

March 19, 2024

L&T Sambalpur-Rourkela Tollway Limited: Rating upgraded

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based – Term loans	773.34	725.49	[ICRA]A (Stable); Upgraded from [ICRA]A- (Stable)
Total	773.34	725.49	

*Instrument details are provided in Annexure I

Rationale

The rating upgrade favourably factors in the healthy growth in traffic and toll collections on the project stretch of L&T Sambalpur-Rourkela Tollway Limited (L&T SRTL), resulting in an improvement in cumulative debt service coverage (DSCR) of over 1.4 times. The toll collections witnessed a strong growth of 40% to Rs. 209.06 crore in FY2023 from Rs. 149 crore in FY2022, supported by healthy toll rate increase and rebound in major mineral (MM) vehicle traffic from H2 FY2023, primarily after the industrial plants in Jharsuguda region resumed procuring key raw materials from Basundhara mines in Sundargarh district, Odisha. Given the MM traffic is tolled at double rates, the growth in toll collection was relatively stronger compared to PCU growth of 6% in FY2023. The toll collections improved to Rs. 245 crore in 11M FY2024 (vs Rs. 186.52 crore in 11M FY2023) and is expected to cross Rs. 270 crore for FY2024. ICRA factors in the satisfactory operational performance with nearly six years of tolling track record and attractive location of the project stretch between Sambalpur and Rourkela (two prominent cities in Odisha) connecting various mineral rich areas in the region, coupled with no major alternative route risk. ICRA has taken note of the Larsen & Toubro Limited's (L&T, rated [ICRA]A1+) announcement of divesting its entire stake in L&T Infrastructure Development Projects Limited (IDPL), which is the parent entity of L&T SRTL. The rating takes comfort from the strong liquidity position with cash balances and liquid investments of Rs. 260 crore as on February 29, 2024, and the presence of structural features such as escrow mechanism, debt service reserve (DSR) in the form of fixed deposit equivalent to one quarter's debt servicing obligations, and reserves to be built for bullet payment at the end of the loan tenure.

The rating, however, is constrained by risks associated with a toll road project including the risk of slower traffic growth, traffic diversion/alternative route risk, inflation-linked toll rate increase, and users' willingness to accept toll rate hikes as well as regulatory risks including timely implementation of rate hikes. Further, the traffic on the project stretch is concentrated on MM (coal and iron ore) vehicles, which exposes it to the risk of any slowdown in mining activities as witnessed in the past. Delays in renewal of mine leases, transportation bottlenecks, or heavy monsoons hampering the road connecting the project stretch to the mines affected the MM-carrying traffic and collections in the past. The rating remains exposed to refinancing of bullet repayment due in April 2029. However, its strong financial flexibility arising from the long tail period (balance concession period post debt repayment of seven years) mitigate the risk to an extent. Further, the debt sanction involves provision to build reserve for bullet repayment, which mitigates this risk to an extent. L&T SRTL's cash flows are exposed to the interest rate risk, considering the floating interest rates of the project loan, and exposed to the risk of higher-than-estimated routine and periodic maintenance expenses due to higher wear and tear on account of high proportion of MM-carrying traffic, which can adversely impact its debt coverage metrics and remains a key rating monitorable.

The Stable outlook on the long-term rating reflects ICRA's expectation of healthy toll revenue growth and comfortable debt coverage metrics, driven by low alternative risk and steady traffic in the stretch.

Key rating drivers and their description

Credit strengths

Operational toll road project with nearly six years of track record – The company started collecting toll from March 13, 2018 and has a track record of nearly six years of toll collection on the project stretch. The project is a part of Odisha SH-10, which connects Sambalpur and Rourkela, the most prominent cities in Odisha. It provides connectivity to Jharsuguda and Sundargarh districts of the state. The road provides linkage to coal and iron ore mines from other industrial towns in Odisha and the neighbouring states. There is no major competitive road to the project stretch, which makes it the preferred stretch connecting Sambalpur and Rourkela.

Healthy growth in toll collections resulting in improved debt coverage metrics – The toll collections witnessed a strong growth of 40% to Rs. 209.06 crore in FY2023 from Rs. 149 crore in FY2022, supported by healthy toll rate increase and rebound of MM vehicle traffic from H2 FY2023, primarily after the industrial plants in Jharsuguda region resumed procuring raw materials from Basundhara mines in Sundargarh district, Odisha. The growth is supported by double toll rates on MM traffic on the project stretch. Further, the toll collections improved to Rs. 245 crore in 11M FY2024 (vs Rs. 186.52 crore in 11M FY2023) and is expected to cross Rs. 270 crore for FY2024. The healthy growth in the toll collections resulted in improvement in the debt coverage metrics, with cumulative DSCR improved to more than 1.4 times for the debt tenure.

