

September 30, 2022

Soma Indus Varanasi Aurangabad Tollway Private Limited: Rating upgraded to [ICRA]BB+ (Stable) from [ICRA]BB(Stable)

Summary of rating action

Instrument*	Previous Rated Amount	Current Rated Amount	Rating Action
	(Rs. crore)	(Rs. crore)	
Fund-based – Term loans	2,333.00	2,333.00	[ICRA]BB+(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 Soma Indus Varanasi Aurangabad Tollway Private Limited (SIVATPL) factors in the improved visibility on the funding of the balance project cost post the settlement agreement signed between SIVATPL and the National Highways Authority of India (NHAI, the concession authority). The rating derives comfort from the strong financial profile of one of the promoters (a 50% holding)—Indus Concessions India Private Limited—which is a part of the ROADIS Group, the investment platform of the Canadian pension investment manager – Public Sector Pension Investment Board (PSPIB). ICRA is given to understand that the sponsor, i.e. ROADIS remains committed to the project, and will provide timely operational as well as financial support, whenever required. Further, post completion of the share transfer transaction, ROADIS will become 100% owner of SIVATPL. The rating continues to note the favourable location of the project stretch as a part of the Golden Quadrilateral with heavy commercial traffic and robust toll collections.

The rating continues to be constrained by the project execution risk, as the balance work has to be completed by November 2023 as per the settlement agreement. Though the initial construction 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. The project is partially operational and partially under-construction. Out of the total project length of 192.4 km, ~128.84 km has been completed on the main carriageway, while 8.98 km of the length has been descoped due to non-availability of right of way (RoW) and the balance is under construction. Further, 2.8 km of the project stretch is yet to be awarded to the engineering, procurement and construction (EPC) contractor. ICRA notes that the special purpose vehicle (SPV) has awarded the construction work to reputed execution entities, which mitigates the execution risk for SIVATPL to an extent. The project is exposed to funding risk pertaining to the revalidation of the existing bank lines and sanction of the additional debt. The flow of grant from the authority is linked to the debt disbursement and hence, poses funding risk. The company's ability to complete the project within the stipulated budget and timeline as per the settlement agreement remains a key monitorable.

The rating factors 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 concession agreement 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 activity as per the concession agreement remains crucial from the credit perspective.

The Stable outlook continues to derive support from the healthy toll collections supported by favourable project location and strong financial profile of one of the promoters.

Key rating drivers and their description

Credit strengths

Strong profile of the promoter – The SPV is jointly owned by ROADIS Concessions S.L.U (formerly Isolux Corsan Concessions S.A.) and the Soma Enterprises Limited (SEL) Group. ROADIS (formerly known as Isolux Corsan) was earlier a part of the Spain-based Isolux Group also known as Grupo Isolux Corsan (GIC). ROADIS is the investment platform of PSPIB (rated Aaa by Moodys), which is one of Canada's largest pension investment managers with net assets under management worth CAD 230.5 billion as on March 31, 2022.

ICRA is given to understand that the sponsor, i.e. ROADIS remains committed to the project, and will provide timely operational as well as financial support, whenever required. Further, post completion of the share transfer transaction, ROADIS will become 100% owner of SIVATPL, thereby improving the SPV's financial flexibility.

Favourable location of the project stretch – 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.

Healthy toll collections – While the toll collections moderated in FY2022 due to reduction of overloading income accruing to the company, it remains healthy and are expected to stabilise over the medium term. The importance of the project and the stability of the traffic further provides comfort.

Credit challenges

Project execution risk – Though the 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. The project is partially operational and partially under-construction. Out of the total project length of 192.4 km, ~128.84 km has been completed on the main carriageway, while 8.98 km of the length has been descoped owing to non-availability and the balance is under construction. Further, 2.8 km of the project stretch is yet to be awarded to an EPC contractor.

Funding risk – Though the entire equity has been infused by the sponsors, it faces funding risk pertaining to the revalidation of the existing bank lines and sanction of the additional debt of Rs. 300 crore. The flow of grant from the authority is also linked to the debt disbursement.

Risks inherent in toll road projects – The project is exposed to risks inherent in toll-based projects, which include 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.

Liquidity position: Adequate

The company had healthy cash balances (~Rs. 1,060 crore as on March 31, 2022), which will be available for utilisation for the construction activity as well as debt servicing. Given the healthy daily toll collection, the cash inflows are estimated to remain adequate for servicing the debt obligations.

Rating sensitivities

Positive factors – The rating could be upgraded if case of timely completion of the project and healthy ramp-up in toll collections.

Negative factors – The rating downgrade pressure could arise if there are further delays in project completion or substantial decline in toll collection. The rating could also be downgraded if any adverse action by NHAI impacts the liquidity and debt servicing ability of the company.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology BOT Toll Road Projects in India
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, SIVATPL is a special purpose vehicle set up by Indus Concessions India Pvt Ltd and Soma Tollways Private Limited. The project includes six-laning of the Varanasi–Aurangabad section of NH-2 from km 786 to km 978.4 (length 192.4 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 construction period of 30 months. The CA between the NHAI and SIVATPL has been signed on July 30, 2010. The appointed date for the project is September 12, 2011.

Key financial indicators (audited)

SIVATPL	FY2021	FY2022*
Operating income (Rs. crore)	662.1	843.4
PAT (Rs. crore)	113.3	70.1
OPBDIT/OI	56.1%	31.7%
PAT/OI	17.1%	8.3%
Total outside liabilities/Tangible net worth (times)	2.3	2.0
Total debt/OPBDIT (times)	4.0	5.0
Interest coverage (times)	1.6	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

		Current rating (FY2023)			Chronology of Rating History for the Past 3 Years					
Instrument	Type	Amount rated (Rs. crore)	Amount outstanding as on Mar 31, 2022 (Rs. crore)	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021	Date & rating in FY2020			
				Sep 30, 2022	Jun 17, 2021	-	Mar 05, 2020	Nov 27, 2019	Nov 14, 2019	Nov 11, 2019
1	Term loan	Long term	2333.0	2025.54	[ICRA]BB+ (Stable)	[ICRA]BB (Stable)	-	[ICRA]BB (Stable)	[ICRA]BB (Stable)	[ICRA]BB& ISSUER NOT COOPERATING* [ICRA]BB&

& placed on watch with developing implications

*moved to Issuer not cooperating category due to non-submission of monthly No Default Statement

Complexity level of the rated instruments

Instrument Name	Complexity Indicator
Long-term Fund-based – Term loans	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-1	Jan 24, 2011	10.5%	Sep 30, 2028	1743.00	[ICRA]BB+(Stable)
NA	Term loan-2	March 8, 2016	10.5%	Sep 30, 2029	490.00	[ICRA]BB+(Stable)
NA	Term loan (Sub-debt)	Jan 24, 2011	14.45%	Sep 30, 2029	100.00	[ICRA]BB+(Stable)

Source: Company

Annexure II: List of entities considered for consolidated analysis-Not applicable

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