

December 13, 2022

Dewas Bypass Tollway Private Limited: [ICRA]A+(CE) (Stable) rating withdrawn; and rating of [ICRA]BBB+ (Stable) assigned

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Term loan	222.29	221.13	[ICRA]A+(CE) (Stable) withdrawn; [ICRA]BBB+ (Stable) assigned simultaneously
Total	222.29	221.13	

*Instrument details are provided in Annexure-I

Rationale

ICRA has withdrawn its rating of [ICRA]A+(CE) (Stable) assigned to the bank facilities of Dewas Bypass Tollway Private Limited (DBTPL) and has simultaneously assigned a fresh rating of [ICRA]BBB+ (Stable) for these facilities. The rating action follows the Guidance Note and the FAQ document issued by the Reserve Bank of India (RBI) to the credit rating agencies on April 22, 2022, and July 26, 2022, respectively, guiding that the benefit of a Letter of Comfort (LoC) is not to be considered while assigning credit enhanced (CE) ratings. To align itself with the above regulatory guidance, ICRA would no longer be considering the benefit of an LoC in its credit assessments, even as such a support represents a relatively stronger expression of commitment on the part of the support provider for the supported facilities against support that is only implicit in nature. Accordingly, ICRA has assigned the rating of [ICRA]BBB+ (Stable) to the above bank facilities of DBTPL, while withdrawing the [ICRA]A+(CE) rating.

The assigned rating favourably factors in DBTPL's comfortable debt coverage metrics, driven by the significant increase in toll tariffs from September 1, 2022, attributable to high average wholesale price index (WPI) in FY2022 and healthy traffic growth. The toll collections are estimated to increase to around Rs. 47 crore in FY2023 from Rs. 36.5 crore in FY2022. The rating notes the operational track record of more than two years and the importance of the project stretch, as it is a part of the Mumbai-Agra National Highway, which witnesses high traffic movement. The rating takes comfort from the financial flexibility arising from the availability of a long tail period of around seven and half years 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. IJM confirms to be supportive of DBTPL's operations and would ensure that the company meets its debt service obligations on the rated term loan on time, attributed to the LoC issued by IJM in favour of the instrument. IJM would retain management control and equity stake of more than 51%, directly or indirectly, throughout the tenor of facility.

The rating, however, is constrained by the risks associated with a toll road project including traffic growth, traffic diversion, 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 project stretch has alternate route that passes through the city of Dewas and is of comparable length and takes the similar amount of time. Given that sizeable traffic is heavy commercial traffic, which is banned from passing through the city, the alternate route risk is mitigated to an extent. The project is exposed to interest rate risk, considering the floating nature of interest rates and could impact its debt coverage metrics. The project is exposed to refinancing risk with the lenders having the right to exercise put option with 90 days of notice period. However, comfortable debt coverage metrics and a long tail period mitigates the risk to an extent.

The Stable outlook on the long-term rating reflects ICRA's opinion that DBTPL will continue to benefit from the healthy increase in its toll collections, driven by increase in toll tariffs, and healthy traffic growth.

Key rating drivers and their description

Credit strengths

Operational toll road project with more than two years of track record – The company had started collecting toll from January 11, 2020 and has a track record of more than two years of toll collection on the project stretch. The project stretch is a part of the Mumbai-Agra National Highway, which witnesses high traffic movement, especially the long-distance traffic between the North Indian states to Maharashtra. Besides, it serves the short-distance traffic, which is mainly generated between Ujjain, Gwalior, Dewas, Indore, Bhopal and the surrounding areas. The project highway lies in a high-density traffic corridor and carries a sizeable number of personalised and commercial passenger traffic, apart from regular freight traffic.

Comfortable debt coverage metrics and presence of structural features – The company has comfortable debt coverage metrics. ICRA also 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.

Established track record of IJM in operation of toll assets – The company possesses a strong presence in toll infrastructure services, which covers a broad spectrum of project requirements including the design, construction, operation and maintenance of the tolls. At present, IJM's operations are spread over three countries (Malaysia, India and Argentina), where a total of nine projects are in the operational stage.

Credit challenges

Moderate alternate route risk – The project stretch has alternate route that passes through the city and is of similar length and takes the same amount of time. Although there is alternate route risk, a sizeable chunk of the traffic includes heavy commercial traffic, which is banned from plying through the city of Dewas. This mitigates the alternate route risk to an extent.

Floating nature of debt exposes the project to interest rate risk – Cash flows are exposed to interest rate risk, considering the floating nature of interest rates for the project loan as it is linked to the one-year MCLR plus a spread of 1.95%. Any increase in the interest rate could negatively impact the coverage metrics.