Strong liquidity position, healthy financial flexibility and presence of structural features of the debt – The company has a strong liquidity position with cash and liquid balances of Rs. 260 crore as on February 29, 2024. L&T SRTL has healthy financial flexibility arising from the availability of a long tail period (balance concession period post debt repayment) of around seven years, which can be used to refinance the existing debt with longer tenure, if required. ICRA takes comfort from the presence of structural features such as cash flow escrow mechanism, DSR in the form of fixed deposit equivalent to around one quarter's debt servicing obligations, and reserves to be built for bullet payment at the end of the loan tenure.

Credit challenges

Dependence on major mineral mining traffic – The project road provides linkage to coal and iron ore mines from other industrial towns in Odisha and the neighbouring states. A major part of the commercial traffic using the stretch comprises vehicles carrying these minerals, which contributes to ~25% of the total traffic (in PCU terms). Given that these vehicles are charged double toll rates and have higher PCU factor, the MM vehicles account for a sizeable portion of the total revenue. Hence, any delays in renewal of mine leases, transportation bottlenecks, or heavy monsoons hampering the road connecting the project stretch to the mines may impact the MM-carrying traffic and thereby toll revenues.

High debt repayments towards end of loan tenure – The company remains exposed to refinancing risk due to bullet repayment in April 2029, wherein 18% of debt (adjusted for prepayment) falls due. However, ICRA takes comfort from the long tail period (balance concession period post debt repayment), which provides financial flexibility. Further, the debt sanction involves provision to build reserve for bullet repayment, which mitigates this risk to an extent.

Risks associated with toll road project – Like a typical toll road project, L&T SRTL is exposed to risks including user willingness to accept toll rate hikes, alternative route diversion, inflation-linked toll rates, and dependence of traffic growth on the economic activities in the region. Since the project has an operational track record of about three years, users' willingness to pay toll is established to an extent. Given the project is a state highway and is under concession from the state government authority, it remains exposed to higher regulatory risks like timely implementation of toll rate hike.

Liquidity position: Strong

The company's liquidity position remains strong, with cash balances and liquid investments of Rs. 260 crore as on February 29, 2024, which includes DSRA equivalent to three months' debt servicing obligation. It has a scheduled principal and interest obligation of ~Rs. 25.7 crore in Q4 FY2024 and ~Rs. 94.9 crore in FY2025, which can be comfortably serviced through its estimated cash flow from operations.

Rating sensitivities

Positive factors – The rating could be upgraded if there is an improvement in debt structure or substantial growth in toll collections resulting in an improvement in its cumulative DSCR to more than 1.6 times.

Negative factors – Pressure on L&T SRTL's rating could arise if there is a sharp decline in toll collection or substantial increase operations and maintenance (O&M) expenses resulting in weakening of coverage metrics. Increase in indebtedness or non-adherence to the debt structure could also result in rating downgrade.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology BOT Toll Road Projects
Parent/Group support	Not applicable
Consolidation/Standalone	The rating is based on the company's standalone financial profile.

About the company

L&T SRTL is a 100% subsidiary of L&T IDPL. It was incorporated in October 2013 as a special purpose vehicle (SPV) to implement four laning of Odisha's SH-10 from Sambalpur to Rourkela for a total length of 161.73 km. The project highway was constructed under the design-build-finance-operate-transfer (DBFOT) model under Odisha State Road Project (OSRP). The concession was granted to L&T SRTL for a period of 22 years from the appointed date, i.e., July 15, 2014. The provisional completion certificate was received on March 13, 2018 against the scheduled Commercial Operations Date (COD) of July 14, 2017. It has received the provisional completion certificate for the entire project stretch on August 12, 2019 and received the final COD, w.e.f., March 31, 2021.

Key financial indicators (audited)

L&T SRTL	FY2022	FY2023
Operating income	152.6	216.7
PAT	-24.7	29.2
OPBDITA/OI	69.7%	74.8%
PAT/OI	-16.2%	13.5%
Total outside liabilities/Tangible net worth (times)	8.7	6.5
Total debt/OPBDITA (times)	7.5	4.6
Interest coverage (times)	1.3	2.2

PAT: Profit after tax; OPBDITA: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs. crore

Note: The company follows IndAS and the coverage ratios are not representative of the 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 March 11, 2024 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
					March 19, 2024	December 6, 2022	Sep 16, 2021	Jul 24, 2020
1	Term loan	Long-term	725.49	725.49	[ICRA]A (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)

Complexity level of the rated instruments

Instrument	Complexity Indicator
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	FY2015	NA	FY2030	725.49	[ICRA]A (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

ANALYST CONTACTS

Rajeshwar Burla
+91 40 6939 6443
rajeshwar.burla@icraindia.com

Ashish Modani
+91 20 6606 9912
ashish.modani@icraindia.com

Vinay Kumar G
+91 40 6939 6424
vinay.g@icraindia.co.in

Vamshi Kinnera
+91 40 6939 6420
vamshi.kinnera@icraindia.com

RELATIONSHIP CONTACT

L Shivakumar
+91 22 6114 3406
shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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.

For more information, visit www.icra.in

ICRA Limited



Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45



Branches



© Copyright, 2024 ICRA Limited. All Rights Reserved.

Contents may be used freely with due acknowledgement to ICRA.

ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website www.icra.in or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents.