

December 29, 2023

Soma Indus Varanasi Aurangabad Tollway Private Limited: Rating reaffirmed

Summary of rating action

Instrument*	Previous rated amount (Rs. crore)	Current rated amount (Rs. crore)	Rating action
Fund-based –Term loans	2,333.00	2,333.00	[ICRA]BB+(Stable); reaffirmed
Total	2,333.00	2,333.00	

*Instrument details are provided in Annexure-I

Rationale

The rating reaffirmation for Soma Indus Varanasi Aurangabad Tollway Private Limited (SIVATPL) factors in the favourable location of the project stretch (as a part of the Golden Quadrilateral with heavy commercial traffic) and healthy toll collections. The rating derives comfort from the strong financial profile of one of the promoters (holding 50% stake)—Indus Concessions India Private Limited—which is a part of the ROADIS Group, the investment platform of the Canadian pension investment manager – Public Sector Pension Investment Board (PSPIB). ICRA is given to understand that the sponsor, i.e., ROADIS remains committed to the project, and will provide timely operational as well as financial support, whenever required. Further, post completion of the ongoing share transfer transaction (expected before end of FY2024), PSPIB will become 100% owner of SIVATPL through intermediate subsidiaries.

Notwithstanding the above, the rating remains constrained by the project execution and funding risks. Though the initial construction started in September 2011, the company has not been able to complete the project so far due to multiple factors, including issues in land availability. Around 20% work remained unexecuted in November-end 2023 viz. the completion date as per the settlement agreement signed between SIVATPL and the National Highways Authority of India (NHAI, the concession authority) in August 2021. However, ICRA notes that an extension in timeline has been recommended by the IE till June 2024 and is awaiting NHAI approval. SIVATPL has awarded the construction work to reputed engineering, procurement and construction (EPC) entities, which mitigates the execution risk to an extent. The project remains exposed to funding risk, as financial closure is yet to be achieved for the revised project cost (i.e., cost pursuant to the settlement agreement). The flow of grant from the authority is linked to the debt disbursement, which is yet to commence. Owing to delays in financial closure, the sponsors infused additional funds of Rs. 140 crore in FY2024 to support the construction activity. With gap arising due to adequate incremental sanctions from the existing lenders, the company has identified an FPI investor to provide these funds. The FPI funding is expected to be in the form non-convertible debentures (NCD). ICRA understands that the terms of issuance, identical to the senior debt and carrying a pari-passu charge, have been finalised (documents to be executed shortly). The company's ability to complete the funding-tie up and execute the project within the stipulated budget and timeline remains a key monitorable.

The rating continues to factor in the risks inherent in toll-based projects, which include risks arising from political acceptability of annual toll rate hikes linked to WPI over the concession agreement and user willingness to pay toll. The trends in traffic growth rates and movement in WPI (for toll rate hike) will remain the key sensitivities, as any reduction in either of the factors would have an adverse impact on toll collections. Moreover, the company's ability to timely undertake operations and maintenance (O&M) and major maintenance activity as per the concession agreement remains crucial from the credit perspective.

The Stable outlook continues to derive support from the healthy toll collections, supported by favourable project location and strong financial profile of one of the promoters.

Key rating drivers and their description

Credit strengths

Strong profile of the promoter – The special purpose vehicle (SPV) is jointly owned by ROADIS Concessions S.L.U (formerly Isolux Corsan Concessions S.A.) and the Soma Enterprises Limited (SEL) Group. ROADIS (formerly known as Isolux Corsan) was earlier a part of the Spain-based Isolux Group, also known as Grupo Isolux Corsan (GIC). ROADIS is the investment platform of PSPIB (rated Aaa by Moody's), which is one of Canada's largest pension investment managers with net assets under management worth \$243.7 billion as on March 31, 2023. ICRA is given to understand that, despite execution delays, ROADIS remains committed to the project and will provide timely operational as well as financial support, whenever required (evidenced by around Rs. 70 crore incremental infusion into the project between February and September 2023, over-and-above the committed equity). Further, post completion of the ongoing share transfer transaction, ROADIS will become 100% owner of SIVATPL, thereby improving the SPV's financial flexibility.

Favourable location of the project stretch – The project corridor is a part of National Highway -2 (NH-2) – Golden Quadrilateral (part of the Delhi-Kolkata stretch) – situated in the Bihar-UP border area, wherein the commercial traffic flow is high due to sand mining activity in the vicinity. Also, the stretch is connected to various industrial areas in Varanasi, Chanduali and Sonbadhra, which houses coal fields, sand quarries, stone crushing units, and a large aluminium plant.

