

Gujarat Road and Infrastructure Company Limited

February 02, 2018

Summary of rated instruments

Instrument	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Non-convertible Debentures	300.00	300.00	[ICRA]AAA (SO) reaffirmed; Watch with developing implications has been removed and Stable outlook has been assigned
Total	300.00	300.00	

Rating action:

ICRA has reaffirmed the rating of [ICRA]AAA(SO) assigned to the Rs. 300.00 crore¹non-convertible debenture (NCD) programme of Gujarat Road and Infrastructure Company Limited (GRICL)². ICRA has removed 'rating watch with developing implications' and has assigned a Stable outlook for the long-term rating.

Rationale:

GRICL operates two state highways namely Vadodara Halol and Ahmedabad Mehsana stretches in Gujarat. On July 30, 2016, Government of Gujarat (GoG) announced toll exemption for cars, small private vehicles and state transport buses on state highways w.e.f. August 15, 2016. ICRA had placed GRICL's rating 'on watch with developing implications' due to insufficient clarity on the GOG's compensation mechanism – in terms of quantum and timeliness of payments.

The Roads & Building (R&B) department, Gujarat, appointed a four-member committee comprising one nominee from GRICL, chief engineer from Policy & Planning Department, officer on special duty to R&B department and financial advisor from R&B department to arrive at the formula for reimbursement. In the first committee meeting dated May 2017, the Government had asked for traffic data pertaining to the vehicles under the exempt categories which has been provided by GRICL. In the second committee meeting dated November 2017, the committee asked for traffic data based on vehicle registration numbers. GRICL has conducted traffic study for this and is expected to submit the data in the next committee meeting scheduled in February 2018.

For the period between August 15, 2016 and December 31, 2017, GRICL has raised compensation claim based on the traffic count as per the Automatic Vehicle Counter cum Classifier (AVCC) installed at the toll plazas. Large portion of the exempted traffic which was earlier using the toll-free service lane, started using the main carriageway post exemption resulting in higher 2,3-wheeler and passenger vehicles. Till date, the company received adhoc compensation of Rs. 50.31 crore from GoG through eleven cheques. The current monthly compensation from GOG stands at Rs. 3.35 crore; GRICL received eight cheques during current financial year – upto November 2017 has been cleared as on January 2018 – with a lag of 30 - 60 days. While the formula for compensation is yet to be determined by the committee; the streamlining of the payment mechanism is a comforting factor. The current toll collections including adhoc compensation is in line with one of the stress scenarios assumed by ICRA at the time of initial exercise. Following regular payments from GoG and healthy traffic growth trends (adjusted for exempted categories), ICRA removed the rating watch with developing

¹100 lakh = 1 crore = 10 million

²For complete rating scale and definitions, please refer ICRA's website (www.icra.in) or other ICRA Rating Publications

implications and assigned a Stable outlook for the long-term rating. Even without compensation from GoG, the projected DSCR continues to remain strong.

Furthermore, GRICL has raised claims worth Rs.4.78 crore (Rs.3.35 crore for Ahmedabad–Mehsana and Rs.1.43 crore for Vadodara–Halol) as revenue loss because of its inability to collect toll from November 15 to December 2, 2016, following the demonetisation announcement. GRICL is yet to receive response from GoG on demonetisation claims. GRICL had also claimed insurance for this loss.

The maintenance expense during current year is expected to be higher by Rs. 5-6 crore owing to damage to parts of main carriageway on Ahmedabad-Mehsana stretch. The company intends to claim insurance reimbursement for additional expenses. However, ICRA has built in sufficient cushion in its assumptions for O&M expenses and the current year expenses are in line with ICRA's projections. Although the wear and tear on account of 2,3-wheeler and passenger vehicles is miniscule (Vehicle damage factor (VDF) which is one of the key inputs to determine wear and tear is considered only for vehicles with 2-axle and above categories); ICRA has tested its most stressed case scenario for a 10% increase in routine O&M expenses as large portion of the exempted traffic which was earlier using the toll-free service lane, started using the main carriageway post exemption resulting in higher 2,3-wheeler and passenger vehicles. The projected coverage indicators remain robust even in this case.

