

October 10, 2022

## Jadcherla Expressways Private Limited: Rating reaffirmed

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Fund-based TL	60.32	30.21	[ICRA]AA- (Stable); Reaffirmed
Long-term – Unallocated	54.05	31.05	[ICRA]AA- (Stable); Reaffirmed
<b>Total</b>	<b>114.37</b>	<b>61.26</b>	

\*Instrument details are provided in Annexure I

### Rationale

The rating reaffirmation considers the long operational track record of Jadcherla Expressway Private Limited's (JEPL) project stretch, which is a part of the busy Hyderabad-Bengaluru National Highway (NH-44) with a tolling track record of more than 13 years. The stretch has witnessed a CAGR of 6.1% in the passenger car unit (PCU) terms from FY2012 to FY2022. Further, the year-on-year (YoY) traffic improvement of 19.5% (PCU terms) in FY2022, coupled with 7.8% increase in toll rates from September 2021 resulted in growth in toll revenues to Rs. 130.76 crore in FY2022. The toll collections are expected to grow by more than 20% in FY2023, driven by improved traffic, low base of Q1 FY2022 because of Covid 2.0 restrictions and a 14.5% increase in toll rates from September 2022. The rating notes the comfortable projected debt coverage indicators and strong liquidity position with an unencumbered liquid surplus of Rs. 170.80 crore as on August 31, 2022.

The rating draws comfort from the presence of structural features such as creation of a major maintenance reserve (MMR) for the planned major maintenance (MM) expenditure and debt servicing reserve account (DSRA) equivalent to one quarter's principal and interest (P+I) payments, and a restricted payment mechanism for any withdrawals by the promoters, subject to meeting certain criteria, which provide credit support to the rated loans. Further, the lenders have the right to sweep in up to 35% of the surplus in case of any withdrawal beyond Rs. 12.0 crore per year by the promoter. The company is scheduled to repay its entire debt obligation by June 2023, and the project has a tail period of three years, resulting in a healthy financial flexibility. ICRA notes the strong profile of the sponsor, Abertis Infrastructures, one of the leading toll road operators, which manages over 8,600 km in Europe, the Americas and Asia.

The rating, however, remains constrained by the risks inherent in toll-based projects, which include estimating future traffic growth rates, risks arising from political acceptability of annual toll rate hikes and the resistance to pay. The rating is further constrained by the WPI-linked escalation in toll rates, which could limit growth in toll collections during periods of low WPI rate, as seen in the past. JEPL's ability to execute the operations and maintenance (O&M, routine and major) activities within the stipulated timelines and budgeted cost remains important.

The Stable outlook on the long-term rating reflects the strong operating track record with an established traffic density, ICRA's expectation of healthy toll revenue growth and comfortable debt coverage metrics.

### Key rating drivers and their description

#### Credit strengths

**Established tolling track record** – The project stretch has a long operational tolling track record of over 13 years, connecting important business centres as a part of the busy Hyderabad-Bengaluru National Highway (NH-44) with established traffic density, which witnessed a healthy CAGR of 6.1% (in PCU terms) during FY2012-FY2022. Traffic has improved in FY2022 after the adverse impact of the Covid-19 pandemic in Q1 FY2022 and has registered a healthy growth of 20% and 19% in AADT and

PCU terms, respectively, over FY2021. Additionally, the traffic for the stretch has reached the pre-Covid level in H2 FY2021 and has increased by 15.1% in FY2022 against the pre-Covid period.

**Healthy growth in toll collections** – The improved traffic combined with a 7.8% increase in toll rates, aided the growth in toll revenues by 19.5% to Rs. 130.76 crore in FY2022 from Rs. 109.4 crore in FY2021 and Rs. 112.6 crore in FY2020. The average toll collection per day improved to Rs. 0.33 crore per day in H1 FY2022 to Rs. 0.39 crore in H2 FY2022, which further improved to Rs. 0.41 crore during the first five months of FY2023. With toll rates hikes by 14.5% from September 1, 2022, the average daily collections are expected to improve by more than 11% in H2 FY2023 and the toll collections are estimated to increase by over 20% in FY2023.

**Strong liquidity position** – JEPL's liquidity position remains strong, with an unencumbered cash balance of Rs. 170.80 crore as on August 31, 2022 in addition to three months' DSRA of Rs. 16.97 crore and MMR of Rs. 50.29 crore.

