

May 12, 2023

## DP Jain Datia Bhandar Toll Road Projects Pvt Ltd: Rating reaffirmed

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Term loan	25.78	21.52	[ICRA]BBB- (Stable); reaffirmed
<b>Total</b>	<b>25.78</b>	<b>21.52</b>	

\*Instrument details are provided in Annexure-I

### Rationale

The rating reaffirmation favourably factors in DP Jain Datia Bhandar Toll Road Projects Private Limited's (DPDBPL) established operational track record with receipt of 17 semi-annual annuities (out of a total of 26) till date without any significant delays (received, on an average, within five days) or deductions. The rating considers the stable revenue profile in the form of fixed semi-annual annuities from the project authority and annuity provider, Madhya Pradesh Road Development Corporation Ltd (MPRDC). In addition to annuity income, DPDBPL is allowed to collect toll on the project stretch and collected Rs. 1.3 crore in FY2023. The rating derives comfort from the presence of structural features such as a well-defined cash flow escrow waterfall mechanism and debt service reserve account (DSRA) of Rs. 2.7 crore (equivalent to five months of debt obligation). Further, there is an adequate gap of about 40 days between the scheduled annuity receipt date and the principal repayment date in case of any delays in annuity payments. The rating considers the established track record of DP Jain & Co Infrastructure Pvt Ltd (DPJIPL, sponsor, rated [ICRA] BBB+(Stable)/A2) in the road segment. DPJIPL is appointed as the operations and maintenance (O&M) contractor for taking up routine and major maintenance activities for the entire concession period, with a fixed-price contract mitigating the O&M cost overrun risk.

The rating is, however, constrained by DPDBPL's weak financial flexibility owing to the absence of a tail period and vulnerability of the cash flows to any significant delays in annuity receipt, though this is largely mitigated by the adequate cushion between the annuity receipt date and the scheduled principal repayment date and the presence of DSRA as defined above. That said, any substantial deterioration in the counterparty's profile and/or inadequate budgetary allocations from the Government of Madhya Pradesh would remain the key rating sensitivities. Further, the O&M contractor's ability to ensure proper maintenance of roads will be critical to avoid any deductions in annuity receipts for DPDBPL going forward. While the concession agreement does not stipulate any frequency of major maintenance, the project's cash flows are expected to be adequate to meet the maintenance costs. The rating is constrained by the exposure of the company's cash flows to interest rate risk, given the floating nature of interest rates for the project loan and the exposure. Although toll income constitutes a lesser share of its revenues, the rating notes the risks inherent in toll-based projects, including uncertainties involved in regulatory changes, estimating future traffic growth rates, acceptability of annual toll rate hikes and the WPI-linked escalation in toll rates, which could limit the growth in toll collections during periods of low WPI rate as seen in the past. Any significant decline in toll collections may adversely impact the company's cash flows.

The Stable outlook on the rating reflects the receipt of annuity, in a timely manner, without any material deductions and the sustenance of current toll collections, which supports the project's coverage metrics.

## Key rating drivers and their description

### Credit strengths

**Established track record of annuities** – DPDBPL has an established track record with receipt of 17 semi-annuities, of Rs. 3.80 crore each (out of a total of 26), till date without any significant delays or deductions. While the annuity due in October 2022 was received within five days of the scheduled receipt date, the annuity scheduled for April 22, 2023 is yet to be received as per the company.

**Presence of structural features provide comfort** – The presence of structural features such as a DSRA of Rs. 2.7 crore and the presence of a well-defined escrow waterfall provide comfort to the term loan. Further, there is an adequate 40-day gap between the annuity receipt date and the scheduled principal repayment date (the average delay in receipt of last eight annuities was five days) in case of any delays in annuity payments.

**Established track record of DPJPL in road segment** – DPDBPL's parent company, DP Jain & Co. Infrastructure Pvt Ltd (DPJPL, rated [ICRA] BBB+(Stable)/A2), has an established track record in the execution of road projects. DPJPL is the O&M contractor for undertaking routine and major maintenance activities for the entire concession period, with a fixed-price contract mitigating the O&M cost overrun risk.

