

November 15, 2023

Samakhiyali Tollway Private Limited: [ICRA]A- (Stable) assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Fund-based – Term loan	1446.00	[ICRA]A- (Stable); Assigned
Total	1446.00	

*Instrument details are provided in Annexure-I

Rationale

The rating assigned to Samakhiyali Tollway Private Limited (STPL) considers the favourable location of the project stretch with an established toll collection track record of more than 10 years, and the shortfall undertaking provided by IRB Infrastructure Developers Private Limited (IRB)¹ to fund any cost overrun, which mitigates the inherent construction risk. The project stretch (Samkhiyali-Santalpur) is located on NH-27, connecting the busy Kandla and Mundra ports on the west coast and Morbi (ceramic cluster of India) to northern/Central India. Further, STPL, being a part of Amritsar Jamnagar Expressway (AJE), is expected to support the traffic growth on the stretch. ICRA derives comfort from the fixed-price engineering, procurement and construction (EPC) and operations and maintenance (O&M) contracts with IRB, which mitigates the cost overrun risks to an extent. The rating favourably factors in IRB's track record of more than two decades in the road sector including operating BOT-Toll assets.

The rating notes the healthy financial profile of STPL's promoter - IRB Infrastructure Trust² (IRB Trust). ICRA is given to understand that the IRB Trust will provide timely financial support to the special purpose vehicle (SPV) in the form of loans/advances towards shortfall in debt servicing and other financial exigencies, if any. The definition of the net distributable cash flows (NDCF) for the Trust permits it to meet the cash flow support required for all its SPVs, including STPL. The presence of structural features such as debt service reserve account (DSRA) equivalent to two quarters' debt obligations (to be infused by the sponsors on COD) and a moderate tail period of 3.0 years resulting in healthy financial flexibility provide additional comfort.

The rating is, however, constrained by the execution risk, given the nascent stages of construction with the appointed date yet to be announced. However, this risk is mitigated by the established track record of IRB and the fixed-price and fixed-time EPC contract. ICRA notes that there is a high premium payout, starting from the first anniversary of the commercial operation date (COD), thereby resulting in high operating leverage. Therefore, lower-than-expected toll collection growth could have an adverse impact on the coverage metrics. The project is further exposed to traffic-related risks associated with BOT-toll road assets. While the alternative route risk is low, the alternate mode risk arising from the doubling of Kutch Railway Company Limited (KRCL, rated [ICRA]A(Stable)), a feeder route to the Western Dedicated Freight Corridor, is likely to have some impact on the traffic on the project stretch. Similarly, upgradation of pipeline infrastructure by oil majors may result in shift of Petroleum, Oil and Lubricants (POL) commodity traffic from the project stretch, which currently accounts for ~1% of the total commercial traffic. ICRA in its base case scenario has considered the expected impact of modal shift. 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

¹ IRB Infrastructure Developers Private Limited (IRB), being the sponsor, has also given unconditional, irrevocable and continuing corporate guarantee for debt of STPL.

² Share subscription agreement for subscribing 99.96% equity of shares of STPL on a fully-diluted basis by IRB Infrastructure Trust has already been executed on October 12, 2023, and the same would be effective post appointed date (yet to be received).

traffic diversion, on account of the aforementioned alternate modes, will be a key rating monitorable in the medium term. Further, the floating interest rate structure exposes STPL's cash flows to interest rate risk. STPL has entered into a fixed-price agreement with IRB for undertaking the O&M and major maintenance (MM) expenditure during the concession period. That said, undertaking routine and periodic maintenance within the budgeted costs would also be a key rating monitorable.

The Stable outlook on the rating reflects ICRA's expectation of financial support from the strong promoter, the long tolling history of the project stretch with proximity to Mundra and Kandla ports, which is expected to support the toll collections.

Key rating drivers and their description

Credit strengths

Strong parentage by being part of IRB Trust; established track record of IRB Group in maintaining road assets – STPL, post appointed date, will be a part of the IRB Trust wherein IRB and GIC affiliates hold 51% and 49% respectively. The IRB Trust currently has a portfolio of 11 projects (10 BOT projects of which nine projects are operational and one project is under the tolling and construction phase and one TOT project), aggregating to 8,819 lane kms, spread across eight states. The rating favourably factors in the IRB Group's track record of more than two decades in the road sector including operating BOT-Toll assets. ICRA draws comfort from the healthy financial profile of the IRB Trust. ICRA has been given to understand that IRB Trust will provide timely financial support to the SPV in the form of loans/advances towards shortfall in debt servicing and other financial exigencies, if any. The definition of net distributable cash flows (NDCF) for the Trust permits it to meet the cash flow support required for STPL. Further, as per the transaction documents, the Trust has committed to provide sponsor contribution up to Rs. 646 crore to STPL towards project execution as well as fund any shortfall, if the need arises, during the entire loan tenure.

Favourable location of project stretch with tolling history – The project stretch (Samakhiali-Santalpur) is located on NH-27, connecting two major ports on the west coast (Kandla and Mundra ports) to northern India. The proximity to the ports and the fact that the stretch connects Morbi (which accounts for significant share of India's ceramic production) to North India are expected to be the major traffic drivers. Moreover, the project stretch witnesses dominance of heavy commercial vehicles. The project stretch has a tolling history of more than 10 years and witnessed a CAGR of 5.2% in traffic in PCU terms during FY2013 to FY2023. The increase in port traffic over the years has been driving the traffic growth and the same is expected to sustain in the medium term. Further, STPL is a part of AJE, which is likely to boost traffic growth, as it will significantly reduce the travel time to northern hinterland once fully operational (expected by FY2026).

