

March 27, 2024

Roadstar Infra Investment Trust: [ICRA]BBB+ (Stable) assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Issuer rating	Nil	[ICRA]BBB+ (Stable); assigned
Total	Nil	

*Instrument details are provided in Annexure-I

Rationale

ICRA has assigned [ICRA]BBB+ (pronounced as ICRA triple B plus) rating to Roadstar Infra Investment Trust (RIIT/the Trust/ the InvIT). The rating assigned by ICRA is not a comment on the ability of the InvIT to meet distribution/dividend payouts to unitholders/investors, neither should it be construed as an opinion on the debt servicing ability of the individual special purpose vehicles (SPVs) held by the InvIT.

ICRA has undertaken a consolidated financial analysis of RIIT and its six underlying SPVs, including one which is in the process of transfer to InvIT. Of the six assets, four are under the National Highway Authority of India (NHAI) concession framework (three toll and one annuity), one toll asset under The Ministry of Road Transport and Highways (MORTH) and one annuity project from Kerala Road Fund Board (KRFB). The four toll road projects are Pune Sholapur Road Development Company Limited (PSRDCL), Moradabad Bareilly Expressway Limited (MBEL), Sikar Bikaner Highway Limited (SBHL) and Barwa Adda Expressway Limited (BAEL) and two annuity road projects are Hazaribagh Ranchi Expressway Limited (HREL) and Thiruvananthapuram Road Development Company Limited (TRDCL). All the assets are operational, except BAEL, which is, 85% completed as of November 2023 and is tolled during construction. Moreover, SBHL is yet to receive the final COD, pending punch-list item completion and certification from the authority. RIIT will hold 100% equity stake in MBEL¹, SBHL, BAEL² and 90.01% in PSRDCL, 99.90% in HREL and 50% in TRDCL.

The rating derives comfort from the average toll collection track record of 9.6 years for RIIT's operational toll road projects and track record of 22 semi-annuity receipts for the annuity project. The toll collections for the RIIT portfolio recorded a CAGR of 11.5% during FY2018-2023, driven by 4.4% CAGR in traffic and ~7% CAGR toll rate hike. In 9M FY2024, the average daily toll collections witnessed a YoY growth of 5.4%. ICRA expects the consolidated toll collections for RIIT to witness a moderate growth of 5%-7% in FY2024e and FY2025e respectively, supported by the traffic growth of ~4%. The asset portfolio is geographically spread across six states viz. Maharashtra, Rajasthan, Uttar Pradesh, West Bengal, Jharkhand and Kerala, with top three geographies contributing to 73% to operating income in FY2023. The rating considers the InvIT's moderate financial risk profile with a projected average debt servicing coverage ratio (DSCR) of ~1.6 times as per ICRA's estimates. The project SPVs maintain a three-month debt service reserve account (DSRA). The rating further draws comfort from the SEBI InvIT regulations that restrict the aggregate consolidated borrowings and deferred payments for the InvIT and its SPVs, thereby limiting the leverage that can be undertaken by the Trust. ICRA draws comfort from the management's guidance of leverage to remain below 49% of loan-to-value (LTV), thereby supporting RIIT's credit profile. The rating positively factors in the benefits of cash flow pooling for the SPVs and the Trust, which ensures that the cash flows of all the SPVs are available for meeting the regular and periodic maintenance expenses and debt servicing of the SPVs and the Trust. However, ICRA notes that the

¹ 14.5% stake is currently held by IL&FS Transportation Networks Limited (ITNL), which will be transferred to RIIT prior to listing of RIIT.

² The asset will be transferred post implementation of the resolution plan by the project lenders and approval of Harmonious Substitution by NHAI

restricted payment condition stipulated by various lenders under each SPVs restricts payment of surplus to trust to the extent of repayment of RIIT sub-debt.

ICRA notes the change in unitholding pattern of the InvIT that would be effective from the date of listing of InvIT. The Trust is currently held by IL&FS Group³. However, on the day of listing, 15% of the total units will be transferred to Roadstar Infra Private Limited (RIPL, a wholly-owned subsidiary of ITNL), while the balance 85% will be distributed among the creditors of the IL&FS Group. Given that ITNL does not meet the criteria for being a sponsor⁴ and thus, RIPL would be the sponsor⁵ for RIIT.

