

September 28, 2022

Shree Jagannath Expressways Private Limited: Rating upgraded to [ICRA]AA- (Stable)

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based – Term loan	1045.0	1029.5	[ICRA]AA-(Stable); Upgraded from [ICRA]A- (Stable)
Total	1045.0	1029.5	

*Instrument details are provided in Annexure-I

Rationale

The rating upgrade for Shree Jagannath Expressways Private Limited (SJEPL) factors in the change in shareholding and strong parentage by virtue of being a subsidiary of Indian Highway Concessions Trust, which is majority owned by affiliates of Caisse de dépôt et placement du Québec (CDPQ, rated Aaa by Moody's). CDPQ is a Canada-based pension fund and one of the largest institutional investors in infrastructure globally. IHCT, an InvIT sponsored by Maple Highways Pte Ltd (an affiliate of CDPQ) to house operational road assets in India, on June 2022 has acquired 100% stake in SJEPL from the erstwhile promoters. ICRA notes that SJEPL accounts for a sizeable share of IHCT's cash inflows and it is strategically important to its parent. The rating upgrade considers the improvement in debt coverage indicators, driven by the expected traffic growth in the project stretch and healthy WPI linked toll rate hikes. ICRA notes that, prior to take over by IHCT, additional major maintenance (MM) work of Rs. 22 crore for bridges has been done over and above the scheduled cost (to be incurred as per concession agreement), which was funded by the erstwhile sponsors. The company is in the process of undertaking the first MM activity, which is likely to be completed in the next 12-15 months.

The rating draws comfort from the operational nature of the project with a tolling track record of more than eleven years, and importance of the project stretch as a part of the Chennai–Kolkata corridor (part of the Golden Quadrilateral - NH-16) with high movement of commercial traffic. It also connects Bonaigarh-Keonjhar iron ore belt and the Paradip Port. The rating factors in the comfortable cash flow cover projected over the tenure of the debt. Additionally, a tail period of ~3.7 years provides financial flexibility to the company. Moreover, the presence of liquidity support such as creation of reserve for MM to be undertaken in FY2023-24 and the debt service reserve (DSR) equivalent to ensuring six months of principal and interest obligations provide comfort. Further, payout to sponsors is permitted only upon fulfilling the additional conditions viz. creation of routine operation and maintenance (O&M) reserve equivalent to ensuing six months of O&M expenses and cash reserve equivalent to 15% of the preceding year's debt obligations. These additional conditions enable the lenders to trap sizeable surplus before paying out to the sponsors. The toll collections in FY2022 stood at Rs. 173.6 crore against Rs. 178.2 crore in FY2021 (down 3%). The decline in toll collection was mainly due to moderation in volumes handled by the Paradip Port (Angul being a major iron ore hub) against the previous year resulting in lower MAV traffic and due to covid restrictions in FY2022. The volume has improved in Q1 FY2023, which is expected to sustain and support recovery in the toll collection in the current fiscal. Moreover, focus on collection of overloading charges and curbing of alternate routes post take over by IHCT will also aid toll revenues going forward.

The rating, however, remains constrained by the cyclicity in traffic owing to dependence on mining and steel industries in the region. The project remains susceptible to the risks inherent in build-operate-transfer (BOT) toll road projects, including risks arising from variation in traffic volume over the project stretch and its dependence on the economic activity in the surrounding regions. Additionally, it is vulnerable to movement in WPI (for toll rate hike), political acceptability of toll rate hikes over the concession period. Further, the rating remains sensitive on account of the floating nature of interest rates. Notwithstanding the MMR creation for the first cycle of MM due in FY2023-24, SJEPL's ability to execute the MM activity within the stipulated timelines and budgeted cost remains critical.

Key rating drivers and their description

Credit strengths

Strong sponsor profile – On June 28, 2022, IHCT acquired 100% stake in SJEPL, from the erstwhile promoters. IHCT an InvIT sponsored by Maple Highways Pte Ltd (an affiliate of CDPQ), to house operational road assets in India. CDPQ is a Canada-based pension fund and one of the largest institutional investors in infrastructure globally with a long-term commitment to invest in Indian road assets. SJEPL has a strong parentage now by virtue of subsidiary of IHCT.

Operational project with toll collection track record – The project achieved provisional completion certificate (PCC) in January 2017, it has a tolling track record of more than eleven years, of which six years was during the construction period. The toll collections in FY2022 stood at Rs. 173.6 crore against Rs. 178.2 crore in FY2021 (down 3%). The toll collections were impacted due to moderation in volumes handled by the Paradip Port against the previous year resulting in lower MAV traffic in FY2022. The volume has improved in Q1 FY2023, which is expected to sustain and support recovery in the toll collection in current fiscal. Moreover, focus on collection of overloading charges and curbing of alternate routes post take over by IHCT will also aid toll revenues going forward.

