

March 31, 2023

Gujarat Road and Infrastructure Company Limited: Rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Non-convertible debenture programme	172.50	147.50	[ICRA]AAA(Stable); reaffirmed
Total	172.50	147.50	

*Instrument details are provided in Annexure-I

Rationale

Gujarat Road and Infrastructure Company Limited (GRICL) is a special purpose vehicle (SPV) floated for developing two state road project stretches in Gujarat - (a) Ahmedabad Mehsana Road Project (AMRP) (SH41), which accounted for ~55% of GRICL's revenues in FY2022, and (b) Vadodara Halol Road Project (VHRP) (SH87), which contributed to ~45%. The concession period for AMRP is till February 2033 and that for the VHRP is till October 2030.

The rating reaffirmation continues to factor in the operational nature of GRICL's road projects with a tolling track record of more than two decades for both stretches. The overall toll collections (excluding compensation from the Government of Gujarat or GoG) increased by 35.2% on a YoY basis in 9M FY2023, driven by a ~32% growth in traffic and 3.2% increase in toll rate. The growth rate looks exceptionally strong on account of low base of the previous fiscal, as traffic was impacted by the Covid-19 pandemic-related restrictions. Moreover, improvement in industrial activity in the region and curbing of toll leakage supported growth in FY2023. Earlier, the toll collections increased at a CAGR of 7.6% during FY2018-FY2022. The rating further takes comfort from GRICL's strong debt coverage indicators over the tenure of the NCD with a cumulative DSCR of over 3 times. The rating also takes support from structural features - debt service reserve account (DSRA) of Rs. 25 crore, major maintenance reserve of Rs. 15 crore, escrow mechanism, cash flow waterfall, provision for cash trap and mandatory prepayment upon breach of certain triggers. ICRA notes the strong profile of the sponsor –MAIF Investments India Pte Limited (MAIF) - an infrastructure fund managed by Macquarie Infrastructure and Real Assets (MIRA) having vast experience and an established track record of asset management in the infrastructure space across the globe.

GRICL is exposed to the risks inherent in BOT (toll) road projects, including risks arising from the political acceptability of the rate hikes linked to CPI over the concession period and development/improvement of alternative routes and likelihood of toll leakages, though the existing alternative routes are either longer or are in poor condition and therefore pose low risk of traffic diversion. In absence of pre-defined major maintenance schedule, periodic maintenance is required on need basis, which may result in volatility in operating expenses. The major maintenance expenditure for FY2023 is estimated at Rs. 9.7 crore, which will be funded through internal accruals. The company's ability to undertake routine and periodic maintenance within the budgeted costs would remain important.

On July 30, 2016, GoG announced toll exemption for cars, small private vehicles and state transport buses on state highways w.e.f. August 15, 2016. Prior to finalisation of the methodology of compensation in July 2021, GoG was making payments to GRICL on an ad hoc basis. Till December 2022, the company received 77% of the total claims made to GoG. The claims made during November 2022 - February 2023 were delayed due to elections and budget sessions. The payments for November 2022 and December 2022 are expected to be received by March 2023.

ICRA has taken note of GRICL's concession agreement (CA), wherein the concession period is linked to the return on investment (assured return on investment of 20%). Given that the recovery rate so far has been lower than the assured return, the

company has requested GoG to extend the concession period till 2040. The potential extension of the concession period up to 2040, if approved, would result in a long tail period of 10 years beyond the maturity of NCDs, providing it financial flexibility. ICRA has also taken note of GoG's plan to augment the capacity of the Ahmedabad Mehsana Stretch to six-laning. While GRICL has no obligation to take this up as per its CA, GRICL is in discussions with GoG to participate in this capacity augmentation project. The contours of the arrangement with GoG are yet to be finalised. This will remain a key monitorable and ICRA would evaluate the impact of the same on the credit profile of the company once the terms are finalised.

ICRA takes note that the Macquarie Group has signed a definitive agreement with the Adani Group to divest its entire stake of 56.8% stake in GRICL. The deal is expected to be completed in FY2024, subject to requisite approval. ICRA will continue to monitor the development in this regard. Any dilution or non-adherence to debt structure or additional indebtedness could have a bearing on the credit profile of the SPV and remains a key monitorable.

The Stable outlook on the [ICRA]AAA rating reflects ICRA's opinion that GRICL will continue to benefit from the importance of the project stretch, the long operational track record, robust cash flows and low leverage.

Key rating drivers and their description

Credit strengths

Long operational track record – The rating factors in the favourable location and operational nature of the project with a toll collection track record of more than two decades for both stretches. The overall toll collections (excluding GoG compensation) increased by 35.2% on a YoY basis in 9M FY2023, driven by a ~32% growth in traffic and 3.2% increase in toll rate. The growth rate looks exceptionally strong on account of low base of previous fiscal, as traffic was impacted by the pandemic-led restrictions. Moreover, improvement in industrial activity in the region and curbing of toll leakage supported growth in FY2023. Earlier, the toll collections increased at a CAGR of 7.6% during FY2018-FY2022.

Robust debt coverage indicators – The company is projected to have strong debt service cover over the tenure of the NCDs with cumulative DSCR of over 3 times. Its liquidity position is strong with aggregate reserves of Rs. 40 crore as on December 31, 2022 towards DSRA (Rs. 25 crore) and major maintenance. Besides this, the unencumbered cash balance stood at Rs. 190.5 crore as on December 31, 2022.