Healthy toll collections – Healthy toll collections averaging Rs. 49.1 crore per month were witnessed during November 2022 to June 2023 following the resumption of mining activity in the nearby regions. While toll collections witnessed a seasonal moderation in July-November 2023 due to ban of mining activity in the vicinity and the monsoons (monthly average Rs. 41.8 crore), the overall annual growth is expected to remain healthy with revival of traffic momentum post resumption of mining activity. The importance of the project and the stability of the traffic provide comfort.

Credit challenges

Project execution risk – Though the construction was started in September 2011, the company has not been able to complete the project so far due to multiple factors, including issues in land availability. The project is partially operational and partially under-construction. Out of the total project length of 192.4 km, physical progress for ~145.69 km has been achieved till September 2023, while 8.98 km of the length has been descoped owing to non-availability and the balance is under construction. Further, 2.84 km taken under technical solution has been awarded to multiple EPC contractors. Thus, the company continues to be exposed to project execution risks including risks of delays and cost overruns.

Funding risk – Though the entire equity has been infused by the sponsors, it faces funding risk emanating from pending issuance of NCDs to complete the financial closure (NCDs tied-up in lieu of gap in project loan sanction by some lenders in the consortium). However, the NCD issuance process is in advanced stages, which provides some comfort. This along with timely disbursement of debt by lenders remains crucial for the project as the flow of grant from the authority is also linked to the same.

Risks inherent in toll road projects – The project is exposed to risks inherent in toll-based projects, which include uncertainties involved in regulatory changes, estimating future traffic growth rates, acceptability of annual toll rate hikes and the WPI-linked escalation in toll rates, which could limit the growth in toll collections during periods of low WPI rate as seen in the past.

Liquidity position: Stretched

While toll collections remain sufficient for debt servicing, funding risk persists due to the pending tie-up of a portion of the debt to meet the project cost leading to a stretched liquidity position. The company had cash balances of ~Rs. 226.04 crore as on December 20, 2023, supported by toll collections, which are available for utilisation towards the construction activity as well as debt servicing.

Rating sensitivities

Positive factors – The rating could be upgraded in case of timely completion of the project and healthy ramp-up in toll collections. Mitigation of funding risk with closure of full financing tie-up will be a credit positive.

Negative factors – The rating could be downgraded if there are further delays in project completion or substantial decline in toll collection. The rating could also be downgraded if any adverse action by NHAI impacts the liquidity.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Roads – BOT Toll
Parent/Group support	Not Applicable
Consolidation/Standalone	The rating is based on the standalone financial profile of the company

About the company

Incorporated in 2010, SIVATPL is a 50:50 SPV set up by Indus Concessions India Pvt Ltd (now a part of ROADIS Group) and Soma Tollways Private Limited for six-laning of the Varanasi–Aurangabad section of NH-2 from km 786 to km 978.4 (length 192.4 km) in Uttar Pradesh and Bihar on design, build, finance, operate and transfer (DBFOT) toll basis under NHDP Phase-V. The concession period for the project is 30 years, including construction period of 30 months. The CA between the NHAI and SIVATPL was signed on July 30, 2010. The appointed date for the project was September 12, 2011. It faced significant execution delays, with cumulative physical progress of 79.5% as on September 30, 2023.

Key financial indicators (audited)

SIVATPL	FY2022	FY2023
Operating income (Rs. crore)	795.8	1,654.5
PAT (Rs. crore)	46.3	180.5
OPBDIT/OI	37.0%	26.1%
PAT/OI	5.8%	10.9%
Total outside liabilities/Tangible net worth (times)	2.0	1.7
Total debt/OPBDIT (times)	4.9	3.1
Interest coverage (times)	1.9	3.1

Source: Company data, ICRA Research; PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs. crore; SIVATPL 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		Current rating (FY2024)			Chronology of rating history for the past 3 years			
Type	Amount rated (Rs. crore)	Amount outstanding (Rs. crore) as on September 30, 2023	Date & rating in FY2024 December 29, 2023	Date & rating in FY2023 Sep 30, 2022	Date & rating in FY2022 Jun 17, 2021	Date & rating in FY2021		
1 Fund-based – Term loan	Long-term	2,333.0	1,186.2	[ICRA]BB+ (Stable)	[ICRA]BB+ (Stable)	[ICRA]BB (Stable)	-	

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term – Fund-based – Term loan	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
NA	Term loan-1	Jan 24, 2011	10.5%	Sep 30, 2028	1743.00	[ICRA]BB+(Stable)
NA	Term loan-2	March 8, 2016	10.5%	Sep 30, 2029	490.00	[ICRA]BB+(Stable)
NA	Term loan (Sub-debt)	Jan 24, 2011	14.45%	Sep 30, 2029	100.00	[ICRA]BB+(Stable)

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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