

January 13, 2023

L&T Interstate Road Corridor Limited: Rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Non-convertible Debentures (STRPP 17, 18)	22.60	22.60	[ICRA]AAA(Stable); reaffirmed
Non-convertible Debentures (STRPP 16)	14.30	-	[ICRA]AAA(Stable); reaffirmed and withdrawn
Total	36.90	22.60	

*Instrument details are provided in Annexure I

Rationale

The rating assigned to the Rs. 14.30-crore non-convertible debenture (NCD) programme (ISIN No. INE827N07166) of L&T Interstate Road Corridor Limited (IRCL) have been reaffirmed and withdrawn as the debenture has been redeemed in full and there are no dues outstanding against the same.

The rating reaffirmation favourably factors in IRCL's operational track record of 27 semi-annuities, in a timely manner, without major deductions and strong liquidity position as reflected by cash and liquid investments of Rs. 85.52 crore as on November 30, 2022 as against debt outstanding of Rs. 22.60 crore. The rating continues to derive strength from the operational nature and stable annuity revenue from the project authority, leading to no execution and traffic risks. Further, the counterparty is the National Highways Authority of India (NHAI, rated [ICRA]AAA(Stable)/A1+), which is a key Central Government entity responsible for the development and maintenance of India's national highway programme.

ICRA notes that Larsen & Toubro Limited (L&T), on December 19, 2022, announced the divestment of its 51% stake in L&T Infrastructure Development Projects Limited (L&T IDPL) to a portfolio company of Infrastructure Yield Plus II, an infrastructure fund managed by Edelweiss Alternatives. L&T IDPL is a joint venture between L&T and Canada Pension Plan Investment Board (CPPIB), holding 51% and 49% stakes, respectively. CPPIB has separately announced the sale of its stake in L&T IDPL to the fund managed by Edelweiss Alternatives. L&T IDPL is the holding company of IRCL. This transaction is subject to the receipt of applicable regulatory approvals. ICRA considers this event as credit neutral for IRCL's outstanding rating, considering that the robust coverage metrics and ring fencing of cash flows of the special purpose vehicle (SPV). Further, the rating is supported by the structural features like presence of escrow, cash waterfall, and debt service reserve equivalent to six months of P+I obligation, which provide credit support for the rated NCDs. Any change in debt structure could have a bearing on its credit profile and remains a rating monitorable.

The rating is, however, exposed to operations and maintenance (O&M) related risks as inadequate maintenance could result in lane closures, leading to potential deductions from the annuity by the NHAI or increase in routine and periodic maintenance expenses above the budgeted levels, which could adversely affect the cash flows available for debt servicing. ICRA notes that the company will be undertaking its third major maintenance (MM) activity in FY2024, before the project handover to the authority and is building a MM reserve for meeting the expense. In case the actual MM expenses are higher than the envisaged, the last semi-annuity, along with free cash balances could be utilised for completing the MM. Also, as per the concession agreement, 15% or a higher sum estimated by the independent consultant can be deducted in the last four semi-annuity payments towards defect liability as a part of the handover process. However, there will be no deductions in case an equivalent bank guarantee is submitted to the authority. The quantum of deductions will remain a key rating monitorable.

The Stable outlook on the rating reflects the established track record of operations and stable annuity receipts in a timely manner without any material deductions, which supports the project's coverage metrics.

Key rating drivers and their description

Credit strengths

Annuity nature and stable operations of the project – IRCL operates an annuity-based build-operate-transfer (BOT) project with no construction and traffic-related risks. It has a strong track record of operations with the company receiving 27 annuities till date without any major deductions.

Low counterparty risk with strong annuity provider – The rating derives support from the strong credit profile of the annuity provider, the NHAI, which is a key Central Government entity responsible for development and maintenance of India's national highway programme.

Structural features of NCDs provides credit support – The presence of structural features including an escrow mechanism and debt service reserve equivalent to six months of P+I obligation provide credit support for the rated NCDs. The escrow account (exclusively charged to the debenture trustee) is maintained with a designated bank, where the receipts from the NHAI are deposited and utilised as per a pre-defined cash flow waterfall. All surplus amounts shall be available to debenture holders in the event of any shortfall in debt servicing obligation. The company is permitted to invest in liquid mutual fund debt schemes/FDs/other debt securities with a minimum rating of AA/A1+, with consent from the majority debenture holders. Moreover, IRCL has a strong liquidity position as reflected by cash and liquid investments of Rs. 85.52 crore as on November 30, 2022 against debt outstanding of Rs. 22.60 crore.

