September 05, 2023

Salasar Highways Private Limited: Rating downgraded to [ICRA]BBB-; outlook continues to be Negative

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Fund-based – Term loan	813.25	765.88	[ICRA]BBB-(Negative); Rating downgraded from [ICRA]BBB(Negative) and outlook continued to remain Negative
Long-term – Unallocated	136.75	184.12	[ICRA]BBB-(Negative); Rating downgraded from [ICRA]BBB(Negative) and outlook continued to remain Negative
Total	**950.00**	**950.00**	

**Instrument details are provided in Annexure-I*

Rationale

The revision of rating for Salasar Highways Private Limited (SHPL), a special purpose vehicle (SPV), reflects the increased execution risk in the backdrop of the slower-than-expected progress in implementing the four-laning project, being undertaken as a part of the concession terms, primarily due to delays in achieving financial closure (sanction of ~Rs. 706 crore of term loan and equity commitment), which could affect its overall credit profile. While the company has now tied-up the term loan and has visibility of infusing promoter's contribution, given the slow progress achieved thus far (~20% till July 2023), the project completion is likely to miss the originally envisaged timeframe (February 2024). Nevertheless, the availability of right of way (RoW), relatively low complexity nature of the work and the fixed-price fixed-time engineering, procurement and construction (EPC) contract with the sponsor Galfar Engineering & Contracting (India) Private Limited (Galfar India), which has experience in executing road projects, mitigate the risk to an extent. SHPL's ability to timely receive equity from sponsors along with debt disbursement will be crucial to complete the project without significant delays. Delay in achieving commercial operation date (COD) for the four-laning project would result in loss of revenue besides the penalty (3% of revenue as per concession agreement). The rating is also constrained by the risks inherent in Build–operate–transfer (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 alternative routes, likelihood of toll leakages and cyclicality in traffic. ICRA notes that the commercial traffic on the project stretch has also been adversely impacted owing to ongoing construction activity. Further, 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 alternative routes. However, 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.

The rating, however, takes comfort from the achievement of the tie-up for the total debt requirement, along with 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. 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 span 30 years and result in an over seven-year tail period, thereby providing financial flexibility. ICRA takes note of the experience of its sponsor – Galfar India – in executing road projects.

The Negative outlook reflects, the heightened execution risk with the progress on the project behind schedule. If the execution is not ramped up in the near term, the credit profile could weaken because of adverse financial impact on the company in the form of penalty and loss of revenue.

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, thereby taking the total tollable length to 154.141 Km (~100%). With PCOD-1 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 compounded annual growth rate (CAGR) since its commencement, despite the disruptions due to Covid-19 pandemic and farmers' agitation in the past. Nevertheless, toll collection has been muted with average daily toll collection moderated to ~Rs. 20.9 lakh/day in April-July 2023 from ~Rs. 21.6 lakh/day FY2023 owing to ongoing construction activity.

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, proposed to be transferred to MFAR Developers Pvt. Ltd., which is a sister company). 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. 235.3 crore (of which Rs. 176.5 crore being 75% is required to be infused upfront) in SHPL for the four-laning project. As of July 2023, Rs. ~90 crore has been infused. For the balance, Galfar India has recently raised funds of Rs. 105 crore in the form of non-convertible debentures (NCDs) to be used towards fund infusion in SHPL. Further, the company monetised its investments in 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 July 2023. 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.

Increase in toll collections post commissioning of four lane project along with long concession period – 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 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. However, the toll collection has been muted since Q2 FY2023 with average daily toll collection of Rs. 20.9 lakh/day owing to the ongoing construction activity. 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 is set to increase sharply post the commencement of the four-laning project, as 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. The proposed debt for the four-laning project also 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 internal accruals/sub debt from promoters of Rs. 45.3 crore. The debt tie-up has been fully achieved, and about ~40% of equity has been infused till July 2023. 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 balance funds from sponsors and execution ramp 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 alternative routes and likelihood of toll leakages. 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 alternative 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 operations and maintenance (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. 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 equity requirement for the project is yet to be fully infused. However, the financial closure has been achieved for the entire debt, and disbursement is expected to start shortly.

Rating sensitivities

Positive factors – The outlook may be revised to Stable if the company achieves significant progress in execution without any major cost overrun.

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. The rating can come under pressure if there are significant delays in implementation of the four-laning capex, resulting in material cost overruns, penalty or loss of revenues, thereby adversely impacting credit profile.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	[Corporate Credit Rating Methodology](#) [Rating Methodology–Roads (BOT TOLL)](#)
Parent/Group support	Not Applicable
Consolidation/Standalone	Standalone

About the company

Salasar Highway Private Limited (SHPL), an SPV, was incorporated for development, maintenance and management of National Highway 65 including the project section from Rajasthan Border to Salasar via Fatehpur from Km 0.000 to Km 154.141 (as per design chainage) in Rajasthan (Project Highway or the Completed Project) under NHDP Phase IV on Design, Build, Finance, Operate and Transfer (DBFOT) Toll Basis.

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). In case of our 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 so the concession period is till February 05, 2044. The appointed date for the four lane is February 2022, and the scheduled completion date for four laning is February 2024.

The two-laning of the project has been completed on May 18, 2017 and toll collection commenced from May 20, 2017. The project road, section of NH 52 (old NH 65) and NH 58, starts from Rajasthan/Haryana border and ends at Salasar with a length of 154 km. It comprises three toll plazas over a tollable length of ~153 Kms. It passes through the districts of Churu (approx. 70%) and Sikar (approx. 30%). The road caters to traffic bound between Churu, Bikaner and Sikar districts and to the understate traffic between Haryana/Punjab/Delhi and Rajasthan/Gujarat/Maharashtra.

Key financial indicators (audited)

	FY2022	FY2023*
Operating income	69.4	80.9
PAT	1.8	8.5
OPBDIT/OI	84.5%	84.4%
PAT/OI	2.6%	10.5%
Total outside liabilities/Tangible net worth (times)	3.5	4.0
Total debt/OPBDIT (times)	3.4	3.5
Interest coverage (times)	4.2	6.9

*Source: ICRA Research, Company; PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs. crore; *Provisional data*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2024)				Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Amount outstanding as on July 30, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
					Sep 05, 2023	Dec 12, 2022	Sep 10, 2021	-
1	**Fund-based Term loan**	Long term	765.88*	59.90	**[ICRA]BBB- (Negative)**	**[ICRA]BBB (Negative)**	**[ICRA]BBB (Stable)**	-
2	**Unallocated**	Long term	184.12	-	**[ICRA]BBB- (Negative)**	**[ICRA]BBB (Negative)**	**[ICRA]BBB (Stable)**	-

(*) includes proposed term loan of Rs. 706.0 crore

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term Fund-based Term loan	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	35.77	[ICRA]BBB- (Negative)
NA	**Term loan**	FY2017	NA	FY2025	24.13	[ICRA]BBB- (Negative)
NA	**Proposed term loan**	NA	NA	NA	705.98	[ICRA]BBB- (Negative)
NA	**Long-term unallocated**	NA	NA	NA	184.12	[ICRA]BBB- (Negative)

Source: Company

Please click here to view details of lender-wise facilities rated by ICRA

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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