As on December 31, 2017, the liquidity position of GRICL remains comfortable. The company has unencumbered cash balance of Rs. 37.54 crore in addition to Rs. 25 crore of DSRA and Rs. 15 crore of major maintenance reserve.

GRICL's management expects the formula for reimbursement to get finalized by end of FY2018. ICRA will continue to monitor the developments and would keep the investors updated on the implication of the same on the credit profile of the company.

Going forward, trend in traffic growth rate, the movement in CPI (for toll rate hike) and the level of expenditure towards major maintenance will remain the key rating sensitivity. This apart, the ability of the company to get timely reimbursements from GoG once the compensation formula gets finalized will also be closely monitored.

Outlook: Stable

Following regular payments from GoG and healthy traffic growth trends (adjusted for exempted categories), ICRA removed the rating watch with developing implications and assigned a Stable outlook for the long-term rating.

Key rating drivers

Credit strengths

Long operational track record: Operational track record of more than fifteen years in case of Vadodara Halol and around thirteen years in case of Ahmedabad Mehana stretches eliminates construction risk.

Robust coverage indicators: Strong coverage indicators providing ample cushion for debt servicing in the event of wide fluctuations in toll collections.

Strong profile of the sponsors: The rating takes support from the strong profile of the sponsors – MAIF Investments India Pte Limited (MAIF), IL&FS Transportation Networks Limited (ITNL rated [ICRA]A(Negative)) and Government of Gujarat (GoG).

Return on investment linked concession period: The concession period could get extended to 2040 resulting in high tail period of 10 years, thus providing it financial flexibility.

Presence of structural features provides credit support to NCDs: The presence of liquidity support in the form of DSRA of Rs. 25 crore, along with other features like MMR and cash trap trigger provide credit support to the rated NCDs. The

company also has healthy liquidity as reflected in its unencumbered liquid surplus of ~Rs. 37.54 crore as on December 31, 2017.

Credit Challenges

Toll exemption for few vehicle categories: Exemption for certain vehicle categories has resulted in dependence on GoG for timely and adequate compensation of loss. While the formula for compensation is yet to be finalised; the streamlining of the adhoc payment mechanism is a comforting factor.

Revenues dependent on GDP growth and movement in CPI: Prospects linked to GDP growth (due to the correlation of GDP growth with traffic growth rates) and movement in consumer price index (CPI, for toll rate hike); reduction in either of them will have an adverse impact on toll collections.

Volatility in traffic growth for Vadodara Halol: Vadodara Halol which accounts for around 35% of total toll collections had witnessed volatility in traffic with traffic declining in few years

Ensuring operating expenses within budgeted levels: Absence of pre-defined major maintenance schedule would mean periodic maintenance on need basis which results in volatility in operating expenses as witnessed in sudden increases in operations and maintenance (O&M) costs in the past. Ability of the company to manage routine and major maintenance expenses within the budgeted levels remains critical

Analytical approach:

The issuer is an SPV with toll collections being the single key source of revenue for meeting the debt service obligations. ICRA notes that the toll collections are strongly linked with GDP growth (due to the correlation of GDP growth with commercial traffic growth rates) and movement in CPI (for toll rate hike); any reduction in either of them will have an adverse impact on toll collections. Thus, in assessing the adequacy of cashflows for meeting the debt service obligations, the key variables are the toll collections which is a function of traffic and toll rates linked to CPI and the O&M expenses (both regular as well as periodic). Also, the NCD covenants ensure that the company will not raise any further external debt.

ICRA's assumptions on expenses towards O&M and major maintenance are based on empirical per-kilometer costs observed in other similar road projects; additionally, the assumptions have adequate in-built buffers to account for expected rise in expenses (owing to inflation) as well as unexpected increases in expenses to a certain degree. Additionally, structural features like creation of DSRA and major maintenance reserve lend further comfort.

