

December 12, 2022

Salasar Highways Private Limited: Rating reaffirmed; outlook revised to Negative from Stable

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Fund-based – Term loans	911.84	813.25	[ICRA]BBB (Negative); reaffirmed and outlook revised to Negative from Stable
Long-term – Unallocated	38.16	136.75	[ICRA]BBB (Negative); reaffirmed and outlook revised to Negative from Stable
Total	950.00	950.00	

*Instrument details are provided in Annexure-I

Rationale

The revision in outlook of Salasar Highways Private Limited (SHPL) reflects the delays in achieving financial closure (sanction of ~Rs. 706 crore of term loan, and equity commitment) for the project, thereby resulting in increased execution risk, which could affect the overall credit profile of the special purpose vehicle (SPV). Of the total term loan requirement of Rs. 706 crore, SHPL has received final sanction of Rs. 538.0 crore till November 2022. Its management has communicated that the financial closure is likely to be concluded shortly. However, any material delay in the availability of debt could have an impact on the project execution timelines and the credit metrics. ICRA notes that SHPL's sponsor, Galfar Engineering & Contracting (India) Private Limited (GECIPL, Galfar India) has recently monetised its investments in its two operating road assets - Shree Jagannath Expressways Private Limited (SJEPL) and Ghaziabad Aligarh Expressway Private Limited (GAEPL), which has provided Rs. 110 crore, of which Rs. 82 crore has been infused into SHPL till November 2022. Galfar India is expecting the balance sale proceeds of Rs. 115 crore shortly and intends to use it to meet the balance equity requirement in SHPL worth Rs. 108 crore. However, the balance sale proceeds are contingent on successful completion of conciliation process with the National Highways Authority of India (NHAI) and acceptance of claims by the NHAI, and could take some time. In the interim, Galfar India is looking at raising a bridge funding of Rs 100.0 crore to meet the sub-debt/ equity infusion in SHPL for the four-laning project. Any prolonged delay in tying up debt at SHPL, or visibility on meeting the equity commitment by Galfar, can impact the project's progress and will be a key monitorable.

The rating favourably factors in the operational nature of the two-lane project with a toll collection track record of more than five years, and the attractiveness of the project stretch as a part of National Highway providing inter-state connectivity. The rating draws comfort from the recent ramp-up in toll collections, post the disruption caused by the Covid-19 pandemic and farmers' agitation in the past. The average daily toll collection improved to ~Rs. 22.8 lakh/day in April-June 2022 from ~Rs. 15 lakh/day and ~Rs. 18.6 lakh/day in FY2021 and FY2022, respectively. With improvement in toll collections, SHPL's debt service coverage is expected to remain adequate over the tenure of the existing debt. Further, the presence of funded debt service reserve account (DSRA) equivalent to one quarter of principal and interest obligations mitigates the risk of short-term cash flow mismatches. ICRA has factored in the company's taking up the four-laning of the project, as a part of the concession, post completion of which the concession period will remain at 30 years and result in an over seven-year tail period, thereby providing financial flexibility. The rating also takes support from the experience of its sponsor – Galfar India – in executing road projects.

The rating is, however, constrained by the project implementation risks for the four-laning of the project stretch. Nevertheless, the availability of right of way (RoW), low complexity nature of the work and the fixed-price fixed-time engineering, procurement and construction (EPC) contract with the sponsor Galfar India, which has experience in executing road projects, mitigate the risk to an extent. The company's ability to timely tie-up the requisite debt for the project and receive equity from

sponsors will be crucial. The rating is also constrained by the risks inherent in BOT (toll) road projects, including risks arising from variation in traffic volume over the project stretch and its dependence on the economic activity in the surrounding regions, movement in WPI (for toll rate hike), political acceptability of toll rate hikes over the concession period, development or improvement of alternate routes, likelihood of toll leakages and cyclicity in traffic. Further, ICRA notes that the toll rates will increase sharply once the four-lane project gets completed in line with the toll policy for National Highways, which could lead to some diversion of traffic to alternate routes. However, ICRA has noted that the adjacent stretches are already four-lane and accordingly their toll rates are higher, which mitigates the risk to an extent. This apart, SHPL's ability to manage routine and periodic maintenance expenses within the budgeted levels will also remain important.