Exercise of put option by lenders could expose project to refinancing risk – The project remains exposed to refinancing risk with lenders having the right to exercise put option with 90 days of notice period. However, DBTPL has healthy financial flexibility arising from the availability of a long tail period (balance concession period post debt repayment) of around seven and half years, which can be used to refinance the existing debt with a longer tenure, if required.

Risks associated with toll road project – DBTPL is exposed to the inherent toll road project risks including users' willingness to accept toll rate hikes, volatility of traffic due to factors such as pandemic-induced challenges and dependence of traffic growth on the economic activities in the region. The increase in toll rates for the project stretch is linked to variation in average WPI of the previous financial year, which could negatively impact the overall revenue growth for the special purpose vehicle (SPV) in case of lower inflation.

Liquidity position: Adequate

DBTPL's liquidity position is adequate with cash flow from operations sufficient for debt servicing of Rs. 2.1 crore for FY2023. It has cash and fixed deposits of Rs. 7.66 crore as on September 30, 2022, which includes DSRA of Rs. 5.73 crore, which is equivalent to one quarter of debt servicing obligation supporting its liquidity position.

Rating sensitivities

Positive factors – The rating could be upgraded if higher growth in toll collections results in an improvement in debt coverage metrics on a sustained basis.

Negative factors – Pressure on the rating could arise if traffic decline and/or higher-than-expected O&M expenses, or additional indebtedness results in deterioration of debt coverage metrics on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology BOT Toll Road Projects in India Policy on withdrawal of credit ratings
Parent/Group support	Not applicable
Consolidation/Standalone	The rating is based on the company's standalone financial profile

About the company

Incorporated on February 2017, DBTPL is an SPV promoted by the Malaysian construction firm - IJM Corporation Berhad and its investment companies to undertake widening and upgrading of the Dewas Bypass Road from KM 0.00 at Ujjain Dewas Junction and ending at KM 19.80 at Indore Junction from two-lane to a four/six-lane highway in Madhya Pradesh on a Design, Build, Operate and Transfer (DBOT) basis. The project was awarded by Madhya Pradesh Road Development Corporation Limited (MPRDCL) based on competitive bidding on February 27, 2017. The project has a concession period of 25 years, commencing from October 10, 2017. The project received provisional COD on January 10, 2020. The tolling operations began on January 11, 2020. It has received the final completion certificate on September 26, 2020.

Key financial indicators

DBTPL standalone	FY2021	FY2022
Operating income (Rs. crore)	31.96	36.49
PAT (Rs. crore)	-2.8	-5.8
OPBDIT/OI (%)	67.01%	61.61%
PAT/OI (%)	-8.72%	-15.82%
Total outside liabilities/Tangible net worth (times)	3.8	4.8
Total debt/OPBDIT (times)	10.9	11.9
Interest coverage (times)	1.2	1.1

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation

Status of non-cooperation with previous CRA: Not Applicable

Any other information: None

Rating history for past three years

Instrument	Current Rating (FY2023)				Chronology of Rating History for the Past 3 Years			
	Type	Amount Rated (Rs. crore)	Amount Outstanding as on Oct 30, 2022 (Rs. crore)	Date & Rating in	Date & Rating in FY2023	Date & Rating in FY2022	Date & Rating in FY2021	
				Dec 13, 2022	May 27, 2022	June 11, 2021	June 12, 2020	
1 Term loan	Long-term	221.13	221.13	[ICRA]A+(CE) (Stable) withdrawn; [ICRA]BBB+ (Stable) assigned simultaneously	[ICRA]A+(CE) (Stable)	[ICRA]A+(CE) (Stable)	[ICRA]A+(CE) (Stable)	

Note: Amount in Rs. crore

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 / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term loan	August 2017	9.25%	March 2035	221.13	[ICRA]A+(CE) (Stable) withdrawn; [ICRA]BBB+ (Stable) assigned simultaneously

Source: Company; Amount in Rs. Crore

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

Annexure II: List of entities considered for consolidated analysis – Not Applicable

ANALYST CONTACTS

Rajeshwar Burla

+91 40 40676527

rajeshwar.burla@icraindia.com

Ashish Modani

+91 20 6606 9912

ashish.modani@icraindia.com

Vinay Kumar G

+91 40 4067 6533

vinay.g@icraindia.com

Vamshi Kinnera

+91 40 4067 6520

vamshi.kinnera@icraindia.com

RELATIONSHIP CONTACT

Jayanta Chatterjee

+91 80 4332 6401

jayantac@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani

Tel: +91 124 4545 860

communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

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For more information, visit www.icra.in

ICRA Limited



Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001

Tel: +91 11 23357940-45



Branches



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