Credit challenges

O&M and MM-related risk – The company is exposed to O&M-related risks as inadequate maintenance could result in lane closures, leading to potential deductions from the annuity by the NHAI or increase in routine and periodic maintenance expenses above the budgeted levels could adversely affect the cash flows available for debt servicing. However, healthy liquidity position and the sponsor's undertakings towards shortfall arising out of higher maintenance costs provide comfort. The third MM expense is expected to be carried out in FY2024, before the project handover. The company is building a MM reserve on an annual basis for meeting the MM expense. Also, as per the concession agreement, 15% or a higher sum estimated by the independent consultant will be deducted in the last four semi-annuity payments towards defect liability. However, there will be no deductions in case an equivalent bank guarantee is submitted to the authority. The quantum of deductions will remain a key rating monitorable.

Liquidity position: Strong

The company's liquidity position is strong, with cash and liquid investments of Rs. 85.52 crore as on November 30, 2022 (deployed primarily in bank deposits and mutual funds). Further, ICRA expects the cash flow from operations to be sufficient to meet the debt servicing obligations over the tenure of the debt. Besides the funded debt service reserve provides cushion in case of delay in annuity, a gap of 21 days between the scheduled annuity payment date and debt repayment date also provides comfort.

Rating sensitivities

Positive factors – Not applicable

Negative factors – Pressure on the rating could arise if lower lane availability or increased operating expenses results in deterioration in the debt coverage metrics. In addition, any significant delays or deduction by the NHAI in annuity payment or deterioration in the NHAI's credit profile could exert negative pressure on its rating.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology for BOT (Annuity) Roads Approach for rating debt instruments supported by structural features (Non-securitized transactions) ICRA Policy of withdrawal of credit ratings
Parent/Group support	Not applicable
Consolidation/Standalone	Standalone

About the company

IRCL is a 100% subsidiary of L&T Infrastructure Development Projects Limited (L&T IDPL). It was incorporated in February 2006 as an SPV. The company has been awarded a contract on a BOT annuity basis to widen the existing two-lane 76-km stretch from km 601.000 to 677.000 of National Highway 27 (NH-27; formerly known as km 340.00 to km 264.00 on Palanpur–Swaroopgunj section of NH-14) in Gujarat and Rajasthan, and operation and maintenance thereof under the concession agreement dated March 26, 2006 with the NHAI. The concession was granted to IRCL for a period of 17.5 years from the appointed date, which was achieved on September 24, 2006. The project achieved commercial operation date (COD) on July 22, 2009 and started receiving annuity from September 24, 2009.

Key financial indicators

Ind AS Financials	FY2021	FY2022
Operating income	29.2	22.9
PAT	1.9	0.5
OPBDIT/OI	48.3%	34.8%
PAT/OI	6.4%	2.1%
Total outside liabilities/Tangible net worth (times)	3.6	2.2
Total debt/OPBDIT (times)	6.5	6.7
Interest coverage (times)	0.9	0.8

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation;

Note: IRCL follows Ind AS and key financial ratios are not representative of actual cash flows

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 on December 31, 2022 (Rs. crore)	Date & Rating in	Date & Rating in FY2023	Date & Rating in FY2022	Date & Rating in FY2021
				January 13, 2023	June 30, 2022	June 30, 2021	June 18, 2020
1	NCD	22.60	22.60	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)
2	NCD	14.30	-	[ICRA]AAA (Stable) withdrawn	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)
3	NCD	-	-	-	[ICRA]AAA (Stable) withdrawn	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)
4	NCD	-	-	-	-	[ICRA]AAA (Stable) withdrawn	[ICRA]AAA (Stable)

Complexity level of the rated instrument

Instrument	Complexity Indicator
NCDs	Very 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
INE827N07166	NCD – STRPP 16	Jan 2015	9.098%	Oct-22	14.30	[ICRA]AAA(Stable) withdrawn
INE827N07174	NCD – STRPP 17	Jan 2015	9.098%	Apr-23	12.20	[ICRA]AAA(Stable)
INE827N07182	NCD – STRPP 18	Jan 2015	9.098%	Oct-23	10.40	[ICRA]AAA(Stable)

Source: Company

Annexure II: List of entities considered for consolidated analysis

Not applicable

ANALYST CONTACTS

Rajeshwar Burla

+91 40 4547 4243

rajeshwar.burla@icraindia.com

Ashish Modani

+91 22 6114 3414

ashish.modani@icraindia.com

Vinay Kumar G

+91 40 4547 4225

vinay.g@icraindia.co.in

Vamshi Kinnera

+91 40 4547 4224

vamshi.kinnera@icraindia.com

RELATIONSHIP CONTACT

L. Shivakumar

+91-22-30470000

shivakumar@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

About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

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.

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



Branches



© Copyright, 2023 ICRA Limited. All Rights Reserved.

Contents may be used freely with due acknowledgement to ICRA.

ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website www.icra.in or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents.