

December 06, 2022

## L&T Sambalpur-Rourkela Tollway Limited: Rating reaffirmed

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based – Term loans	823.62	773.34	[ICRA]A- (Stable); reaffirmed
<b>Total</b>	<b>823.62</b>	<b>773.34</b>	

\*Instrument details are provided in Annexure-I

### Rationale

The rating reaffirmation takes into account L&T Sambalpur-Rourkela Tollway Limited's (L&T SRTL) satisfactory operational performance with more than four years of tolling track record and attractive location of the project stretch between Sambalpur and Rourkela (two prominent cities in Odisha) connecting various mineral-rich areas in the region, coupled with no major alternate route risk. Given that major mineral (MM) vehicles are charged double toll rates and have higher PCU factor, the MM vehicles contribute to a sizeable portion of the total revenue (38% of revenues in FY2022). The toll collections are estimated to increase to more than Rs. 190 crore in FY2023 (vs Rs. 149 crore in FY2022) on the back of an increase in toll tariffs w.e.f. April 01, 2022 and healthy increase in MM traffic on the project stretch. The rating takes comfort from the strong liquidity position with cash balances and liquid investments of Rs. 160.28 crore as on September 30, 2022, and the presence of structural features such as escrow mechanism, debt service reserve (DSR) in the form of fixed deposit equivalent to one quarter's debt servicing obligations, and reserves to be built for bullet payment at the end of the loan tenure.

The rating, however, is constrained by the risks associated with a toll road project including traffic growth, traffic diversion/alternate route risk, inflation-linked toll rate increase, and users' willingness to accept toll rate hikes as well as regulatory risks including timely implementation of rate hikes. Further, the traffic on the project stretch is concentrated on major mineral (coal and iron ore) carrying vehicles, which exposes it to the risk of any slowdown in mining activities as witnessed in the recent past. ICRA notes that slowdown in mining activities in the region due to a delay in renewal of mine leases, transportation bottlenecks, and heavy monsoons hampering the road connecting the project stretch to the mines affected the MM-carrying traffic and collections in FY2021 and FY2022. Although L&T SRTL remains exposed to refinancing of bullet repayment due in April 2030, its strong financial flexibility arising from the long tail period (balance concession period post debt repayment) mitigate the risk to an extent. The project is exposed to the risk of higher-than-estimated routine and periodic maintenance expenses due to higher wear and tear on account of high proportion of mineral carrying traffic, which can adversely impact its debt coverage metrics.

The Stable outlook on the long-term rating reflects ICRA's opinion that SRTL will continue to benefit from the healthy increase in its toll collections, driven by low alternate route risk, pick up in mining activity in the region supporting the traffic growth and the strong liquidity position.

### Key rating drivers and their description

#### Credit strengths

**Operational toll road project with over four years of track record** – The company started collecting toll from March 13, 2018 and has a track record of over four years of toll collection on the project stretch. The project is a part of Odisha SH-10, which connects Sambalpur and Rourkela, the most prominent cities in Odisha. It provides connectivity to Jharsuguda and Sundargarh districts of the state. The road provides linkage to coal and iron ore mines from other industrial towns in Odisha and the

neighbouring states. There is no major competitive road to the project stretch, which makes it the preferred stretch connecting Sambalpur and Rourkela.

**Strong liquidity position and presence of structural features of the debt** – The company has a strong liquidity position with cash and liquid balances of Rs. 160.28 crore as on September 30, 2022. ICRA takes comfort from the presence of structural features such as cash flow escrow mechanism, DSR in the form of fixed deposit equivalent to around one quarter's debt servicing obligations, and reserves to be built for bullet payment at the end of the loan tenure.

**Healthy financial flexibility** – L&T SRTL has healthy financial flexibility arising from the availability of a long tail period (balance concession period post debt repayment) of around seven years, which can be used to refinance the existing debt with longer tenure, if required. Further, L&T SRTL is promoted by L&T IDPL, which is a part of the L&T Group with a strong financial profile and a healthy track record of executing build-operate-transfer (BOT) projects. The company benefits from the professional management with an experience in handling various road assets.