### Credit challenges

**Exposure to counterparty risk** – The company's cash flows are vulnerable to significant delays in annuity receipts though this is largely mitigated by the adequate cushion between the annuity receipt date and the scheduled principal repayment date and the presence of DSRA. That said, any substantial deterioration in the counterparty's profile and/or inadequate budgetary allocations from the Government of Madhya Pradesh would remain the key rating sensitivities.

**Risks inherent in toll road projects** – Although toll income constitutes a lower share of the company's revenues, the project is exposed to risks inherent in toll-based projects, including uncertainties involved in regulatory changes, estimating future traffic growth rates, acceptability of annual toll rate hikes and the WPI-linked escalation in toll rates (is it 100% linked to WPI), which could limit the growth in toll collections during periods of low WPI rate as seen in the past. Any significant decline in toll collections may adversely impact its cash flows.

**Project returns exposed to interest rate risk** – DPDBPL's cash flows and returns are exposed to interest rate risk, given the floating nature of interest rate for the project loan. Further, the project has a weak financial flexibility with no tail period.

**O&M and major maintenance-related risk** – The company is exposed to O&M-related risks as inadequate maintenance could result in annuity deductions from the authority. However, the established track record of the O&M contractor in maintaining BOT projects provides comfort. While the concession agreement does not stipulate any frequency of major maintenance, the project cash flows are expected to be adequate to meet the maintenance costs.

### Liquidity position: Adequate

DPDBPL's liquidity position is adequate. The company has repayment obligation of Rs. 4.68 crore in FY2024, which can be comfortably met through its estimated cash flow from operations. The liquidity is supported by the presence of a DSRA of Rs. 2.7 crore as on March 31, 2023 and a 40-day buffer between the scheduled annuity receipt date and the repayment due date of the term loan.

### Rating sensitivities

**Positive factors** – ICRA could upgrade DPDBPL's rating if it consistently receives on sustained track record of receipt of semi-annuity payments in a timely manner, without any deductions. Maintenance of sufficient liquidity, on a sustained basis, and/or significant increase in toll collections resulting in a material improvement in coverage metrics may also trigger a rating upgrade.

**Negative factors** – Pressure on the rating could arise if there are substantial delays or deductions in annuity payments or significant decline in toll collections, or if there is a significant increase in O&M costs leading to weakened liquidity or material reduction in coverage metrics.

## Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	<a href="#">Corporate Credit Rating Methodology</a> <a href="#">Rating Methodology for Roads - Annuity</a> <a href="#">Rating Methodology for BOT (Toll) Roads</a>
Parent/Group support	Not Applicable
Consolidation/Standalone	Standalone

## About the company

Incorporated in 2011, DPJDBPL is a special purpose vehicle (SPV) for widening and upgrading of the existing road starting from Datia to Bhandar with a total length of 29.167 km on Design Build Finance Operate and Transfer (DBFOT) on toll plus annuity basis. The project was awarded by MPRDC with a concession period of 15 years, including a construction period of two years. The project was completed on April 22, 2014 and is entitled to annuity payments of Rs. 3.80 crore from MPRDC on a semi-annual basis till April 2027.

## Key financial indicators (audited)

	FY2021	FY2022
Operating income (Rs. crore)	4.51	3.70
PAT (Rs. crore)	-0.94	-1.00
OPBDIT/OI	75.4%	77.2%
PAT/OI	-10.6%	-29.5%
Total outside liabilities/Tangible net worth (times)	1.9	2.0
Total debt/OPBDIT (times)	9.2	10.8
Interest coverage (times)	1.0	1.0

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation

Note: DPJDBPL follows Ind AS and key financial ratios are not representative of actual cash flows

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

## Any other information: None

## Rating history for past three years

Instrument	Current rating (FY2024)			Chronology of rating history for the past 3 years			
	Type	Amount rated (Rs. crore)	Amount outstanding as on April 30, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
				May 12, 2023	April 29, 2022	-	-
1 Term loan	Long Term	21.52	21.52	[ICRA]BBB- (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	June 2012	9.25%	May 2027	21.52	[ICRA]BBB-(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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