The rating is constrained as RIIT remains exposed to risks inherent in toll road projects, including those arising from cyclicity in traffic growth, inflation-linked toll rate increase, risk of political acceptability of rate hikes over the concession period, the likelihood of toll leakages, development or improvement of alternative routes or alternate modes of transportation. ICRA notes that there is an upcoming alternative route for two largest⁶ SPVs viz. MBEL and BAEL, which is expected to lead to traffic diversion in the medium term. Ganga Expressway, which is estimated to be operational by December 2024, would affect the traffic on MBEL during FY2025-FY2026. The Ranchi-Kolkata section of Varanasi-Ranchi-Kolkata Expressway, once completed (expected by FY2031), would impact the traffic on BAEL project stretch in the long term. Further, the cash flows remain exposed to risk of delayed receipt and deductions of annuities, as has been consistently seen in the case of TRDCL and HREL. Any higher-than-expected reduction in traffic or material delay / deduction in annuities, as seen in the past, could have an adverse impact on the debt coverage indicators and thus will remain a key monitorable.

ICRA notes that the most of these SPVs are coming out of stress period⁷, wherein the lenders have suffered NPV loss, though there has been no haircut taken on the principal amount during the resolution plans of these assets. As a part of resolution plan, the lenders have relinquished their right to recompense in the future. Also, ICRA takes note of acquisition philosophy of RIIT, wherein stressed assets are moved to InvIT only after approval from all lenders for implementation of resolution plan.

The rating factors in the inadequate maintenance track record of project SPVs under RIIT on account of unavailability of funds in the past, due to their accounts being frozen and withdrawal restrictions imposed by NCLT. Consequently, the Concessions Authority had levied penalties amounting to ~Rs. 83 crore⁸ on account of poor maintenance of the stretches and delay in undertaking major maintenance (MM), in numerous instances across SPVs in the past. The inadequate maintenance in the past is expected to result in higher catch-up maintenance requirement. Further, any material deduction of annuities and / or higher outflows on account operations and maintenance (O&M) activities, as seen in the past, could adversely impact the coverage metrics. All the SPVs have entered into a fixed-price contract for the entire concession period with Elsamex Maintenance Services Limited (EMSL) for carrying out O&M activities. MM reserves are not consistently maintained across all the assets, and hence the SPV's ability to maintain adequate liquidity cushion to undertake the MM activity, in a timely manner, over the concession periods remain critical from the credit perspective. Given that most of these SPVs has track record of penalty/deductions, the SPV's ability to demonstrate a track-record of operating the assets without any adverse observation/penalty/deduction from authority and within the budgeted cost remains a key rating driver going forward. Any material adverse observation from authority/IE or penalty/deduction from authority will be a credit negative. ICRA takes note

³ ITNL hold 57.76% stake, 23.66% is with Infrastructure Leasing & Financial Services Limited (IL&FS), 10.69% with IL&FS Financial Services Limited, and 7.89% with other group entities of IL&FS.

⁴ ITNL is disqualified as fit and proper person to qualify for being a sponsor due to pending chargesheet by enforcement agency on account of economic offences and being categorized as wilful defaulter.

⁵ RIIT has applied for exemptions to SEBI to exclude IL&FS Group Companies for considering the fit and proper person criteria for sponsor group.

⁶ In terms of contribution to cashflow available for debt servicing (CFADS)

⁷ Four out of six assets have undergone resolution plan under Circular no. 'BP.BC.45/21.04.048/2018-19 dated June 07, 2019 of Reserve Bank of India', of which two were implemented in last three months period, with plan yet to be implemented for BAEL.

⁸ ~Rs.34 crore has already been paid and the balance ~Rs.49 crore is under litigation.

of outstanding contingent liability of Rs. 329.3 crore across the portfolio as on September 30, 2024. Any crystallisation of the same would adversely impact the cashflows and thus will remain a key monitorable.

ICRA notes that the RIIT, like any other InvIT, remains exposed to the risks associated with any further asset acquisition, which could materially impact its operational and financial risk profile. If the InvIT acquires any other asset or raises additional debt in future, ICRA will at that juncture, evaluate the effect of the same on the rating. Also, any regulatory changes that can affect its financial risk profile will remain a monitorable. Nonetheless, ICRA takes note of the management's guidance to keep overall leverage below 49% and deploy inflows from the ongoing arbitration, if any, towards deleveraging going forward.

The Stable outlook on the rating reflects ICRA's expectation that the Trust will continue to benefit from the healthy growth in toll collections for its portfolio assets in the medium term, adequate debt coverage metrics, and moderate leverage profile.

