

January 12, 2024

Ps Toll Road Private Limited: Rating upgraded to [ICRA]C+

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Fund-based – Term loan	790.00	708.00	[ICRA]C+; upgraded from [ICRA]D
Long-term – Unallocated limits	-	82.00	[ICRA]C+; upgraded from [ICRA]D
Total	790.00	790.00	

*Instrument details are provided in Annexure-I

Rationale

The rating upgrade for PS Toll Road Private Limited (PSTRPL) considers the regularisation in debt servicing by the company from June 2023 onwards, aided by healthy toll collections and fund infusion cumulating to Rs. 115.6 crore from the sponsor (Reliance Infrastructure Limited, RInfra) during FY2023 to FY2024. The project's long established tolling track record of 13+ years, along with favourable location, on the Mumbai-Chennai stretch of the Golden Quadrilateral, offers strategic benefits to its operations, which is reflected in its healthy toll revenue of ~Rs. 408 crore and Rs. 288.2 crore for FY2023 and 8M FY2024, respectively, aided by a traffic growth of ~18% in FY2023.

The rating remains constrained by the prolonged delays in project completion and the ongoing dispute between PSTRPL and the National Highways Authority of India (NHAI, rated [ICRA] AAA(Stable)) over penalties for the delay in project completion and premium payable in line with the provisions of the Concession Agreement. The total claim amount by NHAI from the company stands at ~Rs. 2,973 crore as of September 2023 including claims related to non-payment of premium (and accrued interest) of ~Rs. 375 crore. PSTRPL has made counter claims of ~Rs. 2,581 crore, primarily pertaining to EPC contractor-related claims. Any crystallisation in this claim liability would have an adverse impact on its credit profile. The project achieved provisional completion on April 30, 2022 subject to completion of pending punch list works (of Rs. 184.9 crore) within ensuing 90/180 days (for punch list A and B respectively), though the same has been delayed due to challenges like unhindered right-of-way, rainfall and other local issues as per the lender's engineer report. The balance work outstanding was Rs. 106.09 crore as on September 30, 2023 with the management expecting to complete punch list A by January 31, 2024 before applying for final completion certificate. PSTRPL has applied for descoping of work pertaining to hindered stretches of land. Further, it is undertaking its first major maintenance expenditure, which is estimated at ~Rs. 70 crore (phased over FY2024 and FY2025). ICRA notes that although the company has maintained a debt service reserve account (DSRA) balance of Rs. 25.9 crore as on November 30, 2023, it is lower than the lenders' stipulated DSRA to cover succeeding three months' principal and interest obligations.

Notwithstanding the track record of toll collections, the project remains exposed to risks inherent in BOT (toll) road projects, including risks arising from political acceptability of rate hikes linked to WPI over the concession period and interest rate risk, given the floating nature of interest rates.

Key rating drivers and their description

Credit strengths

Operational nature of the project; established traffic and toll collection track record – PSTRPL has regularised its debt servicing from June 2023 onwards, supported by infusion of funds by the sponsor. The project, which has an operational track record of 13+ years, received provisional completion certificate on April 30, 2022, subject to completion of pending punch list

works within ensuing 90/180 days (for punch list A and B respectively). However, the balance work outstanding was Rs. 106.09 crore as on September 30, 2023. The management expects to complete work pertaining to punch list A by January 31, 2024 before applying for the final completion certificate. Toll collection for FY2023 and 8M FY2024 stood at ~Rs. 408 crore and Rs. 288.2 crore respectively. The project stretch is part of the Mumbai – Chennai stretch of the Golden Quadrilateral, connecting major cities of Pune, Kolhapur and Bangalore. It has witnessed a healthy YoY traffic growth of ~18% in FY2023. Traffic is majorly composed of cars (70%-75%) and buses/trucks (11%-13%). Traffic volumes are supported by major tourist attractions like Mahabaleshwar, Panchgani and Kas Pathaar near the stretch.

