June 10, 2024

Varanasi Aurangabad NH-2 Tollway Private Limited: Rating upgraded to [ICRA]BBB+ (Stable)

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Fund-based – Term loan	2,333.00	1,963.05	[ICRA]BBB+ (Stable); upgraded from [ICRA]BB+ (Stable)
Long-term – Unallocated limits	-	369.95	[ICRA]BBB+ (Stable); upgraded from [ICRA]BB+ (Stable)
Total	**2,333.00**	**2,333.00**	

**Instrument details are provided in Annexure-I*

Rationale

The rating upgrade for Varanasi Aurangabad NH-2 Tollway Private Limited (VANTPL) reflects the favourable change in sponsor profile with the completion of acquisition by the ROADIS Group (balance 50% acquired from Soma Group in February 2024), the investment platform of the Canadian pension investment manager – Public Sector Pension Investment Board (PSPIB; rated Aaa/Stable by Moody's), which improves the financial flexibility to the special purpose vehicle (SPV). Further, the funding risk pertaining to the balance project cost stands largely mitigated with financial closure in place (which was earlier constrained due to the presence of a weaker shareholder, i.e., Soma Group), and commencement of the National Highways Authority of India's (NHAI) grant as per the settlement agreement.

ICRA is given to understand that ROADIS remains committed to the project, and will provide timely operational as well as financial support, whenever required as demonstrated in the past. ICRA takes note of the corporate guarantees extended by ROADIS Group companies covering the entire tenor of the debt availed by VANTPL.

The rating continues to note the favourable location of the project stretch as a part of the Golden Quadrilateral with heavy commercial traffic and healthy toll collections. The rating positively considers the flexibility arising out of the around twelve year-long tail period and the credit support provided by the structural features of the debt, including the presence of escrow, cash flow waterfall mechanism, restricted payment clause and provision for creation of three months' debt service reserve (DSR; to be created post completion of the project).

Notwithstanding the above, the rating remains constrained by the residual project execution risks. Though the initial construction was started in September 2011, the company has not been able to complete the project so far due to multiple factors, including issues in land availability. While ICRA notes the uptick in the pace of execution in the recent months, especially post completion of funding tie-up and acquisition by ROADIS, ~12% work remained unexecuted in April 2024 (including the main carriage way (MCW) of 4.13 km recognised as affected). The same is scheduled be completed by June 2024 [cure period of 90 days shall be available as per the concession agreement (CA)] viz. the completion date as per the second settlement agreement signed between VANTPL and the NHAI (the concession authority) in April 2024. Additional extension of timeline (EOT) shall be granted for the recognised affected length in case of unavailability of RoW. VANTPL has awarded the construction work to reputed engineering, procurement, and construction (EPC) entities, which mitigates the execution risk to some extent. The company's ability to complete the project within the stipulated budget and timeline remains a key monitorable.

The rating continues to factor in the risks inherent in toll-based projects, which include risks arising from political acceptability of annual toll rate hikes (linked to WPI) over the CA, development/improvement of alternative routes/modes and likelihood of toll leakages and user willingness to pay toll. The trends in traffic growth rates and movement in WPI (for toll rate hike) will remain the key sensitivities, as any reduction in either of the factors would have an adverse impact on toll collections. Moreover, the company's ability to timely undertake operations and maintenance (O&M) and major maintenance (MM) activity as per the CA remains crucial from the credit perspective.

ICRA notes that cross-default linkages exist between the loans taken by the rated SPV and its sister concerns (viz. Kishangarh Beawar NH-8 Tollway Private Limited and Surat Hazira NH-6 Tollway Private Limited). Despite this, the rating of the SPV is not constrained, as ICRA understands — based on the SPV's characteristics (ringfencing of cashflows) and interactions with the lenders — that the latter would likely avoid invoking the cross-default clause so as to preserve its economic interests.