### Credit challenges

**Dependence on major mineral mining traffic** – The project road provides linkage to coal and iron ore mines from other industrial towns in Odisha and the neighbouring states. A major part of the commercial traffic using the stretch comprises vehicles carrying these minerals. Given that these vehicles are charged double toll rates and have higher PCU factor, the MM vehicles contribute to a sizeable portion of the total revenue (38% of revenues in FY2022). Hence, L&T SRTL's toll collection is highly dependent on the production in the relevant coal and iron ore mines, as well as any alternate mode of transportation of these minerals as witnessed in FY2022. ICRA notes that slowdown in mining activities in the region due to delay in renewal of mine leases, transportation bottlenecks, or heavy monsoons hampering the road connecting the project stretch to the mines may impact the MM-carrying traffic and thereby toll revenues.

**High debt repayments towards the end of the loan tenure** – L&T SRTL remains exposed to refinancing due to bullet repayment in FY2030, wherein 18% of debt (adjusted for prepayment) falls due. However, ICRA takes comfort from the long tail period (balance concession period post debt repayment), which provides financial flexibility. Further, the debt sanction involves provision to build reserve for bullet repayment, which mitigates this risk to an extent.

**Risks associated with toll road project** – Like a typical toll road project, L&T SRTL is exposed to risks including user willingness to accept toll rate hikes, alternate route diversion, inflation-linked toll rates, and dependence of traffic growth on the economic activities in the region. Since the project has an operational track record of about three years, users' willingness to pay toll is established to an extent. The project being a state highway and under concession from the state government authority is also exposed to higher regulatory risks like timely implementation of toll rate hike.

### Liquidity position: Strong

The company's liquidity position is strong with the cash flow from operations expected to be sufficient to meet the operational expenses and debt servicing obligation over the medium term. This apart, L&T SRTL has cash and liquid investments of Rs. 160.28 crore as on September 30, 2022, which includes DSRA equivalent to three months' debt servicing obligation.

### Rating sensitivities

**Positive factors** – The rating could be upgraded if higher toll collections or favourable changes to its debt structure results in an improvement in its cumulative DSCR to more than 1.4 times.

**Negative factors** – Pressure on L&T SRTL’s rating could arise if lower traffic growth or increased operations and maintenance (O&M) expenses results in deterioration in the cumulative DSCR. Pressure could also arise if there is any non-adherence to the debt structure.

## Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	<a href="#">Corporate Credit Rating Methodology</a> <a href="#">Rating Methodology for BOT Toll road</a>
Parent/Group support	Not applicable
Consolidation/Standalone	The rating is based on the company’s standalone financial profile.

## About the company

L&T SRTL is a 100% subsidiary of L&T IDPL, and was incorporated in October 2013 as a special purpose vehicle (SPV) to implement the four laning of Odisha’s SH-10 from Sambalpur to Rourkela for a total length of 161.73 km. The project highway was constructed under the design-build-finance-operate-transfer (DBFOT) model under Odisha State Road Project (OSRP). The concession was granted to L&T SRTL for a period of 22 years from the appointed date, i.e., July 15, 2014. The provisional completion certificate was received on March 13, 2018 against the scheduled Commercial Operations Date of July 14, 2017. It has received the provisional completion certificate for the entire project stretch on August 12, 2019 and received the final COD w.e.f. March 31, 2021.

## Key financial indicators (audited)

L&T SRTL	FY2021	FY2022
Operating income	144.9	152.6
PAT	-49.3	-24.7
OPBDIT/OI	71.3%	69.7%
PAT/OI	-34.0%	-16.2%
Total outside liabilities/Tangible net worth (times)	8.2	8.7
Total debt/OPBDIT (times)	9.0	7.5
Interest coverage (times)	1.1	1.3

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs. crore

Note: The company follows IndAS and the coverage ratios are not representative of the actual cash flows

**Status of non-cooperation with previous CRA: Not applicable**

**Any other information: None**

## Rating history for past three years

Instrument	Type	Current rating (FY2023)		Chronology of rating history for the past 3 years				
		Amount rated (Rs. crore)	Amount outstanding as on Oct 31, 2022 (Rs. crore)	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021	Date & rating in FY2020	
				December 6, 2022	Sep 16, 2021	Jul 24, 2020	Nov 15, 2019	
1	Term loans	Long-term	773.34	773.34	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]BBB+ (Stable)

## Complexity level of the rated instruments

Instrument	Complexity Indicator
Term loan	Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: [Click Here](#)

**Annexure I: Instrument details**

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term loan	FY2015	NA	FY2030	773.34	[ICRA]A- (Stable)

Source: Company

[Please click here to view details of lender-wise facilities rated by ICRA](#)

**Annexure II: List of entities considered for consolidated analysis: Not applicable**

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