Links to applicable criteria:

[Rating Methodology for toll road projects](#)

[Approach for rating debt instruments supported by structural features \(Non-securitized transactions\)](#)

About the company:

GRICL is promoted by IL&FS Transportation Networks Limited (ITNL) (26.80%), MAIF Investments India Pte Limited (MAIF) (56.80%) and Government of Gujarat (16.40%) for strengthening and four-laning of 31.7 km long Vadodara-Halol and 51.6 km long Ahmedabad-Mehsana stretches. These road stretches are part of the first set of state road highway projects developed in the country on Build, Own, Operate and Transfer (BOOT) model. The total project cost was Rs. 514.88 crore which was funded through Rs.297 crore of debt and Rs.217.88 crore of equity. The Vadodara Halol stretch commenced operations from October 24, 2000 while Ahmedabad Mehansana achieved COD on February 20, 2003.

Key financial indicators

	FY2016	FY2017	H1 FY2018^
Operating Income (Rs. crore)	130.23	147.04	70.87
PAT (Rs. crore)	0.99	28.51	20.38
OPBDIT/ OI (%)	72.08%	70.59%	70.30%
RoCE (%)	17.26%	17.50%	17.48%
Total Debt/ TNW (times)	2.60	2.22	2.15
Total Debt/ OPBDIT (times)	4.49	3.65	3.68
Interest Coverage (times)	1.05	1.81	3.66
Liquid Reserves (Rs. crore) *	107.73	84.44	115.67

Source: GRICL and ICRA research: Operating Income; PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; ROCE: PBIT/Avg (Total Debt + Tangible Net-Worth + Deferred Tax Liability - Capital Work - in Progress); NWC: Net Working Capital

*Liquid Reserves include cash and cash equivalents, investments in mutual funds, DSRA and MMR

^Unaudited financials

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

Instrument	Type	Current Rating (FY2018)		Chronology of Rating History for the past 3 years					
		Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating	Date & Rating in FY2018	Date & Rating in FY2017		Date & Rating in FY2016	
NCD	Long Term	300	280	Feb-18 [ICRA]AAA (SO) (Stable)	May-17 [ICRA]AAA (SO) rating watch with developing implications	Aug-16 [ICRA]AAA (SO) rating watch with developing implications	May-16 [ICRA]AAA(SO)(Stable)	Apr-16 Provisional [ICRA]AAA(SO) (Stable)	-

Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1: Instrument Details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
INE354H07049	NCD	13-Apr-16	9.00%	31-Mar-18	20	[ICRA]AAA(SO)(Stable)
INE354H07056	NCD	13-Apr-16	9.00%	31-Mar-19	25	[ICRA]AAA(SO)(Stable)
INE354H07064	NCD	13-Apr-16	9.00%	31-Mar-20	25	[ICRA]AAA(SO)(Stable)
INE354H07072	NCD	13-Apr-16	9.00%	31-Mar-21	25	[ICRA]AAA(SO)(Stable)
INE354H07080	NCD	13-Apr-16	9.00%	31-Mar-22	25	[ICRA]AAA(SO)(Stable)
INE354H07098	NCD	13-Apr-16	9.00%	31-Mar-23	25	[ICRA]AAA(SO)(Stable)
INE354H07106	NCD	13-Apr-16	9.00%	31-Mar-24	25	[ICRA]AAA(SO)(Stable)
INE354H07114	NCD	13-Apr-16	9.00%	31-Mar-25	25	[ICRA]AAA(SO)(Stable)
INE354H07122	NCD	13-Apr-16	9.00%	31-Mar-26	25	[ICRA]AAA(SO)(Stable)
INE354H07130	NCD	13-Apr-16	9.00%	31-Mar-27	15	[ICRA]AAA(SO)(Stable)
INE354H07148	NCD	13-Apr-16	9.00%	31-Mar-28	15	[ICRA]AAA(SO)(Stable)
INE354H07155	NCD	13-Apr-16	9.00%	31-Mar-29	15	[ICRA]AAA(SO)(Stable)
INE354H07163	NCD	13-Apr-16	9.00%	31-Mar-30	15	[ICRA]AAA(SO)(Stable)

Source: GRICL

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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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