Part of Golden Quadrilateral and serves an important link connecting mining regions to the Paradip Port – The stretch is an important route, as it is a part of the Golden Quadrilateral connecting the Chennai-Kolkata corridor with heavy commercial traffic flow. It also forms an important part of the route connecting Bonaigarh-Keonjhar iron ore belt and the Paradip Port. The Kalinganagar industrial area and Paradip refinery are the other important growth drivers for the stretch.

Healthy debt service cover, financial flexibility, and presence of DSR and MMR – SJEPL's credit profile derives comfort from its healthy projected cash cover over the tenure of the term loans. Additionally, a tail period of ~3.7 years provides financial flexibility to the company. Its credit profile derives comfort from the presence of DSR equivalent to two quarter's debt servicing and MMR. Further, restricted payments are permitted upon fulfilling additional conditions viz. creation of routine O&M reserve equivalent to ensuing six months expenses and cash reserve equivalent to 15% of the preceding year's debt obligations.

Credit challenges

Risks inherent to toll road projects, interest rate risk and cyclicity in traffic volume – The project is exposed to risks inherent in BOT (toll) road projects, including risks arising from variation in traffic volume over the project stretch and its dependence on the economic activity in the surrounding regions. Additionally, it is vulnerable to movement in WPI (for toll rate hike), political acceptability of toll rate hikes over the concession period, development/improvement of alternate routes and likelihood of toll leakages. Further, the company faces interest rate risk on account of the floating nature of interest rates, which is linked to the base rate. There is cyclicity in traffic volume across the project stretch primarily arising from its dependence on the steel and mining industry.

Ensuring regular and periodic maintenance expenditure within budgeted levels – The company is required to undertake the first MM during FY2023-24. Notwithstanding the MMR creation for the first cycle of FY2023-24, SJEPL's ability to execute the MM activity within the stipulated timelines and budgeted cost remains critical.

Liquidity position: Adequate

SJEPL's liquidity position is adequate, with toll collections expected to be sufficient to meet its operational expenditure and external debt servicing obligations. Further, it has a liquidity cushion in the form of cash funded debt service reserve (DSR) of Rs. 62.0 crore, which is equivalent to ensuring two quarters of principal and interest, O&M reserve of Rs. 7.5 crore and unencumbered cash and liquid investments of Rs. 14.6 crore as on August 31, 2022. Moreover, the MM of Rs. 103 crore is due

in FY2023-24, out of which Rs. 66 crore is already maintained in MMRA as of August 2022 and rest will be funded through internal accruals.

Rating sensitivities

Positive factors – The rating could be upgraded if a healthy growth in traffic results in a cumulative DSCR of more than 1.75 times on a sustained basis.

Negative factors – Downward pressure on the rating could emerge if toll collection growth is lower than expected, resulting in cumulative DSCR below 1.55 times. Dilution in debt structure or weakening in linkage with the parent entity could also exert downgrade pressure.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology for BOT (Toll) Roads Rating Approach - Implicit parent or group support
Parent/Group support	While arriving at the rating, ICRA has taken the implicit support of IHCT (an InvIT sponsored by Maple Highways, an affiliate of CDPQ) which owns 100% stake in SJEPL. SJEPL is one of the SPV in the InvIT and accounts for sizable share of IHCT cash inflows and thus remains strategically important to IHCT.
Consolidation/Standalone	Standalone

About the company

The project comprises six-laning of Chandikhole-Jagatpur-Bhubaneshwar section of NH 16 from 413.0 km to 418.0 km and from 0.0 km to 62.0 km (approx 67.0 km) under the NHDP-V on DBFOT – toll basis. The scheduled COD, in accordance with the appointed date, was June 10, 2014. However, the company could not achieve the COD as per schedule owing to unavailability of right of way (RoW) at certain critical locations, delays in shifting of utilities at specified locations and land encroachments. On June 28, 2022, IHCT has completed acquisition of 100% stake in SJEPL, from the Erstwhile Promoters. IHCT an InvIT sponsored by Maple Highways Pte Ltd (an affiliate of CDPQ) to house operational road assets in India. CDPQ is a Canada-based pension fund and one of the largest institutional investors in infrastructure globally.

Key financial indicators (audited)

	FY2021	FY2022
Operating income	210.6	201.5
PAT	-2.8	-41.3
OPBDIT/OI	75.9%	59.2%
PAT/OI	-1.3%	-20.5%
Total outside liabilities/Tangible net worth (times)	10.0	15.2
Total debt/OPBDIT (times)	7.8	10.5
Interest coverage (times)*	1.2	0.9

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs. Crore, *Interest cost including interest on unsecured loan of promoters

Source: Company

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 of March 31, 2022 (Rs. crore)	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021	Date & rating in FY2020	
				Sep 28, 2022	Sept 24, 2021	Jul 2, 2020	Jul 8, 2019	
1	Term loans	Long term	1029.5	1029.5	[ICRA]AA - (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term fund-based – 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: www.icra.in

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term Loan-I	Sep-2017	NA	Dec-2033	1016.0	[ICRA]AA-(Stable)
NA	Term Loan-II	Sep-2017	NA	Mar-2025	13.5	[ICRA]AA-(Stable)

Source: Company

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

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