Presence of structural features and tail period provide financial flexibility – Structural features such as DSRA equivalent to the ensuing two quarters of debt obligation (to be infused by the sponsors on COD), cash sweep mechanism for DSCR above 1.30 times and a well-defined escrow mechanism provide credit support to the term loan. Further, STPL is estimated to have adequate projected debt service cover and the flexibility arising out of the three-year tail period.

Credit challenges

Exposed to execution and funding risks – The project is exposed to execution risks including risks of delays and cost overruns, given the nascent stage of construction with the appointed date yet to be received. However, the risk is mitigated, to an extent, by the fixed-price, fixed-time EPC contract and IRB's strong project execution capabilities. STPL's ability to commission the project in a timely manner and within the budgeted costs would remain a key monitorable. The project cost of Rs. 2,092 crore is expected to be funded through Rs. 465 crore of promoters' contribution, debt of Rs. 1,446 crore and the remaining Rs. 181 crore through internal accruals of the asset. While the term debt is already sanctioned, the equity contribution is yet to be brought in. ICRA draws comfort from the strong credit profile of the sponsor and track record of timely fund infusion in other SPVs. Further, the sponsor has provided an undertaking to meet the cost overrun and fund any shortfall in internal accruals.

High operating leverage with modest debt coverage metrics – ICRA notes that there is a high premium payout, starting from the first anniversary of COD, at 42.8% of the toll income. The same shall increase by 100 bps each year till the end of the concession period, thereby resulting in high operating leverage. Further, the coverage metrics are likely to remain modest during the debt tenure, with cumulative DSCR expected to remain below 1.2 times as per ICRA's base case estimate. Therefore, higher-than-anticipated impact on the traffic or lower-than-anticipated levels of WPI could have an adverse impact on the coverage metrics.

Project cash flows sensitive to traffic growth and interest rates; ensuring routine and periodic maintenance expenses within budgeted levels remains crucial – Notwithstanding the importance of the project stretch, moderate 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 alternate modes of transportation (like Western DFC and gas pipeline), which could lead to lower-than-anticipated traffic growth. STPL's cash flows are exposed to interest rate risk, considering the floating interest rate on the project loan. Further, in absence of a pre-defined MM schedule in the Concession Agreement, undertaking routine and periodic maintenance within the budgeted costs would be a key rating monitorable. That said, ICRA has taken comfort from the fixed-price O&M contract with IRB for undertaking the O&M and MM expenditure as well the experience of the IRB Group in maintaining project stretches across various terrain and geographies.

Liquidity position: Adequate

The liquidity position is likely to be adequate with expected fund infusion from promoters, along with toll collections. The cash flows will be sufficient to meet the operational expenses and debt servicing requirement including interest expense, which is estimated at ~Rs. 10.0 crore, ~Rs. 62.0 crore and ~Rs. 115.0 crore for FY2024, FY2025 and FY2026, respectively as per ICRA estimates. The principal repayment is likely to start from FY2027. The promoters are required to fund the DSRA (equivalent to six months of principal plus interest obligations) in FY2026, which is expected to support the liquidity going forward.

Rating sensitivities

Positive factors – ICRA could upgrade STPL's rating on completion of the project within the budgeted cost and time and higher-than-envisaged toll collections, on a sustained basis, resulting in improvement in its coverage metrics. Specific credit metrics that could result in an upgrade include cumulative DSCR improving beyond 1.35 times.

Negative factors – Negative pressure on the rating could arise if there is any delay in completion of the project and/or increase in budgeted cost, or if the toll collections is lower-than-expected or the company incurs higher-than-anticipated O&M expense on a sustained basis. Negative pressure on the rating could also arise if there is weakening of promoter (IRB Trust) profile and/or weakening of linkages with the promoter.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology for BOT (Toll) Roads
Parent/Group support	Parent: IRB Infrastructure Trust (IRB Trust) ICRA expects STPL's parent, IRB Trust, to be willing to extend financial support to STPL given the strategic importance that STPL holds for the IRB Trust. ICRA also expects the IRB Trust to be willing to extend financial support to STPL out of its need to protect its reputation from the consequences of a group entity's distress.
Consolidation/Standalone	Standalone

About the company

STPL, an SPV promoted by IRB, is undertaking the upgradation of NH-27 from Samakhiyali to Santalpur section to six lane with paved shoulder from Km. 339+200 to Km. 430+100 in Gujarat on BOT (Toll) mode. The concession period for the project is 20 years, including construction period of 24 months. The Concession Agreement between the NHAI and STPL was signed on May 12, 2023. The appointed date for the project is pending as of now. The asset will be a part of the IRB Trust post receipt of the appointed date. The NHAI premium is to be paid at 42.84% of toll collection, starting from 1 year post COD with 100 bps increment annually.

Key financial indicators (audited) - Not applicable as this is a newly incorporated entity.

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Type	Current rating (FY2024)		Chronology of rating history for the past 3 years			
		Amount rated (Rs. crore)	Amount outstanding as on Oct 31, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
				Nov 15, 2023			
1 Fund-based – Term loan	Long term	1446.00	_*	[ICRA]A- (Stable)	-	-	-

*Yet to be disbursed

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	FY2024	NA	FY2041*	1446.00	[ICRA]A- (Stable)

Source: Company; *yet to be disbursed

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

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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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Branches



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