Key rating drivers and their description

Credit strengths

Operational two-lane National Highway project with toll collection track record of over five years – SHPL's project stretch starts from Rajasthan/Haryana border and ends at Salasar (Rajasthan), with a total length of ~154 kms. The project road consists of sections of NH 52 and NH 58, emerging as a major corridor, which provides inter-state connectivity between Punjab, Haryana, Rajasthan, Gujarat, Madhya Pradesh and other southern states. The project was awarded by the NHAI on a BOT (Toll) basis. The project scope is for two laning, however, the concession includes a provision for upgradation to four lanes by the end of 12th year from the appointed date, in the absence of which the concession period will reduce from 30 years to 12 years. SHPL has completed the two laning-related work and achieved provisional completion (PCOD) for the two-lane project in two parts – PCOD-1 was received on May 18, 2017 for 148.37 km (~96.2% of the total tollable length of 154.14 km), while PCOD-2 was received for the incremental 4.6 km of length on June 1, 2020, with a total tollable length of 152.97 km (~99.2%). The final COD was achieved on August 08, 2022 and taking the total tollable length to 154.141 Km (~100%). Since PCOD-1 was achieved in May 2017, the two-lane project has been operational and collecting toll since then. It has a tolling track record of more than five years. The toll collections in the project witnessed a healthy CAGR since its commencement, despite the disruptions due to Covid-19 pandemic and farmers' agitation in the past. The average daily toll collection improved to ~Rs. 22.8 lakh/day in April-June 2022 from ~Rs. 15 lakh/day and ~Rs. 18.6 lakh/day in FY2021 and FY2022, respectively.

Long experience and track record of sponsor and EPC contractor – SHPL is promoted by Galfar India, which holds 80.41% stake, while the balance 19.59% is held by the Oman-based holding company Galfar Engineering & Constructing SAOG (GSAOG). The holding company, i.e. GSAOG has 59.07% of stake in Galfar India. The sponsor group has experience in the road sector and has invested in four toll road projects in India (including SHPL), and executed EPC works for six road projects. Galfar India had undertaken the EPC work for the two-lane project, and hence has experience in project execution in India. The sponsor is required to infuse Rs. 190 crore in SHPL for the four-laning project. Galfar India has recently monetised its investments in its two operating road assets - SJEPL and GAEPL with total sale proceeds of ~Rs. 225 crore (both equity and loans/advances). Of this, it has already received ~Rs. 110 crore of the sale proceeds, which has been used towards equity infusion of Rs. 82 crore in SHPL till November 2022. The balance Rs. 115 crore is to be received against stake sale in SJEPL is expected post the completion of the Conciliation Process with the NHAI and acceptance of claims by the NHAI.

Healthy financial flexibility and expected debt coverage with pickup in toll collections and long concession period post completion of four-laning – In the past, SHPL witnessed a decline in tollable traffic (dip of 9% in total traffic in PCU terms in FY2021) due to the Covid-19 pandemic and the farmers' agitation. However, the same has ramped-up quickly over the last two years as these disruptions have eased. The average daily toll revenue has reached improved to ~Rs. 22.8 lakh/day in April-June 2022 from ~Rs. 15 lakh/day and ~Rs. 18.6 lakh/day in FY2021 and FY2022, respectively. This has resulted in improvement in its DSCR for the existing debt for the two-lane project, which is to be repaid by FY2025. Further, the presence of DSRA equivalent to one quarter of principal and interest obligations provides comfort to meet short-term cash flow mismatches. The toll collection in the project are set to increase sharply post the commencement of the four-laning project, as the toll rates will increase sharply in line with the National Highway Toll Policy. This along with the long concession period will enhance the debt service coverage of the project. Further, the proposed debt for the four-laning project leaves a tail period of over seven years, which provides healthy financial flexibility for SHPL.

Credit challenges

Project implementation risks associated with four-laning project – The capacity augmentation to four laning exposes SHPL to substantial execution risks. The company has started two to four-laning work on February 01, 2022, with an estimated project cost of ~Rs. 941.3 crore, which is to be funded by debt of ~Rs. 706.0 crore, sponsor's fund infusion of Rs. 190.0 crore, and the balance through internal accruals. The debt tie-up for the same is yet to be fully achieved, and about 43% of equity has been infused till November 2022. It expects to complete financial closure shortly. While execution risks exist, the availability of land and raw material in the vicinity, along with the fixed-price, fixed-time EPC contract with the sponsor (Galfar India) mitigate the risk to an extent. The timely infusion of funds from sponsors and debt tie up would remain a key monitorable going forward

Risks inherent to toll road projects – The project is exposed to risks inherent in BOT (toll) road projects, including risks arising from variation in traffic volume over the project stretch and its dependence on the economic activity in the surrounding regions, movement in WPI (for toll rate hike), political acceptability of toll rate hikes over the concession period, development/improvement of alternate routes and likelihood of toll leakages. Further, ICRA has noted that as the toll rates for the users will increase sharply once the four-lane project gets completed in line with the toll policy for National Highways, there could be some diversion of traffic to alternate routes. However, ICRA notes that the adjacent stretches are already four lane and accordingly higher toll rates are applicable, which mitigates the risk to an extent. Nevertheless, the actual tollable traffic post completion of the four lanes will be a key credit consideration.

