

## L&T Sambalpur Rourkela Tollway Limited

Instrument	Amount	Rating Action
	Rs Crore	March 2016
Term Loans	1016.4	[ICRA]BBB (Stable); reaffirmed

ICRA has reaffirmed the rating outstanding on the Rs. 1016.4 crore<sup>1</sup> long term loan programme of L&T Sambalpur Rourkela Tollway Limited (L&T SRTL / “the company”) at [ICRA]BBB (pronounced as ICRA triple B); the outlook on the rating is Stable<sup>2</sup>.

The rating reaffirmation considers the significant experience of the promoter (L&T Infrastructure Development Projects Limited, rated at [ICRA]AA (Stable) / [ICRA]A1+) in developing and executing road projects, combined with the high financial flexibility that will enable it to support the funding requirements of the project; and, the importance of the project highway as a link between the mining and industrial districts of North-Western Odisha, as a result of which the project stretch sees significant traffic of heavy commercial vehicles. ICRA notes that the traffic growth rates on this stretch would be driven by the expected growth in coal & iron ore mining and the large planned investments in the steel and power sectors along this stretch. The rating also factors in the modifications to the concession period that are allowed in case the actual traffic is lower than the expected traffic, thus limiting the downside for the concessionaire to some extent. Lump sum turnkey contract for the EPC work has been signed with L&T IDPL and the Group’s strong execution track record and experience in road projects is also expected to limit the execution risks.

The rating, however, is constrained by the high counterparty risk considering that this is the first PPP road project executed by the Government of Odisha. The rating is also constrained by the slower than targeted construction progress as on date due to land acquisition issues, related to delays in receipt of forest clearance and removal of encroachments, and the heavy monsoons witnessed in Odisha in 2015 which limited execution. The rating also considers the risk of time overruns and the associated costs, though overall cost overruns are likely to be marginal considering the fixed price nature of the EPC contract and the current downturn in commodity prices.

The rating is also constrained by the traffic risks, given the uncertainties involved in the estimation of base traffic and future growth rates especially since the project is in early construction stages with tolling to commence only post COD; any moderation of the traffic growth rates from the anticipated levels, particularly for commercial vehicles, leads to weakened project metrics. The risk is exacerbated owing to the higher toll applicable for commercial vehicles, under the Odisha State Toll Policy, which could result in reduced willingness to pay toll and the presence of a significant alternate route to the project stretch which could result in traffic diversion. Nonetheless, ICRA draws comfort from the strong parentage of SRTL and the promoters’ track record of supporting its various project companies. Also, the project has substantial O&M grant payments in the first five years of operations which coupled with the back-ended debt repayment provides adequate comfort in case of adverse traffic variation in the initial years.

### Company Profile

L&T Sambalpur Rourkela Tollway Private Limited (‘L&T SRTL’ / ‘SRTL’) is a 100% subsidiary of L&T Infrastructure Development Projects Limited (L&T IDPL; rated AA / Stable / A1+ by ICRA). L&T IDPL is a subsidiary company of Larsen & Toubro Limited (L&T; rated [ICRA]AAA (Stable)) and is the holding company of various infrastructure projects being developed by L&T under the public private partnership (PPP) model. L&T SRTL was incorporated in October 2013 as a Special Purpose Vehicle (SPV) to implement the four-laning of Orissa’s State Highway 10 (SH-10) from Sambalpur to Rourkela for a total length of 161.73 km. The project highway is being constructed under the Design-Build-Finance-Operate-Transfer (DBFOT) model under the Odisha State Road Project (OSRP). The total cost of the project is estimated to be Rs 1565 crore of which Rs 1016 crore is being funded through term loans, Rs 290 crore through promoter contribution and the remaining

<sup>1</sup> 100 lakh = 1 crore = 10 million

<sup>2</sup> For complete rating scale and definitions, please refer to ICRA’s Website, [www.icra.in](http://www.icra.in), or any of the ICRA Rating Publications



Rs 259 crore through construction grant from Odisha Works Department (OWD), Government of Odisha (GoO).

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