

July 22, 2022

Warora Chandrapur Ballarpur Toll Road Limited: Rating upgraded and removed from Issuer Not Cooperating category

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based – Term loan	336.00	203.00	[ICRA]BBB- (Stable); Upgraded from [ICRA]B(Stable) and removed from ISSUER NOT COOPERATING category
Total	336.00	203.00	

*Instrument details are provided in Annexure I

Rationale

Warora Chandrapur Ballarpur Toll Road Limited's (WCBTRL) rating have been removed from the 'Issuer Not Cooperating' category and the long-term rating has been upgraded after the company provided the necessary information required for the review of the assigned rating.

The assigned rating favourably factors in the long toll collection track record of over seven years, with established traffic density and low alternate route risk. The rating draws support from the presence of structural features such as a funded debt service reserve account (DSRA, equivalent to three months of interest and principal obligation, maintained in the form of a fixed deposit of Rs. 16 crore as on March 31, 2022), and a well-defined escrow mechanism. The rating considers the expectation of timely support from its parent group (Vishvaraj Group), which has a track record of extending timely financial support. The 16-year long tail period for the project also provides financial flexibility for debt refinancing. This apart, WCBTRL is expecting sizeable inflows from the claims/compensation awarded, which will support its liquidity position over the medium term.

The rating, however, is constrained by the inadequacy of the project's toll collections to meet the debt servicing obligations in the current debt structure, which makes WCBTRL dependent on timely financial support from its parent group. The special purpose vehicle (SPV) is in the process of refinancing its debt repayment obligations with a longer tenure, which if materialises, should improve the coverage indicators and liquidity position. Notwithstanding the importance of the project stretch, low alternative route risk and willingness of the users to pay toll, it remains exposed to risks inherent in build-operate-transfer (BOT) toll road projects, including risks of development/improvement of alternative routes. Going forward, any significant moderation in the traffic growth rates from the anticipated levels could weaken the project metrics and increase the quantum of support requirement. Like any toll road project, the company has to undertake routine and periodic maintenance as per the Concession Agreement (CA). Its ability to manage the routine and periodic maintenance expenses, within the budgeted levels, remains critical from the credit perspective. WCBTRL is a single-asset SPV and remains exposed to high asset concentration risk, as it derives its revenues from a single stretch in Maharashtra. Its cash flows are also vulnerable to interest rate risk, considering the floating nature of interest rates for the project loan.

The Stable outlook on [ICRA]BBB- rating reflects ICRA's opinion that the company will continue to benefit from its strong and reputed sponsor group – Vishvaraj Group, and its continued financial support to the project.

Key rating drivers and their description

Credit strengths

Long operational track record - The project stretch has a toll collection track record of over seven years with established traffic density. It links Maharashtra via Nagpur city to Chhattisgarh and connects via Ballarpur to Telangana. WCBTRL witnessed a compounded annual growth rate of 0.34% in traffic in passenger car unit (PCU) terms (including LMV) from FY2016 to FY2020,

with 24% reduction in FY2021 on account of the pandemic-induced lockdown. However, with easing of restrictions and improvement in the commercial activity in the region, the stretch has witnessed robust traffic growth of 30% in FY2022, albeit on a lower base.

Presence of structural features – The presence of structural features such as benefit of DSRA (equivalent to three months of interest and principal obligation, maintained in the form of fixed deposit of Rs. 16 crore as on March 31, 2022), and a well-defined escrow mechanism provide credit support to the term loan.

Track record of support from sponsor group and financial flexibility from presence of long tail period – There sponsor group has extended timely financial support to WCBTRL in the past. This along with the long residual concession life of the project is expected to result in the promoter group providing financial support to the company. Premier Financial Services Limited (PFSL), a part of Vishvaraj Group, has provided an undertaking to infuse funds on time (whenever required), to support the cash flow mismatch. The Vishvaraj Group has a healthy financial profile with sizeable, unencumbered cash and liquid investments in PFSL, which provides comfort in terms of its ability to support the cash flow mismatches. Further, the project has financial flexibility arising out of its 16-year long tail period, which can be used for debt refinancing.

Credit challenges

Inadequate toll collection – The toll collection has been inadequate to meet the debt servicing requirement of the SPV in its current debt structure. In the past, the Government of Maharashtra (GoM) exempted car, jeep, LMV, school buses and buses of MSRTC from paying toll effective from June 1, 2015. This coupled with the pandemic-induced lockdown, and other external factors disrupting toll collection led to modest toll revenues since FY2016. As per the notification dated December 11, 2020, the GoM has agreed to provide Rs. 33 crore compensation as one-time settlement for future toll losses on account of toll exemptions to certain vehicle category and introduced an additional category, viz. multi axle vehicle four-axle and above, to cover the losses for LMV exemption in future. The management expects to receive this compensation in FY2023 and utilise it to prepay the debt. The company has filed a total claim of Rs. 77.9 crore for loss of toll revenue owing to the pandemic- induced lockdown, toll loss for the period April 01, 2020 – December 31, 2020, due to no change in the vehicle category, and delay in issue of toll notification during the commencement of operation. The DSCR for the project excluding the realisation of these claims is projected to be marginally less than 1 times. Hence, till the receipt of claims filled by the company, the toll collection is expected to be insufficient and thus would necessitate timely financial support from the parent group over the medium term.

