

November 05, 2024

## Salasar Highways Private Limited: Rating reaffirmed; outlook revised to Stable

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Fund-based – Term loan	765.88	705.98	[ICRA]BBB- (Stable); reaffirmed; outlook revised to Stable from Negative
Long-term – Unallocated	184.12	-	-
<b>Total</b>	<b>950.00</b>	<b>705.98</b>	

\*Instrument details are provided in Annexure-I

### Rationale

The revision in outlook on the long-term rating for Salasar Highways Private Limited (SHPL) favourably factors in the completion of more than 85% of the four-lane project, based on which it received the provisional completion certificate in October 2024. Consequently, an upward revision in the user fee, was notified w.e.f. October 12, 2024, along with a steady traffic flow, is expected to result in better revenue visibility for the company. The reaffirmation of the long-term rating draws comfort from the favourable location of project stretch, which is a part of the national highway (NH) network providing inter-state connectivity. The rating notes the established toll collection and operational track record of the two-lane stretch (fully operational) for over 7 years. ICRA takes note of the long experience of its sponsor (Galfar India) in undertaking engineering, procurement and construction (EPC) work for the road sector. With increasing toll revenue, SHPL's cash flows would improve in the near to medium term. Consequently, its debt service coverage metrics is likely to remain adequate over the tenure of the existing debt. Further, the presence of funded debt service reserve account (DSRA) equivalent to one quarter of principal and interest obligations provides extra buffer in times of any short-term cash flow mismatches.

The rating, however, remains constrained by the risks inherent in build–operate–transfer (BOT toll) road projects, including risks arising from volatility in traffic volumes, future toll hikes and their political acceptability, development/ improvement of alternative routes and likelihood of toll leakages, among others. Further, the increase in toll rates post completion of the four-laning project in line with the toll policy for National Highways could lead to some diversion of traffic to alternative routes. The credit profile remains exposed to residual execution risk, with ~13% of project stretch yet to be completed as on October 10, 2024. The project has received extension of timeline (EOT) till January 09, 2025, and the special purpose vehicle's (SPV) ability to complete the project within stipulated timeline without any penalties remain a key monitorable. The company remains exposed to the operations and maintenance (O&M) risk associated with the project, including its ability to undertake routine and periodic maintenance within the stipulated time and budget or adequate provisioning of the same.

The Stable outlook is supported by the operationalisation of the four-lane project, which is likely to result in better toll collection revenue owing to an increase in toll rates and steady traffic volume.

### Key rating drivers and their description

#### Credit strengths

**Proven track record of toll collections for over seven years with recent commissioning of more than 85% of the four-laning** – SHPL's project stretch starts from Rajasthan/Haryana border and ends at Salasar (Rajasthan), with a total length of ~154 km. The project road consists of sections of NH 52 and NH 58, emerging as a major corridor, which provides inter-state connectivity between Punjab, Haryana, Rajasthan, Gujarat, Madhya Pradesh and other southern states. The project was awarded by the NHAI on a BOT (Toll) basis. The concession included the provision for upgradation to four lanes by the end of 12th year from the appointed date, in absence of which the concession period will reduce from 30 years to 12 years. The two-lane project has

a tolling track record of more than seven years (provisional COD in 2017, followed by final COD in 2022). Further, PCOD for four laning of the highway has been received for 133.91 km stretch (out of 154.14 km) on October 10, 2024. Consequently, the toll collection has shown significant improvement to ~Rs. 37 lakh/day as of October 2024 from ~Rs. 21.8 lakh/day in FY2023.

**Established track record of the sponsor and the EPC contractor** – SHPL is promoted by Galfar India, which holds 51.20% stake, while the balance is held by the MFAR Developers Pvt. Ltd. The sponsor group has experience in the road sector and has invested in four toll road projects in India (including SHPL), and executed EPC works for six road projects. Galfar India had undertaken the EPC work for the two-lane project, and hence has experience in project execution in India. Further, the sponsor has infused Rs. 226.01 crore in SHPL for the four-laning of the project.

**Satisfactory debt coverage indicators** – The toll collection has increased sharply post the commencement of the four-laning project owing to increased toll rates in line with the National Highway Toll Policy and steady traffic volume hike. This along with the long concession period enhances the debt service coverage of the project as indicated by the expected cumulative debt service coverage ratio (DSCR) of 1.5 times over the loan tenure. Further, the proposed debt for the four-laning project leaves a tail period of over seven years, which provides healthy financial flexibility to SHPL.

### Credit challenges

**Risks inherent to toll road projects** – The project is exposed to risks arising from variation in traffic volume over the project stretch, its cyclicity and 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. As the revised toll rates for the users have been notified post the PCOD of the four-lane project, there could be some diversion of traffic to alternative routes. However, the adjacent stretches are already four lane and accordingly higher toll rates are applicable, which mitigates the risk to an extent. Nevertheless, the actual tollable traffic post completion of the four-laning project will be a key credit consideration.

**O&M related and interest rate risks** – The company is exposed to O&M risk associated with the project, including its ability to undertake routine and periodic maintenance within the stipulated time and budget. However, ICRA has taken comfort from the proposed fixed-price major maintenance (MM) contract with Galfar India. ICRA expects SHPL to maintain adequate reserves for the MM. Further, it is exposed to the interest rate risk on account of the floating nature of interest rates, which is linked to the base rate.

### Liquidity position: adequate

SHPL's cash flows from operations are expected to be adequate to meet the debt servicing obligations. This apart, it has created a debt service reserve account (DSRA) of Rs. 17.6 crore as of September 2024, which is equivalent to over one quarter of principal and interest, coupled with fresh cash of Rs. 7.74 crore as of September 2024.

### Rating sensitivity

**Positive factors** – The rating could be upgraded if the four-laning project gets completed in time with a consistent track record of toll collection, resulting in an improvement in the coverage indicators including cumulative DSCR on a sustained basis.

**Negative factors** – Downward pressure on the rating could emerge if toll collection growth is lower than expected, on a sustained basis, or if the O&M expenditure is significantly above the budgeted costs resulting in compression of the cumulative DSCR. The rating can also come under pressure if there is any additional indebtedness or non-adherence to debt structure, thereby adversely impacting the credit profile.

## Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	<a href="#">Corporate Credit Rating Methodology Roads - BOT Toll</a>
Parent/Group support	Not Applicable
Consolidation/Standalone	Standalone

## About the company

Salasar Highway Private Limited (SHPL), an SPV, was incorporated for development, maintenance and management of National Highway (NH) 52 (old NH 65) and NH 58 including the project section from Rajasthan Border to Salasar via Fatehpur from Km 0.000 to Km 154.141 (as per design chainage) in Rajasthan under NHDP Phase IV on design, build, finance, operate and transfer (DBFOT) toll basis. The project stretch comprises three toll plazas over a tollable length of ~154 km. It passes through the districts of Churu (approx. 70%) and Sikar (approx. 30%). The road caters to traffic bound between Churu, Bikaner and Sikar districts and to the inter-state traffic between Haryana/Punjab/Delhi and Rajasthan/Gujarat/Maharashtra.

The project's scope comprises two laning, followed by capacity augmentation to four laning. If the concessionaire opts for only two laning, then the concession period would be restricted to 12 years from the appointed date (i.e., till February 05, 2026). In case of four laning, the concession period would be increased to 30 years from the appointed date (i.e., till February 05, 2044). Since the company has undertaken augmentation of the existing two-lane project highway to four lanes, the concession period would be till February 05, 2044. The appointed date for the four lane is February 2022, and the PCOD for four laning of the highway has been received for 133.91 km stretch (out of 154.14 km) on October 10, 2024. The balance work is expected to be completed by December 2024 (including 8.3 km stretch having hinderance issue). As per PCOD conditions, the work is to be completed within 90 days (January 09, 2025).

### Key financial indicators (audited)

	FY2023	FY2024
Operating income	80.9	76.1
PAT	8.2	-1.5
OPBDIT/OI	84.2%	87.2%
PAT/OI	10.2%	-2.0%
Total outside liabilities/Tangible net worth (times)	3.9	3.9
Total debt/OPBDIT (times)	3.5	7.7
Interest coverage (times)	6.8	9.3

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

SHPL 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 (FY2025)			Chronology of rating history for the past 3 years			
	Type	Amount rated (Rs. crore)	Date & rating in FY2025	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	
			Nov 05, 2024	Sep 05, 2023	Dec 12, 2022	Sep 10, 2021	
1 <b>Fund-based Term loan</b>	Long term	705.98	[ICRA]BBB-(Stable)	[ICRA]BBB-(Negative)	[ICRA]BBB-(Negative)	[ICRA]BBB-(Stable)	
2 <b>Unallocated</b>	Long term	-	-	[ICRA]BBB-(Negative)	[ICRA]BBB-(Negative)	[ICRA]BBB-(Stable)	

## Complexity level of the rated instruments

Instrument	Complexity Indicator
<b>Long-term Fund-based – Term loan</b>	Simple
<b>Long-term – Unallocated</b>	NA

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	FY2024	NA	FY2037	705.98	[ICRA]BBB- (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

**Ashish Modani**  
+91 20 6606 9912  
[ashish.modani@icraindia.com](mailto:ashish.modani@icraindia.com)

**Suprio Banerjee**  
+91 22 6114 3443  
[supriob@icraindia.com](mailto:supriob@icraindia.com)

**Manish Pathak**  
+91 124 4545 397  
[manishp@icraindia.com](mailto:manishp@icraindia.com)

**Devansh Jain**  
+91 124 4545 856  
[devansh.jain@icraindia.com](mailto:devansh.jain@icraindia.com)

## RELATIONSHIP CONTACT

**L. Shivakumar**  
+91 22 6114 3406  
[shivakumar@icraindia.com](mailto:shivakumar@icraindia.com)

## MEDIA AND PUBLIC RELATIONS CONTACT

**Ms. Naznin Prodhani**  
Tel: +91 124 4545 860  
[communications@icraindia.com](mailto:communications@icraindia.com)

## Helpline for business queries

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

[info@icraindia.com](mailto:info@icraindia.com)

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## ICRA Limited



### Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001

Tel: +91 11 23357940-45



### Branches



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