Key rating drivers and their description

Credit strengths

Road projects with operational track record, spread across six states – The rating derives comfort from the average toll collection track record of 9.6 years for RIIT's operational toll road projects, with a track record of 22 semi-annuity receipts for the annuity project. The toll collections for the RIIT portfolio recorded a CAGR of 11.5% during FY2018-2023, driven by 4.4% CAGR in traffic and ~7% CAGR toll rate hike. In 9M FY2024, the average daily toll collections witnessed a YoY growth of 5.4%. ICRA expects the consolidated toll collections for RIIT to witness a moderate growth of 5%-7% in FY2024e and FY2025e, respectively, supported by the traffic growth of ~4%. The asset portfolio is geographically spread across six states viz. Maharashtra, Rajasthan, Uttar Pradesh, West Bengal, Jharkhand and Kerala, with top three geographies contributing to 73% to operating income in FY2023.

Moderate financial profile and adequate debt structure, with cash pooling benefit of InvIT – The rating considers the InvIT's moderate financial risk profile with a projected average DSCR of ~1.6 times as per ICRA's estimates. The project SPVs maintain a three-month DSRA. The rating further draws comfort from the SEBI InvIT regulations that restrict the aggregate consolidated borrowings and deferred payments for the InvIT and its SPVs, thereby limiting the leverage that can be undertaken by the Trust. ICRA draws comfort from the management's guidance of leverage to remain below 49% of loan-to-value (LTV), thereby supporting RIIT's credit profile. The rating positively factors in the benefits of cash flow pooling for the SPVs and the Trust, which ensures that the cash flows of all the SPVs are available for meeting the regular and periodic maintenance expenses and debt servicing of the SPVs and the Trust. However, ICRA notes that the restricted payment condition stipulated by various lenders under each SPVs restricts payment of surplus to the Trust to the extent of repayment of RIIT sub-debt.

Credit challenges

Risks inherent in BOT toll road and annuity projects – RIIT remains exposed to risks inherent in toll road projects, including those arising from cyclicalities in traffic growth, inflation-linked toll rate increase, risk of political acceptability of rate hikes over the concession period, the likelihood of toll leakages, development or improvement of alternative routes or alternate modes of transportation. ICRA notes that there is an upcoming alternative route for two largest⁹ SPVs viz. MBEL and BAEL, which is expected to lead to traffic diversion in the medium term. Ganga Expressway, which is estimated to be operational by December 2024, would impact the traffic on MBEL project stretch during FY2025-FY2026. The Ranchi-Kolkata section of Varanasi-Ranchi-Kolkata Expressway, once completed (expected by FY2031), would affect the traffic on BAEL project stretch in the long term. Further, the cash flows remain exposed to risk of delayed receipt and deductions of annuities, as has been consistently seen in the case of TRDCL and HREL. Any higher-than-expected reduction in traffic or material delay / deduction in annuities, as seen in the past, could have an adverse impact on the debt coverage indicators and thus will remain a key monitorable.

⁹ In terms of contribution to cash flow available for debt servicing (CFADS)

Undertaking regular and periodic maintenance/capex within budgeted cost and to the satisfaction of the authority – There has been inadequate maintenance track record of the project SPVs under RIIT on account of unavailability of funds in the past, due to their accounts being frozen and withdrawal restrictions imposed by NCLT. Consequently, the Concessional Authority levied penalties worth ~Rs. 83 crore¹⁰ on account of poor maintenance of the stretches and delay in undertaking major maintenance (MM), in numerous instances across SPVs in the past. The inadequate maintenance in the past is expected to result in higher catch-up maintenance requirement. Further, any material deduction of annuities and / or higher outflows on account O&M activities, as seen in the past, could adversely impact the coverage metrics. All the SPVs have entered into a fixed-price contract for the entire concession period with EMSL for carrying out the O&M activities. ICRA notes that MM reserves are not consistently maintained across all the assets, and hence the SPVs ability to maintain adequate liquidity cushion to undertake the MM activity in a timely manner over the concession periods remain critical from the credit perspective. Given that most of these SPVs has track record of penalty/deductions, the SPVs ability to demonstrate a track record of operating the assets without any adverse observation/penalty/deduction from authority and within the budgeted cost remains a key rating driver going forward. Any material adverse observation from authority/IE or penalty/deduction from authority will be a credit negative. ICRA takes note of the outstanding contingent liability of Rs. 329.3 crore across the portfolio as on September 30, 2024. Any crystallisation of the same would adversely impact the cashflows and thus will remain a key monitorable.

Risk of further asset acquisition by Trust and its funding pattern – RIIT, like any other InvIT, remains exposed to the risks associated with any further asset acquisition, which could materially impact its operational and financial risk profile. If the InvIT acquires any other asset or raises additional debt in future, ICRA will at that juncture, evaluate the impact of the same on the rating. Also, any regulatory changes that can affect its financial risk profile will remain monitorable. Nonetheless, ICRA takes note of the management's guidance to keep the overall leverage below 49% and deploy inflows from ongoing arbitration, if any, towards deleveraging going forward.

