

February 29, 2024

Swarna Tollway Private Limited: Rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Non-convertible debentures (NCD)	73.98	58.50	[ICRA]AAA(Stable); reaffirmed
Total	73.98	58.50	

*Instrument details are provided in Annexure-I

Rationale

Swarna Tollway Private Limited (STPL) has two project stretches namely, Tada-Nellore stretch on the busy Chennai-Kolkata (CK) corridor (New NH-16, Old NH-5) that accounted for 75% of its toll collections in FY2023 and 9M FY2024 and Nandigama-Ibrahimpatnam (NI) stretch on the Hyderabad-Vijayawada corridor (New NH-65, Old NH-9) that contributed to the remaining 25%.

The rating reaffirmation for STPL continues to factor in the long operational track record of more than 19 years, favourable location, robust coverage metrics and presence of structural features. STPL recorded a compounded annual growth rate (CAGR) of 11.6% in toll revenues for the five-year period ending in FY2023. ICRA notes that toll collection growth has slightly moderated in FY2024 on account of floods and muted economic activity in the region; however, the current level of net operating cash flows, even without assuming any growth in traffic volumes over the debt instrument's tenure, are expected to remain robust to service the rated NCDs. The projected debt coverage indicators continue to remain robust, providing ample cushion for debt servicing in case of wide fluctuations in the toll collections. Further, structural features like escrow mechanism, cash flow waterfall, debt service reserve account (DSRA) equivalent to ensuing six months' principal repayments, operations and maintenance (O&M) reserve, major maintenance reserve (MMR), provision for cash trap provide credit support to the NCDs.

The rating factors in the inherent traffic risk present in toll-based projects, including risks associated with slowdown in traffic growth, development/improvement of alternative routes/modes and risk of toll leakages. There has been a shift of some commercial traffic from Nandigama-Ibrahimpatnam (NI) stretch potentially due to floods hampering traffic for few days in July 23 and probable shift to Suryapet – Devarapalle stretch which is expected to be fully completed in FY2026. However, the credit profile of the SPV is expected to remain strong – supported by superior liquidity and robust debt coverage metrics even after considering the above traffic shift. Consequently, the traffic growth on NI stretch, which account for 25% of the overall toll collection is likely to moderate in the medium term. Notwithstanding the expected moderation in toll collection growth rate, the credit profile is estimated to remain strong, supported by superior liquidity and robust debt coverage metrics. ICRA notes that the wholesale price index (WPI)-linked escalation in toll rates could limit the growth in toll collections during periods of low WPI rate. The current cycle of MM is expected to be completed in FY2025, and the company's ability to undertake routine and periodic maintenance within the budgeted levels will remain important.

ICRA takes note that Highways Infrastructure Trust (HIT), sponsored by Galaxy Investments II Pte. Ltd., an affiliate with funds, vehicles and/or entities managed and/or advised by affiliates of KKR & Co. Inc., has completed the takeover of STPL from its erstwhile sponsors, the Macquarie Group, on January 24, 2024. Also, STPL has taken extension of timeline for exercising Change of Control Call Option from the existing NCD holders till March 31, 2024.

The Stable outlook on STPL's rating reflects ICRA's opinion that the company will continue to benefit from its superior liquidity position and robust coverage metrics.

Key rating drivers and their description

Credit strengths

Long operational track record with established traffic; robust debt coverage indicators – The rating continues to factor in the favourable location and more than 19 years of operational track record of STPL's project stretches. STPL recorded a CAGR of 11.6% in toll revenues for the five-year period ending in FY2023. ICRA notes that toll collection growth has slightly moderated in FY2024 on account of floods and muted economic activity in the region; however, the current level of net operating cash flows, even without assuming any growth in traffic volumes over the debt instrument's tenure, are expected to remain robust to service the rated NCDs.. The strong DSCR provides ample cushion to absorb any wide fluctuations in collections.