**Presence of structural features provides credit support** – The presence of structural features such as creation of MMR for the and DSRA equivalent to one quarter's of principal and interest (P+I) payments, and a restricted payment mechanism for any withdrawals by the promoters subject to meeting certain criteria (DSCR over 1.10 times, TOL/TNW below 2.5 times, minimum cash balance of Rs. 2.5 crore is maintained beyond DSRA) provide credit support to the rated loans. Further, the lenders have the right to sweep in up to 35% of the surplus in case of any withdrawal beyond Rs. 12 crore per year by the promoter.

### Credit challenges

**Revenue dependent on traffic volume and movement in WPI** – The project remains exposed to risks inherent in build-operate-transfer (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, 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. Any reduction in either of these will adversely impact toll collections.

**Ensuring regular and periodic maintenance expenditure within budgeted levels** – The company is required to undertake MM after every five years and hence will undergo final MM cycle during FY2024-FY2025. It has an MMR of Rs. 50.29 crore as on August 31, 2022, which is invested in liquid mutual funds. Further, the company would be creating a provision of Rs. 17.5 crore each year in FY2023 and FY2024, which takes the total MMR to Rs. 85 crore. JEPL's ability to execute the next O&M (routine and major) activities within the stipulated timelines and budgeted cost remains important.

### Liquidity position: Strong

JEPL's liquidity position remains strong, with an unencumbered cash balance of Rs. 170.80 crore as on August 31, 2022. Further, the company has a debt service reserve account (DSRA), equivalent to one quarter's debt obligation (principal+ interest) in the form of fixed deposits with the bank. The company has principal repayment obligation of Rs. 55.14 crore in FY2023, which can be comfortably serviced through its estimated cash flow from operations.

### Rating sensitivities

**Positive factors** – Upgrade in the rating is unlikely given the characteristics of debt structure.

**Negative factors** – The rating could be downgraded if the traffic growth is lower than expected and/or the company incurs higher-than-anticipated routine O&M and MM expenses, adversely impacting the coverage indicators.

## Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	<a href="#">Corporate Credit Rating Methodology</a> <a href="#">Rating Methodology for BOT (Toll) Roads</a>
Parent/Group support	Not Applicable
Consolidation/Standalone	The rating is based on the company's standalone financial statements.

## About the company

JEPL is a special purpose vehicle (SPV) set up for collecting toll, based on a 20-year concession agreement (ending August 2026) with the National Highway Authority of India (NHAI). The project scope entails constructing (two lanes to four lanes) and strengthening the existing two lanes, which together covers 58 km from Thondupalli to Jadcherla on the Bangalore-Hyderabad NH-44 (earlier NH-7) in Telangana. The project commenced operations on February 12, 2009, as per the scheduled commercial operation date (COD). At present, Abertis India, S.L.U holds a 100% stake in JEPL.

## Key financial indicators

JEPL	FY2021	FY2022
Operating income (Rs. crore)	109.4	130.8
PAT (Rs. crore)	22.1	42.8
OPBDIT/OI (%)	73.0%	74.3%
PAT/OI (%)	20.2%	32.6%
Total outside liabilities/Tangible net worth (times)	0.72	0.39
Total debt/OPBDIT (times)	1.60	0.77
Interest coverage (times)	4.35	9.51

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation

Source: Annual Reports and Company data

## Status of non-cooperation with previous CRA: Not applicable

## Any other information: None

## Rating history for past three years

	Instrument	Current Rating (FY2023)				Chronology of Rating History for the Past 3 Years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding as on June 30, 2022 (Rs. crore)	Date & Rating in	Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020	
					October 10, 2022	August 06, 2021	July 03, 2020	July 26, 2019	
1	Term loan	Long-term	30.21	30.21	[ICRA]AA-(Stable)	[ICRA]AA-(Stable)	[ICRA]AA-(Stable)	[ICRA]AA-(Stable)	
2	Unallocated	Long-term	31.05	31.05	[ICRA]AA-(Stable)	[ICRA]AA-(Stable)	-	-	

## Complexity level of the rated instruments

Instrument	Complexity Indicator
Term loan	Simple
Unallocated	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: [www.icra.in](http://www.icra.in)

### Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term loan	December 2015	8.75%	June 2023	30.21	[ICRA]AA-(Stable)
NA	Unallocated limits	NA	9.50%	June 2023	31.05	[ICRA]AA- (Stable)

Source: Company

### Annexure II: List of entities considered for consolidated analysis

Not applicable

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