

August 21, 2024

Shree Jagannath Expressways Private Limited: Rating upgraded; outlook revised to Stable from Positive

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based – Term loan	988.1	988.1	[ICRA]AA (Stable); Upgraded from [ICRA]AA- and Outlook revised to Stable from Positive
Total	988.1	988.1	

*Instrument details are provided in Annexure-I

Rationale

The upgrade in the rating of Shree Jagannath Expressways Private Limited's (SJEPL) long-term rating reflects the healthy growth in toll collections in FY2024 and the consequent improvement in coverage metrics, which is expected to remain robust going forward. The toll collections in FY2024 grew by 19.7% year-on-year (YoY) to Rs. 233.4 crore, aided by ~14% traffic growth and ~5% toll rate hike. The rise in commercial traffic was primarily due to healthy expansion in volumes handled by Paradip Port, improvement in economic activity and growth in passenger traffic is driven by an increase in tourism-related travel in Odisha. The rating continues to draw comfort from the favourable location and operational nature of the road asset with a tolling track record of more than twelve years. The project stretch is a part of the Chennai–Kolkata corridor (part of the Golden Quadrilateral – NH-16) with high movement of commercial traffic. It passes through the urban settlements of Bhubaneswar and Cuttack, two of the largest economic centres in Odisha. The stretch connects the steel and mining belt of Angul, Sambalpur and Dhenkanal to Paradip Port, which is the major driver for commercial traffic. The Kalinganagar industrial area and Paradip refinery are the other important growth drivers for the stretch. The rating takes comfort from the healthy projected debt service cover with cumulative debt service coverage ratio (DSCR) of above 1.8 times as per ICRA's base case estimates, supported by healthy toll collections and long debt tenure. The rating draws support from the structural features – debt service reserve account (DSRA) equivalent to ensuing three months of debt obligation, major maintenance reserve account (MMRA), escrow mechanism, cash flow waterfall, along with the flexibility arising out of the four-year tail period. The rating draws strength from the strong linkages and strategic importance for Indian Highway Concessions Trust (IHCT, rated [ICRA]AAA (Stable)), which is an infrastructure investment trust (InvIT) sponsored by Maple Highways Pte Ltd, an affiliate of Caisse de depot et placement du Quebec (CDPQ, rated by Moody's Investors Service at Aaa, Stable), to house operational road assets in India. SJEPL accounts for ~24% of the net present value of cash flow available for debt Servicing (CFADS¹) and ~25% of the enterprise value² at the InvIT level.

Despite the importance of the project stretch, low alternative route risk and willingness of users to pay toll, the project remains exposed to risks inherent in toll road projects, including risks of development/improvement of alternative routes, moderation in traffic growth rates, or lower-than-anticipated wholesale price index (WPI) leading to lower toll collections, which could weaken its coverage metrics. ICRA estimates the toll revenue to continue to increase in the medium term with expected growth of 6-8% in FY2025. The project stretch has witnessed cyclicity in traffic in the past as a considerable share of commercial traffic is attributable to activities at Paradip Port and to the performance of the mining and steel sectors. However, the strong

¹ As per ICRA's estimates

² As per valuation report dated May 27, 2024

coverage metrics are likely to provide sufficient cushion in case of a wide variation in traffic. The rating is also exposed to the alternative route risk, providing direct connectivity from Cuttack to Paradip Port. The present condition of the alternate stretch is not suitable for heavy commercial traffic (as the same passes through urban settlements and is a two-lane road) and thus it is not a threat. However, upgradation of the same in the future could have a bearing on toll collection on the project stretch. SJEPL's cash flows are exposed to interest rate risk, considering the floating interest rates on the project loan. It derives its revenues from a single stretch in Odisha and is, therefore, exposed to high asset concentration risk.

SJEPL is undertaking its first major maintenance, which is estimated to be completed at a total cost of Rs. 144 crore, of which ~92% of the work has been completed as on March 31, 2024. It has appointed Egis Road Operations India Private Limited as an operations and maintenance (O&M) contractor for routine maintenance. In absence of a pre-defined MM schedule in the Concession Agreement, periodic major maintenance is required on need basis, which may result in a volatility in operating expense. Undertaking routine and periodic maintenance within the budgeted costs would remain important. In this regard, ICRA has taken comfort from the projected strong cash flows and adequate cost estimates for undertaking the O&M and MM expenditure.

The Stable outlook reflects ICRA's expectations that SJEPL's credit profile will continue to benefit from the importance of the project stretch leading to healthy growth in traffic, healthy coverage metrics and high likelihood of financial support from IHCT.

Key rating drivers and their description

Credit strengths

Long operational track record and favourable location – The rating draws comfort from the operational nature of the project with a tolling track record of more than twelve 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 passes through the urban settlements of Bhubaneswar and Cuttack, two of the largest economic centres in Odisha. The stretch connects the steel and mining belt of Angul, Sambalpur and Dhenkanal to the Paradip Port, which is the major driver for commercial traffic. The Kalinganagar industrial area and Paradip refinery are the other important growth drivers for the stretch. The toll collections in FY2024 grew by 19.7% YoY to Rs. 233.4 crore, aided by ~14% traffic growth and ~5% toll rate hike. The rise in commercial traffic was primarily due to healthy expansion in volumes handled by Paradip Port, improvement in economic activity and growth in passenger traffic, driven by an increase in tourism-related travel in Odisha. ICRA estimates the toll revenue to increase in the medium term, with expected growth of 6-8% in FY2025.