Structural features provide credit support to NCDs – Structural features like escrow mechanism, cash flow waterfall, DSRA equivalent to ensuing six months' principal repayments, O&M reserve, MMR, provision for cash trap provide credit support to the NCDs.

Credit challenges

Risks inherent in BOT toll road projects; asset concentration risk – The rating factors in the inherent traffic risk present in toll-based projects, including risks associated with slowdown in traffic growth, development/improvement of alternative routes/modes and risk of toll leakages. There has been a shift of some commercial traffic from NI stretch potentially due to floods hampering traffic for few days in July 23 and probable shift to Suryapet – Devarapalle stretch which is expected to be fully completed in FY2026. However, the credit profile of the SPV is expected to remain strong – supported by superior liquidity and robust debt coverage metrics even after considering the above traffic shift. Notwithstanding the slowdown in toll collection growth rate, the credit profile is expected to remain solid, supported by superior liquidity and robust debt coverage metrics. ICRA notes that the WPI-linked escalation in toll rates could limit the growth in toll collections during periods of low WPI rate. STPL remains exposed to asset concentration risk, though two separate road stretches help to diversify the revenue stream and mitigate the risk to some extent.

Ensuring routine and major maintenance expense within budgeted levels – The fourth MM cycle has started and is expected to be completed in FY2025. While adequate provisions are being periodically created, the company's ability to complete the same within the budgeted levels and in a timely manner will remain important.

Liquidity position: Superior

The company's liquidity profile is superior, with aggregate reserves of Rs. 416.0 crore towards DSRA, major maintenance, O&M reserve and unencumbered cash balance as on December 31, 2023. The principal repayment obligation of Rs. 4.0 crore and Rs. 10.2 crore in Q4 FY2024 and FY2025, respectively, can be comfortably serviced through its estimated cash flow from operations.

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 substantially above the budgeted cost. Non-adherence to debt structure or any material increase in indebtedness, which could impact the coverage metrics, will also trigger a rating downgrade.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Roads - BOT Toll
Parent/Group support	Not Applicable
Consolidation/Standalone	Standalone

About the company

STPL is a special purpose vehicle (SPV), incorporated in May 2001, to construct Tada-Nellore and Nandigama-Ibrahimpattam stretch road project in Andhra Pradesh on a BOT toll basis. In July 2015, 70% of the equity stake in STPL was acquired by MAIF Investments India 3 Pte Limited (Macquarie Group Limited) and the remaining 30% was acquired by MAIF in December 2018 from the erstwhile sponsors. Highways Infrastructure Trust (HIT), an infrastructure investment trust (InvIT) owned by KKR, has taken over Swarna Tollway Private Limited (STPL) with effect from January 24, 2024.

Key financial indicators (audited)

STPL	FY2022	FY2023	9MFY2024*
Operating income	260.6	326.4	250.1
PAT	133.8	209.0	176.6
OPBDIT/OI	69.8%	75.0%	78.4%
PAT/OI	51.4%	64.0%	70.6%
Total outside liabilities/Tangible net worth (times)	0.4	0.3	0.2
Total debt/OPBDIT (times)	0.5	0.3	0.2
Interest coverage (times)	13.8	14.8	13.4

Source: Company, ICRA Research; * Provisional numbers; All ratios as per ICRA's calculations; Amount in Rs. crore;

Note: STPL 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 as on Dec 31, 2023 (Rs. crore)	Date & rating in FY2024		Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
					Feb 29, 2024	Aug 08, 2023			
1	NCD	Long term	58.5	58.5	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[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	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
INE963H07021	NCD	30-Jan-2018	8.5%	02-Apr-24	4.00	[ICRA]AAA(Stable)
INE963H07039	NCD	30-Jan-2018	8.5%	31- Mar-26	30.00	[ICRA]AAA(Stable)
INE963H07047	NCD	30-Jan-2018	8.5%	30-Jun-27	24.50	[ICRA]AAA(Stable)

Source: Company

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

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