The Stable outlook on the rating reflects ICRA's opinion that VANTPL will be able to complete the residual works within the timelines as per the settlement agreement and benefit from the favourable location of the project stretch, which will continue to support the traffic growth and thereby, the coverage metrics.

Key rating drivers and their description

Credit strengths

Strong profile of sponsor; established track record in managing road assets globally – With recent completion of acquisition by the ROADIS Group of the balance 50% stake (from Soma Group), the financial flexibility to the SPV stands improved. ROADIS is the investment platform of PSPIB (rated Aaa by Moody's), which is one of Canada's largest pension investment managers with net assets under management worth C$ 243.7 billion as on March 31, 2023. Further, the funding risk pertaining to the balance project cost stands largely mitigated with financial closure in place (which was earlier constrained due to the presence of a weaker shareholder, i.e., Soma Group), and commencement of NHAI grant as per the settlement agreement. ROADIS infused unsecured loans (around Rs. 140 crore incremental infusion into the project between February and September 2023, over and above the committed equity) to bridge the interim funding requirements of the SPV. ROADIS remains committed to the project and will provide timely operational as well as financial support. ICRA further notes that the corporate guarantee has been extended by ROADIS Group companies covering the entire tenor of the debt availed by VANTPL. The rating draws comfort from the established track record of managing road assets globally by ROADIS.

Favourable location of project stretch with established track record of toll collections – The project corridor is a part of National Highway -2 (NH-2) – Golden Quadrilateral (part of the Delhi–Kolkata stretch) situated in the Bihar - UP border area, wherein the commercial traffic flow is high due to sand mining activity in the vicinity. Also, the stretch is connected to various industrial areas in Varanasi, Chanduali and Sonbadhra, which houses coal fields, sand quarries, stone crushing units, and a large aluminium plant. The project stretch has established an operational track record of over a decade, with CAGR of ~5.7% in PCU terms from FY2014 to FY2024. These, coupled with annual toll rate hikes resulted in the project stretch registering a healthy toll collection during the corresponding period. While ICRA expects the revenue growth to moderate in FY2025, on account of muted WPI growth, the medium-term growth prospects for the project remain strong.

Presence of structural features and long tail period – The presence of structural features of the debt, including the presence of escrow, cash flow waterfall mechanism, restricted payment clause and provision for creation of three months' DSR (to be created post completion of the project), provide additional comfort. The availability of a 12-year tail period for the project provides financial flexibility (for debt refinancing).

Credit challenges

Project execution risk – Though the construction was started in September 2011, the project continues to be under development due to delays caused by multiple factors, including issues in land availability. The project is partially operational and partially under-construction. Out of the total project length of 183.4 km (after descoping of 8.98 km), physical progress for ~160.9 km had been achieved till April 2024. Further, 2.84 km taken under technical solution has been awarded to multiple EPC contractors. With the recent settlement agreement entered between the concessionaire and the NHAI, around 4.13 km length of MCW has been identified as affected, for which additional EOT shall be granted by the NHAI. With achievement of financial closure, the funding for the balance work viz. Rs. 2,168 crore as on April 30, 2024 (date) is expected to be met by available cash and bank balance, drawdown of debt, NHAI grant, escalations, and surplus toll collections (after debt servicing). The company's ability to execute the project within the stipulated budget and timeline remains a key monitorable.

Undertaking O&M as per concession requirement – VANTPL must ensure satisfactory upkeep of the carriageway and undertake O&M and MM activity of the project stretch as per the CA to avoid any penalties. Any significant penalties levied by the authority or rise in routine maintenance or MM expenses from the budgeted level, which could impact its coverage metrics, remain a key rating monitorable. Nonetheless, ROADIS's extensive record of maintaining such assets provides comfort.

Risks inherent in BOT (toll) road projects – The project is exposed to inherent risks faced by any toll-based project including uncertainties caused by regulatory changes, estimating the 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. The project stretch remains exposed to risks of development of alternative routes/modes of transportation. The connectivity of Varanasi-Ranchi-Kolkata Expressway (VRKE) is likely to result in moderation in traffic. However, given the nascent stages of execution, the completion of VRKE is expected near the end of the debt tenure, which mitigates the risk to some extent.

Liquidity position: Adequate

The company reported cash balances of ~Rs. 296 crore as on March 31, 2024, which will be available for utilisation for the construction activity as well as debt servicing. Given the healthy daily toll collections, the cash inflows are estimated to remain adequate for servicing the debt obligations. The pending project cost is expected to be funded by undisbursed debt (Rs. 734 crore), grant (Rs. 565 crore) and escalation amount[1] (~Rs. 708 crore).

Rating sensitivities

Positive factors – The rating could be upgraded if the project achieves final completion certificate and demonstrates significant improvement in traffic leading to substantial improvement in debt coverage indicators.

Negative factors – The rating could be downgraded if there are delays in project completion or substantial decline in toll collections. The rating could come under pressure if there is any additional indebtedness or non-adherence to the debt structure, or if there is any adverse action by NHAI, which impacts the liquidity of the SPV.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology BOT Toll Roads Projects
Parent/Group support	Not Applicable
Consolidation/Standalone	The rating is based on the standalone financial profile of the company

About the company

Incorporated in 2010, VANTPL is currently a part of the road investment portfolio of ROADIS Group and owned entirely through step-down investment subsidiaries. ROADIS is the investment platform of the Canadian pension investment manager – PSPIB (rated Aaa/Stable by Moody's). The company was set up for six-laning of the Varanasi–Aurangabad section of NH-2 from km 786 to km 978.4 (original length 192.4 km and revised length of 183.4 km) in Uttar Pradesh and Bihar on design, build, finance, operate and transfer (DBFOT) toll basis under NHDP Phase-V. The concession period for the project is 30 years, including the construction period. The CA between the NHAI and VANTPL was signed on July 30, 2010. The appointed date for the project

[1] *The settlement agreement dated August 2021 provides for escalation claims to be billed and realised monthly based on the actual execution and schedule of rates (SoR) finalised as of August 2023 (24 months from date of settlement agreement), which amounts to around Rs. 965 crore. Out of this, around Rs. 257 crore has already been realised, and the balance shall be realised monthly based on the physical progress.*

was September 12, 2011. It faced significant execution delays, with cumulative physical progress of around 88% as of April 2024.

Key financial indicators (audited)

VANTPL	FY2023	FY2024*
Operating income	1,654.5	1,079.7
PAT	180.5	100.7
OPBDIT/OI	26.1%	38.9%
PAT/OI	10.9%	9.3%
Total outside liabilities/Tangible net worth (times)	1.7	1.8
Total debt/OPBDIT (times)	3.1	4.0
Interest coverage (times)	3.1	2.6

*Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. crore; PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; *Provisional numbers; VANTPL follows Ind AS and key financial ratios are not representative of actual cash flows and coverage metrics.*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2025)				Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Amount outstanding as on April 30, 2024 (Rs. crore)	Date & rating in FY2025	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022
					Jun 10, 2025	Dec 29, 2023	Sep 30, 2022	Jun 17, 2021
1	**Fund-based- Term loans**	Long term	1,963.05	1,175.04	**[ICRA]BBB+ (Stable)**	**[ICRA]BB+ (Stable)**	**[ICRA]BB+ (Stable)**	**[ICRA]BB (Stable)**
2	**Unallocated limits**	Long term	369.95	--	**[ICRA]BBB+ (Stable)**	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term fund-based – Term loan	Simple
Long-term – Unallocated limits	NA

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	**Long-term – Fund-based – Term loan**	Jan 24, 2011	-	Sep 30, 2029	1,963.05	[ICRA]BBB+ (Stable)
NA	**Unallocated limits**	NA	NA	NA	369.95	[ICRA]BBB+ (Stable)

Source: Company data, ICRA Research

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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About ICRA Limited:

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