Project cash flows sensitive to traffic growth and interest rate risk – Notwithstanding 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 BOT (toll) road projects, including risks of development/improvement of alternative routes. Going forward, any moderation in traffic growth rates from the anticipated levels could weaken the project metrics. The company derives its revenues from a single stretch in Maharashtra and faces high asset concentration risk as a single-asset SPV. Its cash flows are also exposed to interest rate risk, considering the floating nature of interest rates on the project loan.

Ensuring O&M expense and major maintenance expense within budgeted levels – Like any toll road project, WCBTRL has to undertake routine and periodic maintenance as per the CA. The company's ability to manage the routine and periodic maintenance expenses, within the budgeted levels, remains critical from the credit perspective.

Liquidity position: Stretched

The company's liquidity position remains stretched with inadequate cash flow from operations (excluding claims) to meet the debt repayment obligation of Rs. 34.1 crore in FY2023. Timely support in the form of fund infusion by the sponsor group for meeting the shortfall is crucial for its liquidity position. The company has a DSRA, equivalent to three months of interest and principal obligation, in the form of fixed deposit of Rs. 16 crore, along with unencumbered cash balances and cash equivalents worth Rs. 1 crore as on March 31, 2022.

Rating sensitivities

Positive factors – ICRA could upgrade the rating if the company demonstrates healthy traffic growth on a sustained basis and prepayment of debt through proceeds from claims, thus improving the liquidity profile. The rating could also be upgraded in case of refinancing of debt while utilising the tail period such that there is an improvement in LLCR to 1.15 times.

Negative factors – Negative pressure on the rating could arise if the traffic growth is lower than expected on a sustained basis or the company incurs higher-than-anticipated O&M expense on a consistent basis, or there is delay in timely financial support from the parent company impacting the liquidity. Additionally, the rating might be downgraded if WCBTRL takes on additional debt while refinancing, which weakens its coverage metrics.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology for BOT (Toll) Roads
Parent/Group support	Parent/Group Company: Vishvaraj Group The rating assigned to WCBTRL factors in the likelihood of its ultimate parent group, Vishvaraj Group, extending financial support because of close business linkages between them. ICRA expects the Vishvaraj Group to be willing to extend financial support out of its need to protect its reputation from the consequences of a Group entity's distress.
Consolidation/Standalone	Standalone

About the company

WCBTRL is an SPV incorporated for undertaking four-laning of the 63.6 km stretch between Warora and Ballarpur in Maharashtra for the Public Works Department (PWD), GoM on Design-Build-Finance-Operate-Transfer (DBFOT) basis. The CA between WCBTRL and PWD, GoM was signed in March 2010. As per the CA, the company is entitled to collect toll from users of the project road. The concession is valid for a period of 30 years from the appointed date (January 3, 2011). The scheduled commercial operation date (SCOD) for the project was January 02, 2014. However, due to delay in handover of the project and grant of right of way (RoW), the company achieved PCOD on August 18, 2014. The toll collection started from December 26, 2014, post toll notification by PWD, GoM.

Till January 2022, the company was promoted by Vishvaraj Infrastructure Limited (VIL - 55%), IL&FS Transportation Networks Limited (ITNL - 35%) and by Diva Media Private Limited (10%). However, in February 2022, VIL bought entire stake of ITNL in the project.

Key financial indicators

	FY2021	FY2022*
Operating income (Rs. crore)	33.2	59.6
PAT (Rs. crore)	-14.8	11.2
OPBDIT/OI	52.9%	91.8%
PAT/OI	-44.6%	18.7%
Total outside liabilities/Tangible net worth (times)	1.3	1.3
Total debt/OPBDIT (times)	17.0	5.1
Interest coverage (times)	0.6	1.7

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

(*) - Provisional

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 June 30, 2022 (Rs. crore)	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021	Date & rating in FY2020
					Jul 22, 2022	Jul 23, 2021	May 20, 2020	-
1	Term loans	Long-term	203.00	203.0	[ICRA]BBB-(Stable)	[ICRA] B(Stable); ISSUER NOT COOPERATING	[ICRA] B(Stable); ISSUER NOT COOPERATING	-

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	FY2011	9.70%	FY2027	203.00	[ICRA]BBB- (Stable)

Source: Company

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

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