Structural features provide credit support to NCDs – The structural features like presence of DSRA, major maintenance reserve, escrow mechanism, cash flow waterfall, provision for cash-trap and mandatory prepayment upon breach of certain triggers provide credit support to the NCDs.

Reputed sponsor with track record in infrastructure asset management globally – GRICL is promoted by MAIF, an infrastructure fund managed by MIRA having vast experience and an established track record of asset management in the infrastructure space across the globe.

Credit challenges

Risks inherent in BOT (Toll) road projects – The project's cash flows remain exposed to risks inherent in BOT (Toll) road projects, including risks arising from the variation in traffic volumes over the project stretch and its dependence on economic activity in the surrounding region, movement in CPI (for toll rate hike), the political acceptability of toll rate hike over the concession period, development/improvement of alternative routes and likelihood of toll leakages. Any significant reduction in either of these will have an adverse impact on toll collections. However, the projected coverage metrics are likely to remain robust even without assuming any growth in traffic and/or compensation from GoG. GRICL remains exposed to asset concentration risk though the presence of two separate road stretches provide diversification in revenue stream and mitigate the risk to some extent.

Ensuring routine and periodic maintenance expenses within budgeted levels – In absence of a pre-defined major maintenance schedule, periodic maintenance is required on need basis, which may result in a volatility in operating expenses. The major maintenance expenditure for FY2023 is estimated at Rs. 9.7 crore, which will be funded through internal accruals. Undertaking routine and periodic maintenance within the budgeted costs would remain important. In this regard, ICRA has taken comfort from the strong cash flow and track record of undertaking the O&M and MM expenditure.

Liquidity position: Strong

The liquidity position of GRICL remains strong. The debt servicing obligations of Rs. 38.3 crore in FY2023 and Rs.36.6 crore in FY2024 can be comfortably met through the expected cash flows from operations. The debt service coverage ratio is expected to remain above 3 times during the tenure of the debt. Further, GRICL had reserves of Rs. 40 crore as on December 31, 2022 towards the DSRA and major maintenance. Besides this, the unencumbered cash balance was Rs. 190.5 crore as on December 31, 2022.

Rating sensitivities

Positive factors – Not Applicable

Negative factors – Pressure on the rating could emerge if there is any significant decline in traffic, reducing the toll collections and impacting the coverage indicators, or if the regular O&M and major maintenance expenditure is significantly above the budgeted cost. Non-adherence to debt structure or additional indebtedness which could have a material impact on coverage metrics will also trigger a rating downgrade.

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	The ratings are based on the company’s standalone financial profile

About the company

GRICL is promoted by MAIF (56.80%), GoG (16.39%), IL&FS Group (16.81%) and Infiniti Realty Opportunities Trust (10.00%) for the strengthening and four-laning of the 31.7-km Vadodara-Halol and 51.6-km Ahmedabad-Mehsana stretches. These are the first set of state road highway projects developed in the country on build, own, operate and transfer (BOOT) model. The total project cost is Rs. 514.88 crore, which was funded through Rs. 297 crore of debt and Rs. 217.88 crore of equity. The Vadodara-Halol stretch commenced operations from October 24, 2000, while Ahmedabad Mehsana achieved COD on February 20, 2003. Although the concession period is for 30 years, it is not fixed. As per the CA, if the company is unable to earn 20% returns on the total project cost at the end of 30 years, the concession period will be extended by two years at a time until the project cost and the return thereon are recovered.

Key financial indicators (audited)

	FY2021	FY2022	9M Fy2023 (Provisional)
Operating income	157.2	220.2	210.6
PAT	66.8	108.0	104.1
OPBDIT/OI	69.17%	70.01%	84.03%
PAT/OI	42.48%	49.04%	49.43%
Total outside liabilities/Tangible net worth (times)	0.5	0.3	NA
Total debt/OPBDIT (times)	1.7	1.1	0.8
Interest coverage (times)	5.3	8.6	14.5

Source: GRICL, ICRA Research: PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; NA- not available

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2023)			Chronology of Rating History for the Past 3 Years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding (as on Dec 31, 2022, Rs. crore)	Date & Rating on	Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020
					Mar 31, 2023	April 01, 2022	April 06, 2021	Mar 31, 2020
1	NCD	Long-term	147.50	147.50	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)
2	NCD	Long-term	0.00	0.00	-	-	[ICRA]AAA (Stable); Withdrawn	[ICRA]AAA (Stable)

Complexity level of the rated instruments

Instrument	Complexity Indicator
Non-Convertible Debentures	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 / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
INE354H07098	NCD	13-Apr-16	9.00%	31-Mar-23	12.50	[ICRA]AAA(Stable)
INE354H07106	NCD	13-Apr-16	9.00%	31-Mar-24	25.00	[ICRA]AAA(Stable)
INE354H07114	NCD	13-Apr-16	9.00%	31-Mar-25	25.00	[ICRA]AAA(Stable)
INE354H07122	NCD	13-Apr-16	9.00%	31-Mar-26	25.00	[ICRA]AAA(Stable)
INE354H07130	NCD	13-Apr-16	9.00%	31-Mar-27	15.00	[ICRA]AAA(Stable)
INE354H07148	NCD	13-Apr-16	9.00%	31-Mar-28	15.00	[ICRA]AAA(Stable)
INE354H07155	NCD	13-Apr-16	9.00%	31-Mar-29	15.00	[ICRA]AAA(Stable)
INE354H07163	NCD	13-Apr-16	9.00%	31-Mar-30	15.00	[ICRA]AAA(Stable)

Source: GRICL

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

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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.

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