July 07, 2022

D P Jain TOT Toll Roads Private Limited: Rating confirmed as final for bank loan facilities

Summary of rating action

Instrument*	Previous rated amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Term Loan	1180.0	1180.0	[ICRA]A- (Stable); Provisional rating confirmed as final
Total	**1180.0**	**1180.0**	

**Instrument details are provided in Annexure I*

Rationale

ICRA has confirmed the long-term provisional rating of [ICRA]A- (Stable) on the Rs. 1,180-crore term loan of DP Jain TOT Toll Roads Private Limited (DPJTRPL).

The assigned rating considers the favourable location of the project stretch awarded to DPJTRPL under the toll-operate-transfer (TOT) mode. The project stretch (Palanpur - Radhanpur- Samkhiyali) is located on NH-27, connecting the busy Kandla/Mundra ports on the west coast to northern/central India and has an established toll collection track record of more than 10 years. DPJTRPL received the appointed date of April 14, 2022 and the average daily toll collections during the past two months remained lower than ICRA's initial assumptions owing to maintenance work being undertaken on the project stretch. Ramp-up in toll collections and its impact on debt coverage metrics remains a key rating monitorable. The rating also considers the comfortable debt coverage indicators with cumulative DSCR of 1.37 times during the debt tenure. The rating also derives comfort from structural features such as Debt Service Reserve Account (DSRA) equivalent to six months' debt obligations, a Major Maintenance Reserve (MMR) built on an annual basis and a long tail period of five years, resulting in healthy financial flexibility. Further, DSRA of Rs. 21.58 crore, which is equivalent to three-months of debt obligation has been created and the balance three-month DSRA is expected to be created within 12 months from the appointed date from the project cash flows. The rating notes the established track record of DP Jain & Co Infrastructure Pvt Ltd (DPJIPL/Sponsor) in the road segment. DPJIPL is appointed as the operations and maintenance (O&M) contractor for taking up routine and major maintenance (MM) activities for the entire concession period with a fixed-price contract, mitigating the O&M and cost overrun risks to an extent.

The rating is, however, constrained by the alternate mode risk arising from the doubling of railway feeder line by Kutch Railway Company Limited (KRCL, rated [ICRA]A(Stable)) to the Western Dedicated Freight Corridor (WDFC) connecting Samkhiyali to Palanpur to be operational in FY2023. The commodity profile of freight traffic in KRCL mainly includes containers, fertilisers and coal which together account for more than 90% of the traffic composition. While containers and fertilisers account for 5%-6% of the traffic composition of DPJTRPL's project stretch, coal accounts for a significant portion of its traffic. It is exposed to the risk of traffic diversion in the medium term. As per the origin destination study reports, majority of coal is transported within less than 300 km. Therefore, the risk of traffic diversion is limited as road is economical for short to medium distance coal transportation. Similarly, development of other alternate road stretches or any upgradation of pipeline infrastructure by oil majors may result in shift of traffic from the project stretch. Although the long-term growth in volumes handled at the Kandla and Mundra ports is likely to support the traffic on the project stretch, the extent of traffic diversion will be a key rating monitorable in the medium term. ICRA has considered the reduction in traffic in its rating case scenario depending on the expected modal shift. Consequently, the average DSCR (for the next five-year period) remains moderate. The rating factors in the O&M related risks, given that the maintenance requirements are expected to be high for the stretch owing to high share of commercial traffic. Its ability to undertake routine and MM activities within the budgeted costs would remain important. However, comfort can be drawn from the significant cushion built in the cost assumptions and MMR build-up on an annual basis. The rating is constrained by the exposure of the company's cash flows to interest rate risk, considering the floating nature of interest rates for the project loan. The project is exposed to residual execution risks as it is required to complete road improvement works within 12 months from the appointed date, which is expected to be funded through equity and term debt. However, these are mitigated by the established track record of the contractor in executing road works and adequate sources of funds through surpluses available with the sponsor and group special purpose vehicles (SPVs).

The Stable outlook on the rating reflects the long operating history of the project stretch and strong port activity supporting the projects toll collections and coverage metrics.

Key rating drivers and their description

Credit strengths

Favourable location of project stretch supports traffic growth – The project stretch (Palanpur - Radhanpur- Samkhiyali) is located on NH-27, connecting the busy Kandla/Mundra ports on the west coast to northern/central India and primarily caters to commercial traffic between the ports and the hinterland. The strong growth in port traffic, over the years, has been driving the traffic growth, which is expected to sustain in the medium term.

Established track record of toll collection – The project stretch has an established toll collection track record of more than 10 years on the stretch, given that it was under the operate, maintain, transfer (OMT) mode prior to the TOT award to DPJIPL. The traffic on the project stretch primarily comprises commercial traffic as it connects the western ports to the norther regions of the country. DPJTRPL received the appointed date from April 14, 2022 and the average daily toll collections during the past two months is lower than ICRA's assumptions owing to maintenance work being undertaken on the project stretch. However, the toll collections are expected to normalise post the completion of maintenance work and its impact on debt coverage metrics remains a key rating monitorable.

Presence of structural features and comfortable coverage indicators – The presence of structural features such as DSRA equivalent to six months debt obligations and MMR built up on an annual basis, provide comfort. The DSRA of three months debt obligations has been created and the remaining three-month DSRA has to be created within 12 months from the appointed date from the project cash flows. The company has a healthy financial flexibility arising from a long tail period of five years post the repayment of debt. The project's coverage indicators are comfortable with cumulative DSCR of 1.37 times for the project debt duration.

Established track record of DPJIPL in the road segment – DPJTRPL's parent company, DPJIPL, has an established track record in the execution and maintenance of road projects. DPJIPL is the O&M contractor for undertaking routine and MM activities for the entire concession period with a fixed-price contract, mitigating O&M cost overrun risks.

Credit challenges

Exposure to risks from alternate routes/modes – The project is exposed to risk posed by the alternate mode of transport arising from the doubling of the railway feeder line by KRCL to WDFC connecting Samkhiyali to Palanpur, which is expected to be operational in FY2023. The commodity profile of the freight traffic in KRCL includes containers, fertilisers and coal, which together account for more than 90% of the traffic composition. While containers and fertilisers account for 5-6% of the traffic composition of DPJTRPL's project stretch, coal accounts for a significant portion of its traffic and is exposed to the risk of traffic diversion in the medium term. As per the origin destination study reports, majority of the coal is transported within less than 300 km and, therefore, the risk of traffic diversion is limited as road is economical for covering short to medium distance. Similarly, development of other alternate road stretches or any upgradation of the pipeline infrastructure by oil majors, connecting the ports to the refineries or consumption centres, may result in a shift of traffic from the project stretch. Although the long-term growth in volumes handled at the Kandla and Mundra ports is likely to support the traffic on the project stretch, the extent of traffic diversion will be a key rating monitorable in the medium term. ICRA has considered the reduction in traffic in its rating case scenario depending on the expected modal shift. Consequently, the average DSCR (for the next five-year period) remains moderate.

O&M and MM-related risk – The maintenance requirements are expected to be high for the project stretch owing to the high share of commercial traffic (more than 75% of AADT). The company's ability to undertake routine and MM activities within the budgeted costs would remain important. However, comfort can be drawn from the significant cushion in the cost assumptions and MMR build-up on an annual basis.

Project returns exposed to interest rate risk – DPJTRPL's cash flows and returns are exposed to interest rate risk, given the floating nature of interest rate for the project loan.

Project exposed to execution risk and equity mobilisation risks – The project is exposed to residual execution risks, given that it is required to complete road improvement works of Rs. 216.32 crore (within 12 months from the appointed date), which is expected to be funded through Rs. 50.0-crore equity and the remaining through term debt. However, these are mitigated by the established track record of the contractor in executing road works and adequate sources of funds through surpluses available with the sponsor and group SPVs.

Liquidity position: Adequate

DPJTRPL's liquidity position is adequate. The liquidity is supported by the presence of DSRA equivalent to three months' debt obligations and another three-month DSRA to be created from the project cash flows within 12 months from the appointed date. Also, the operational cash flows are expected to be adequate for debt servicing and funding of MMR reserve on an ongoing basis.

Rating sensitivities

Positive factors – ICRA could upgrade DPJTRPL's rating on sustained growth in toll collections resulting in improved coverage indicators. Specific credit metrics that could result in an upgrade include average DSCR (for the next five-year period) of greater than 1.35 times on a sustained basis.

Negative factors – Pressure on the rating could arise if the toll collections decline significantly or if the alternate routes/modes result in a significant diversion of traffic from the project stretch weakening the company's debt coverage indicators.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology for BOT (Toll) Roads
Parent/Group support	Not Applicable
Consolidation/Standalone	Standalone

About the company

Incorporated in May 2021, DPJTRPL is a special purpose vehicle (SPV) for tolling, operation, maintenance and transfer of the Palanpur - Radhanpur- Samkhiyali section of NH-27 (from KM 536.000 to KM 430.100) in Gujarat, under the TOT mode, with a concession period of 20 years from the appointed date. The project was awarded to D P Jain & Co Infrastructure Private Limited with the highest bid concession fee of Rs. 1,251 crore. The company has the right to collect toll for the road during the period and is required to carry out road development works as per the terms. The total project cost is estimated to be Rs. 1,480.0 crore, which is proposed to be funded by Rs. 1,180.0-crore debt and Rs. 300.0-crore promoter contribution. It has received the appointed date on April 14, 2022.

Key financial indicators

Key financial indicators are not applicable as the company started toll collections from April 14, 2022.

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 Mar 31, 2022 (Rs. crore)	Date & rating on	Date & rating in FY2022	Date & rating in FY2021	Date & rating in FY2020
					July 07, 2022	Nov 29, 2021	-	-
1	Term loan	Long-term	1180.0	0	[ICRA]A- (Stable)	Provisional [ICRA]A- (Stable)	-	-

Complexity level of the rated instrument

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: www.icra.in

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	Sep-2021	-	Mar-2037	1180.0	[ICRA]A- (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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About ICRA Limited:

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Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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