPL. The SPVs are as below:

No.	Name of SPV
1.	DBL Byrapura Challakere Highways Private Limited
2.	DBL Gorhar Khairatunda Highways Private Limited
3.	DBL Bellary Byrapura Highways Private Limited
4.	DBL Bangalore Nidagatta Highways Private Limited
5.	DBL Rewa Siddhi Highways Private Limited
6.	DBL Nidagatta Mysore Highways Private Limited
7.	Dodaballapur Hoskote Highways Private Limited
8.	Repallawada Highways Private Limited
9.	Narenpur Purnea Highways Private Limited
10.	Pathrapali Kathgora Highways Private Limited

Applicable criteria

Policy on default recognition
Financial ratios – Non-financial sector
Liquidity analysis of Non-financial sector entities
Rating outlook and credit watch
Policy on withdrawal of ratings
Rating Methodology – Hybrid Annuity Road Projects
Notching by Factoring Linkages in Ratings

About the company

DBL Infra Assets Private Limited (DIAPL) erstwhile High Fly Airlines Private Limited was incorporated during May 2010 by the Mr. Dilip Suryavanshi and Ms. Seema Suryavanshi in their personal capacity. However, there are no major operations in the company till date. The name of the company was changed to current one as on July 26, 2021. As per the BSE announcement dated August 05, 2021, DBL has acquired 100% equity shares of DIAPL making it wholly owned subsidiary of DBL. DIAPL has acquired equity stake in 10 NHAI HAM projects and plans to raise NCD to the tune of Rs.995.40 crore to buyout 49% stake from DBL, of which it has availed debt of Rs.702.70 crore. DBL has also provided corporate guarantee to these HAM projects till PCOD.

Brief Financials (₹ crore) (Consolidated)	March 31, 2021 (A)	March 31, 2022 (A)	Q1FY23 (UA)
Total operating income	NA	113.12	27.21
PBILDT	NA	(2.50)	(0.14)
PAT	NA	(156.12)	(45.53)
Overall gearing (times)	NA	NM	NM
Interest coverage (times)	NA	Negative	Negative

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

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for the last three years: Please refer Annexure-2

Covenants of the rated instruments/facilities: Detailed explanation of covenants of the 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	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Debentures-Non-convertible debentures	INE0IJE08011	August 31, 2021	9.00%	August 28, 2026	582.70	CARE BBB+; Stable
Debentures-Non-convertible debentures	INE0IJE08011	August 31, 2021	9.00%	August 28, 2026	89.70	CARE BBB+; Stable
Debentures-Non-convertible debentures	INE0IJE08011	August 31, 2021	9.00%	August 28, 2026	30.30	CARE BBB+; Stable
Debentures-Non-convertible debentures – Proposed	NA	NA	NA	NA	292.70	CARE BBB+; 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	Debentures-Non Convertible Debentures	LT	582.70	CARE BBB+; Stable	-	1)CARE BBB+; Stable (24-Aug-21)	-	-
2	Debentures-Non Convertible Debentures	LT	89.70	CARE BBB+; Stable	-	1)CARE BBB+; Stable (24-Aug-21)	-	-
3	Debentures-Non Convertible Debentures	LT	323.00	CARE BBB+; Stable	-	1)CARE BBB+; Stable (24-Aug-21)	-	-

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

Name of the Instruments- NCD (Tranche-I, Tranche-II and Tranche-III	**Detailed explanation**
A. Financial Covenants	
1. Group asset cover ratio of 1.2:1 till the tenor of the NCDs	
2. Net Debt/PBILDT: (i) 6:1 for financial starting from the 24th (twenty fourth) month from the Deemed Date of Allotment of Tranche 1 Debentures till the 36th (thirty sixth) month from the Deemed Date of Allotment of Tranche 1 Debentures; (ii) 5.5:1 for each Financial Quarter starting from the 36th (thirty sixth) month from the Deemed Date of Allotment of Tranche 1 Debentures till the 48th (forty eighth) month from the Deemed Date of Allotment of Tranche 1 Debentures; (iii) 5:1 for each Financial Quarter starting from the 48th (forty eighth) month from the Deemed Date of Allotment of Tranche 1 Debentures till the Final Redemption Date and/or the Final Settlement Date;	
3. Total debt cap: Rs.5,200 crore at consolidated level i.e. DIAPL and all the SPVs	Provides comfort from credit perspective
4. creation of DSRA- DSRA equivalent to three months of debt servicing to be created from third year onwards i.e. FY24 when interest payment commences	Provides comfort from credit perspective
B. Non- Financial Covenants	
1. In case of any cost runs in specified projects, the same would be funded by DIAPL and DBL in accordance with the transaction documents	
2.DBL shall extent corporate guarantee till the time projects achieve COD/PCOD. The guarantee shall be structured in a manner that it reduces pro-rate to relevant projects achieving COD	
3.Any unsecured loans provided by DBL to DIAPL shall be subordinated to the NCDs.	

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

To view the lender wise details of bank facilities please click here

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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About us:
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