Healthy debt service cover, presence of tail period and strong parentage – The rating factors in SJEPL's healthy projected debt service cover with cumulative DSCR of above 1.8 times as per ICRA's base case estimates, supported by healthy toll collections and long debt tenure, along with the flexibility arising out of the four-year tail period. The rating draws strength from the strong linkages and strategic importance for IHCT (rated [ICRA]AAA (Stable)), which is an infrastructure investment trust (InvIT) sponsored by Maple Highways Pte Ltd, an affiliate of CDPQ (rated by Moody's Investors Service at Aaa, Stable), to house operational road assets in India. SJEPL accounts for ~24% of the net present value of CFADS and ~25% of the enterprise value³ at the InvIT level.

Presence of structural features – Structural features such as DSRA equivalent to ensuing three months of debt service obligation and a well-defined escrow mechanism provide credit support to the term loan. Further, it maintains a major maintenance reserve account.

³ As per valuation report dated May 27, 2024

Credit challenges

Project exposed to risks inherent in BOT (toll) road projects including interest rate and asset concentration risk – Despite the importance of the project stretch, low alternative route risk and willingness of the users to pay toll, the project remains exposed to risks inherent in toll road projects, including risks of development/improvement of alternative routes, moderation in traffic growth rates, or lower-than-anticipated WPI leading to lower toll collections, which could weaken its coverage metrics. The project stretch witnessed cyclicity in traffic in the past as a considerable share of commercial traffic is attributable to activities at Paradip Port and to the performance of the mining and steel sectors. However, the strong coverage metrics are expected to provide sufficient cushion in case of wide variation in traffic. The rating is exposed to the alternative route risk, providing direct connectivity from Cuttack to Paradip Port. While the present condition of the alternate stretch is not suitable for heavy commercial traffic (as the same passes through urban settlements and is a two-lane road) and thus not a threat. However, upgradation of the same in the future could have a bearing on toll collection on the project stretch. SJEPL's cash flows are also exposed to interest rate risk, considering the floating interest rates on the project loan. It derives its revenues from a single stretch in Odisha and is, therefore, exposed to high asset concentration risk.

Ensuring regular and periodic maintenance expenditure within budgeted levels – SJEPL is presently undertaking its first MM, which is estimated to be completed at a total cost of Rs. 144 crore, of which ~92% of the work has been completed as on March 31, 2024. It has appointed Egis Road Operations India Private Limited as an O&M contractor for routine maintenance. In absence of a pre-defined MM schedule in the Concession Agreement, periodic MM is required on need basis, which may result in a volatility in operating expense. Undertaking routine and periodic maintenance within the budgeted costs would remain important. In this regard, ICRA has taken comfort from the projected strong cash flows and adequate cost estimates for undertaking the O&M and MM expenditure.

Liquidity position: Adequate

SJEPL's total cash balance of Rs. 140 crore as on March 31, 2024 includes unencumbered cash balance of Rs. 102.0 crore, which is adequate to meet the company's pending MM expenditure of ~Rs. 11 crore and also DSRA of Rs. 38.0 crore, equivalent to one quarter of principal plus interest obligations. The annual debt repayment (principal plus interest) is estimated to be at ~Rs. 147 crore, ~Rs. 141 crore and ~Rs. 150 crore for FY2025, FY2026, and FY2027, respectively, which can be comfortably serviced from the operational cash flows.

Rating sensitivities

Positive factors – The rating could be upgraded if the company maintains healthy growth momentum in toll collection resulting in a cumulative DSCR of more than 1.90 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 1.70 times. Non-adherence to debt structure, additional indebtedness or weakening in linkage with the parent entity may trigger a rating downgrade.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology -BOT Toll Road Projects
Parent/Group support	Ultimate holding company: IHCT ICRA expects SJEPL's parent, IHCT, to be willing to extend financial support to SJEPL, should there be a need, given the strategic importance that SJEPL holds for IHCT for meeting its diversification objectives and out of its need to protect its reputation from the consequences of a group entity's distress.
Consolidation/Standalone	Standalone

About the company

SJEPL is a special purpose vehicle acquired by IHCT on June 28, 2022, an InvIT sponsored by Maple Highways Pte Ltd, which is an affiliate of CDPQ (rated by Moody's Investors Service at Aaa, Stable). The SPV is involved in 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, it could not achieve the COD as per the schedule owing to unavailability of right of way at certain critical locations, delays in shifting of utilities at specified locations and land encroachments. The project achieved provisional completion certificate in January 2017 and 100% of the stretch is currently tolled. However, the final COD is still awaited.

Key financial indicators (audited)

SJEPL Standalone (Rs. crore)	FY2023	FY2024
Operating income	200.9	234.8
PAT	-165.5	-16.5
OPBDIT/OI	14.91%	72.97%
PAT/OI	-82.36%	-7.04%
Total outside liabilities/Tangible net worth (times)	-18.63	-14.76
Total debt/OPBDIT (times)	42.71	7.63
Interest coverage (times)	0.20	1.21

Source: Company, ICRA Research; All ratios as per ICRA's calculations; PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation

Note: SJEPL 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 (FY2025)			Chronology of rating history for the past 3 years				
	Type	Amount rated (Rs. crore)	Date & rating in FY2025	Date & rating in FY2024	Date & rating in FY2023		Date & rating in FY2022	
			Aug 21, 2024	Mar 08, 2024	Feb 03, 2023	Sep 28, 2022	Sep 24, 2021	
1 Term loans	Long term	988.1	[ICRA]AA (Stable)	[ICRA]AA- (Positive)	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	[ICRA]AA- (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: [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	Dec-2022	-	Dec-2033	988.1	[ICRA]AA (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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