Liquidity position: Adequate

RIIT's liquidity position is adequate, as reflected in unencumbered cash and bank balance of Rs. 280 crore as on September 30, 2023. The liquidity position is expected to remain adequate with toll collections and annuity receipts to comfortably meet the operational expenses and debt servicing requirement. ICRA also notes that MM reserves are not consistently maintained across all the assets, and hence the SPV's ability to maintain adequate liquidity cushion to undertake the MM activity in timely manner over the concession periods remain critical from the credit perspective. The consolidated annual principal debt repayment is estimated to be at Rs. 417 crore, Rs. 280 crore and Rs. 270 crore for FY2024, FY2025, FY2026, respectively, which can be serviced from the operational cash flows.

Rating sensitivities

Positive factors – ICRA could upgrade the rating if higher-than-anticipated toll collections or any material reduction in leverage through arbitration proceeds results in significant improvement in average DSCR over the debt tenure. Further, timely completion of catch-up maintenance to the satisfaction of the competent authority remains important for a positive rating action.

Negative factors – Negative pressure on the rating could arise if lower-than-anticipated toll collections or higher-than-budgeted O&M costs result in deterioration of coverage metrics. Further, any material increase in leverage, or crystallisation of any contingent liabilities or penalties by authority could exert pressure on the rating. The rating may be downgraded if there is any non-adherence to the debt structure. Specific metrics include average DSCR over the debt tenure falling below 1.5 times on a sustained basis.

¹⁰ ~Rs.34 crore has already been paid and the balance ~Rs.49 crore is under litigation.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	<ul style="list-style-type: none"> - Corporate Credit Rating Methodology - Rating Methodology for Infrastructure Investment Trusts (InvITs) - Rating Methodology for BOT (Toll) Roads - Rating Methodology for - BOT (Annuity) Roads
Parent/Group support	Not Applicable
Consolidation/Standalone	The rating is based on the consolidated financial statements of the RIIT (list of entities given below)

About the Trust

RIIT is an irrevocable Trust set up under the Indian Trusts Act, 1882 and registered with the Securities and Exchange Board of India (SEBI) as an Infrastructure Investment Trust under the SEBI (Infrastructure Investment Trusts) Regulations, 2014, as amended. RIPL, a subsidiary of ITNL, is its sponsor, while the investment manager of the Trust is Roadstar Investment Managers Limited. RIIT's project manager is Elsamex Maintenance Services Ltd. and the trustee is Axis Trustee Services Limited.

At present, there are three toll road projects viz. Pune Sholapur Road Development Company Limited (PSRDCL), Moradabad Bareilly Expressway Limited (MBEL), Sikar Bikaner Highway Limited (SBHL) and two annuity road projects [namely Hazaribagh Ranchi Expressway Limited (HREL) and Thiruvananthapuram Road Development Company Limited (TRDCL)]. RIIT is in the process of acquiring a sixth asset namely Barwa Adda Expressway Limited (BAEL), which is under tolling and construction phase.

Key financial indicators (audited)

RIIT - Consolidated	FY2022	FY2023
Operating income	78.0	433.6
PAT	-17.4	-115.8
OPBDIT/OI	83.0%	61.0%
PAT/OI	-22.3%	-26.7%
Total outside liabilities/Tangible net worth (times)	0.9	0.9
Total debt/OPBDIT (times)	30.6	8.3
Interest coverage (times)	1.4	1.3

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

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

Note: RIIT 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	Type	Amount rated (Rs. crore)	Current rating (FY2024)		Chronology of rating history for the past 3 years		
			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
1	Issuer rating	Long term	-	Mar 27, 2024	-	-	-
				[ICRA]BBB+ (Stable)	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Issuer rating	Not Applicable

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	Issuer rating	NA	NA	NA	-	[ICRA]BBB+ (Stable)

Source: Company

Annexure II: List of entities considered for consolidated analysis

Company Name	RIIT Ownership	Consolidation Approach
Hazaribagh Ranchi Expressway Limited (HREL)	99.9%	Full Consolidation
Pune Sholapur Road Development Company Limited (PSRDCL)	90.01%	Full Consolidation
Moradabad Bareilly Expressway Limited (MBEL)	85.5%	Full Consolidation
Sikar Bikaner Highway Limited (SBHL)	100%	Full Consolidation
Thiruvananthapuram Road Development Company Limited (TRDCL)	50%	Full Consolidation
Barwa Adda Expressway Limited (BAEL)	~*	Full Consolidation

Source: Company

* RIIT is in the process of acquiring 100% stake.

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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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Branches



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