O&M related and interest rate risks – The company is exposed to the O&M risk associated with the project, including its ability to undertake routine and periodic maintenance within the stipulated time and budget. However, ICRA has taken comfort from the proposed fixed-price major maintenance (MM) contract with Galfar India. Further, ICRA expects SHPL to maintain adequate reserves for the MM. Further, it is exposed to the interest rate risk on account of the floating nature of interest rates, which is linked to the base rate.

Liquidity position: Stretched

SHPL's liquidity is stretched, as the debt for the four-laning project is yet to be tied up. However, the management has communicated that financial closure will be concluded shortly. Nonetheless, timely infusion of funds from sponsors and debt tie-up would remain a key monitorable going forward.

Rating sensitivities

Positive factors – The outlook may be revised to Stable if the company achieves financial closure in the near term, without impacting the project's execution timelines.

Negative factors – Downward pressure on the rating could emerge if toll collection growth is lower than expected, on a sustained basis, or if the O&M expenditure is significantly above the budgeted costs resulting in compression of the cumulative DSCR to less than 1.2 times. The rating can come under pressure if there are delays in fund infusion by promoters, or debt tie-up or in implementation of the four-laning capex, resulting in significant cost overruns.

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

Salasar Highway Private Limited is a special purpose vehicle (SPV) incorporated for development, maintenance and management of highway from Rajasthan Border to Salasar via Fatehpur on National Highway 65, with a total tollable length of 154.141 km in Rajasthan on design, build, finance, operate and transfer (DBFOT) toll basis. The concession period for the project is 30 years from the appointed date. The project's scope comprises two laning, followed by capacity augmentation to four laning. If the concessionaire opts for only two laning, then the concession period would be restricted to 12 years from the appointed date (i.e. till February 05, 2026). For four laning, the concession period would be increased to 30 years from the appointed date (i.e. till February 05, 2044). The company has taken augmentation of the existing two-lane project highway to four lanes.

SHPL is promoted by the Oman-based Galfar Group with Galfar Engineering & Constructing (India) Pvt Ltd holding 80.41% stake, and its parent company Galfar Engineering & Constructing SAOG having the balance 19.59% stake. Galfar India has experience and track record in Indian road sector and has invested in four toll road projects including SHPL.

Key financial indicators (audited)

	FY2021	FY2022
Operating income	56.7	69.4
PAT	-4.2	1.8
OPBDIT/OI	77.4%	84.5%
PAT/OI	-7.5%	2.6%
Total outside liabilities/Tangible net worth (times)	3.8	3.5
Total debt/OPBDIT (times)	5.3	3.4
Interest coverage (times)	2.3	4.1

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs. crore

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Type	Current rating (FY2023)		Chronology of rating history for the past 3 years			
		Amount rated (Rs. crore)	Amount outstanding as of Aug 31, 2022 (Rs. crore)	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021	Date & rating in FY2020
				Dec 12, 2022	Sep 10, 2021	-	-
1 Long-term Fund based Term loan*	Long-term	813.25	107.28	[ICRA]BBB (Negative)	[ICRA]BBB (Stable)	-	-
2 Long-term Unallocated	Long-term	136.75	-	[ICRA]BBB (Negative)	[ICRA]BBB (Stable)	-	-

(*)proposed term loan of Rs. 706.0 crore

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term – Fund-based – Term loans	Simple

Long-term – Unallocated

NA

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	FY2017	NA	FY2025*	65.13	[ICRA]BBB (Negative)
NA	Term loan	FY2017	NA	FY2025*	42.15	[ICRA]BBB (Negative)
NA	Proposed Term loan	NA	NA	NA	705.97	[ICRA]BBB (Negative)
NA	Long-term unallocated	NA	NA	NA	136.75	[ICRA]BBB (Negative)

Source: Company

(*) Indicates maturity only for the existing debt of Rs 107.28 crore, balance debt is yet to be tied-up

[Please click here to view details of lender-wise facilities rated by ICRA](#)

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

ANALYST CONTACTS

Rajeshwar Burla

+91 40 4067 6527

rajeshwar.burla@icraindia.com

Ashish Modani

+91 20 6606 9912

ashish.modani@icraindia.com

Abhishek Gupta

+91 124 4545 863

abhishek.gupta@icraindia.com

Vaibhav Jain

+91 124 4545 868

Vaibhav.jain@icraindia.com

RELATIONSHIP CONTACT

Jayanta Chatterjee

+91 80 4332 6401

jayantac@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani

Tel: +91 124 4545 860

communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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For more information, visit www.icra.in

ICRA Limited



Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45



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