Credit challenges

Continued delays in project execution; exposed to residual execution risk – There have been prolonged delays in project execution for around a decade (original scheduled completion date was March 31, 2013). Till date, PSTRL has received NHAI's approval for extension of timeline for construction till December 31, 2015. ICRA notes that the Independent Engineer has recommended extension of time on multiple occasions. However, the same are yet to be approved by NHAI.

Sizeable contingent liability, primarily on account of claims filed by authority – The dispute between the company and NHAI over penalties for the delay and NHAI premium is subject to arbitration. The total claim amount by NHAI on the company stands at ~Rs. 2,973 crore as of September 2023 including claims related to non-payment of premium (and accrued interest) of ~Rs. 375 crore. PSTRL has made counter claims of ~Rs. 2,581 crore, primarily pertaining to EPC contractor-related claims. Any crystallisation in this claim liability would have an adverse impact on its credit profile. It has started paying premium in line with the provisions of the Concession Agreement, i.e., Rs. 14.57 crore per month for FY2024 only from October 2023 onwards (to be escalated by 5% annually). Any crystallisation of NHAI's claim liability would have an adverse impact on the company's credit profile.

Risks inherent to toll road projects and interest rate risk – The project remains 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. Moreover, it is vulnerable to 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. Further, the project's cash flows and profitability remain exposed to the interest rate risk due to the floating nature of the interest rate. ICRA notes that although company has maintained a DSRA balance of Rs. 25.9 crore as on November 30, 2023, it is lower than the lenders' stipulated DSRA to cover succeeding three months' principal and interest obligations.

Liquidity position: Stretched

The prolonged capital expenditure, coupled with suspension of toll collections in the past, has strained PSTRL's cash flows, necessitating dependence on sponsor support cumulating to ~Rs. 115.6 crore in FY2023 and FY2024. While toll collections are satisfactory to take care of the scheduled debt obligations and routine O&M expenses, any adverse outcome of the ongoing arbitration proceedings on claims and outstanding NHAI deferred premium could result in cash flow mismatches and remains a key monitorable. As on November 30, 2023, the free cash balance stood at ~Rs. 87 crore, which will be utilised towards pending capex as well as the ongoing MM activity.

Rating sensitivities

Positive factors – The rating could be upgraded on sustained and material improvement in debt coverage metrics and creation of stipulated reserves in line with lenders requirements. Moreover, improved clarity on outstanding NHAI premium payouts is also vital for rating upgrade.

Negative factors – Any weaker-than-expected toll collections resulting in weakening in debt coverage metrics and/or any unfavourable outcome on disputes with NHAI could lead to downward movement in ratings.

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 rating is based on the company's standalone financial statements.

About the company

Incorporated in February 2010, PSTPL is a special purpose vehicle promoted by RInfra. The erstwhile shareholding of 26% by Jiangsu Provincial Transportation Engineering Group Co. Ltd. (JTEG) was bought by RInfra in FY2023. The scope of work included widening of Pune - Satara stretch from four lanes to six lanes on design, build, finance, operate and transfer basis under NHDP Phase V in Maharashtra. The project is a part of NH-4 and starts at km 725.00 and ends at km 865.35 of NH-4 with a total length of about 140.35 km. The project was awarded by NHAI based on the highest premium quoted of Rs. 90.90 crore in the first year, i.e., from October 2010.

Key financial indicators (audited)

PSTRPL Standalone	FY2022	FY2023
OI (Rs. crore)	433.6	513.0
PAT (Rs. crore)	-185.7	-236.0
OPBDIT/OI (%)	42.1%	60.1%
PAT/OI (%)	-42.8%	-46.0%
Total outside liabilities/Tangible net worth (times)	2.8	3.8
Total debt/OPBDIT (times)	4.7	2.8
Interest coverage (times)	0.9	1.1

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

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Type	Current rating (FY2024)			Chronology of rating history for the past 3 years				
		Amount rated (Rs. crore)	Amount outstanding as on Sep 30, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021		
				Jan 12, 2024	Jan 12, 2023	Jan 18, 2022	Oct 19, 2020	Jun 25, 2020	Apr 06, 2020
1 Term loans	Long term	708.0	707.54	[ICRA]C+	[ICRA]D	[ICRA]D	[ICRA]D	[ICRA]B-@	[ICRA]B+ (Stable)
2 Unallocated limits	Long term	82.0	--	[ICRA]C+	-	-	-	-	-

@= Under Watch with Negative Implications

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term – Fund-based – Term loan	Simple
Long-term – Unallocated limits	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	FY2015	12.1%	FY2030	708.00	[ICRA]C+
NA	Unallocated limits	NA	NA	NA	82.00	[ICRA]C+

Source: Company

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

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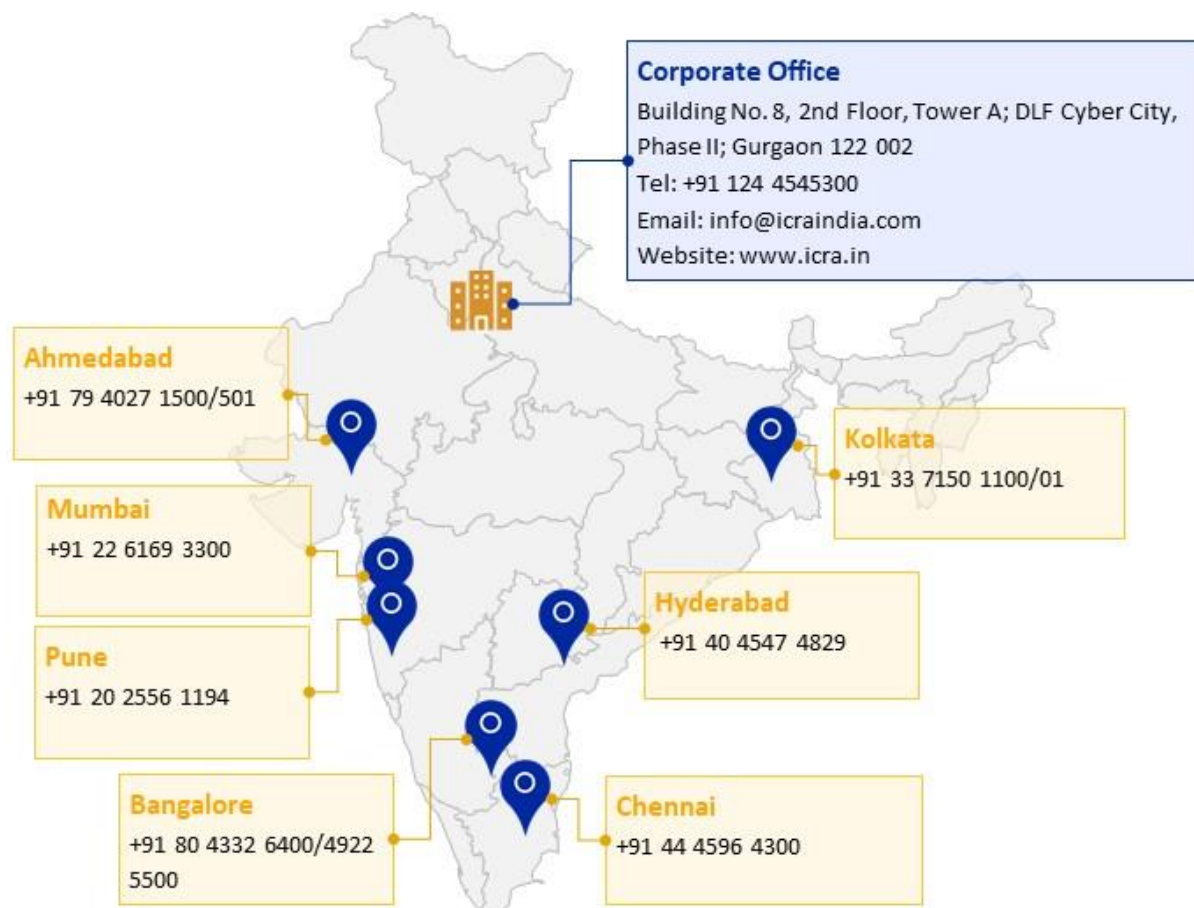


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