

SP Jammu Udhampur Highway Limited

	Amount	Rating Action
	(Rs. Crore)	October 2016
Non-convertible Debentures	2610.00	[ICRA]AAA(SO) (Stable) Reaffirmed
Working Capital Limits	40.00	[ICRA]AAA(SO) (Stable) Reaffirmed
Total	2650.00	

ICRA has re-affirmed the long-term rating assigned to the Rs. 2610 crore non-convertible debentures (NCD) and the Rs. 40 crore working capital limits of SP Jammu Udhampur Highway Limited (SPJUHI) at [ICRA]AAA(SO). The outlook on the long-term rating is Stable.

The rating reflects the operational status of annuity-based SPJUHI's road project, marked by the absence of construction and traffic risks. Further, the rating takes support from the strong profile of SPJUHI's counter-party and annuity provider–NHAI (rated [ICRA]AAA(Stable)), which is a critical central government entity entrusted with the responsibility of development and maintenance of India's national highway programme. The rating also factors in the timely receipt of annuities with no major deductions (received four semi-annuities with negligible deductions) and strong sponsor profile, Shapoorji Pallonji and Company Private Limited (SPCPL, rated [ICRA]AA+(Stable)/[ICRA]A1+) and Shapoorji Pallonji Roads Private Limited (SPRPL), a wholly owned subsidiary of Shapoorji Pallonji Infrastructure Capital Company Private Limited, which has a sizeable track record in the construction and operation of infrastructure projects. Additionally, the presence of structural features and legal provisions provide credit support to the proposed NCDs.

However, the rating is sensitive to SPJUHI's ability to ensure satisfactory regular and periodic maintenance, both of which are critical to avoid any lane closures and consequently annuity deductions. Concession Agreement (CA) which allows up to 2% lane unavailability without any corresponding deduction in annuity, and the undertaking from the sponsor to meet any reduction in annuity because of non-availability of lane act as risk mitigants. The rating is also sensitive to occurrence of termination events, since termination proceeds may not be sufficient to cover the entire outstanding debt amount on the NCDs. However, an undertaking from the sponsor to meet any such shortfall acts as risk mitigant. Further, any deterioration in the credit profile of NHAI could have a material adverse impact on the credit quality of the bonds. Given the complex topography of the project stretch, ability of the company to manage operations & maintenance (O&M) and periodic maintenance costs within the budgeted costs would be important. ICRA notes that the company has entered into a long-term fixed price contract for routine O&M and periodic maintenance with Shapoorji Pallonji Cement (Gujarat) Private Limited in March 2015, mitigating cost overrun risk.

Going forward, the credit profile of NHAI and the ability of the company to manage routine and periodic maintenance costs within budgeted levels will remain the key rating sensitivities.

Transaction Structure

SPJUHI has opened an Escrow Account (exclusively charged to the Trustee) with the Escrow Bank. All payments from NHAI viz. annuities, bonus annuity, termination payments etc. will be deposited into the Escrow Account. The receipts from NHAI deposited in the escrow account will be utilised as per the pre-defined cash flow waterfall mechanism. The cash flow waterfall mechanism incorporates adequate provision to be carved out of the annuity proceeds for meeting O&M and periodic maintenance expenses. The NCDs are supported by a Debt Service Reserve Account (DSRA), equivalent to the amount payable towards interest and redemption of debentures, due on the succeeding coupon payment and redemption date. Similarly, the working capital facility is also supported by a separate DSRA.

Rating Methodology

The issuer is an SPV with the NHAI annuity being the single key source of revenue for meeting the debt-service obligations. Moreover, the NCD covenants ensure that the company will not raise any further external debt. While the rating derives comfort from the annuity nature of the project which mitigates traffic risks, ICRA notes that receipt of the entire annuity amount is contingent on SPJUHI ensuring requisite lane availability as per the CA, failing which NHAI is likely to deduct amounts from the annuity proportionate to the non-availability. Lane availability is dependent upon timely and adequate maintenance of the project road including both routine as well as periodic maintenance activities. Thus, in assessing the adequacy of cashflows for meeting the debt

service obligations, the key variables are the annuity receipts, and the O&M expenses (both regular as well as periodic).

ICRA derives comfort from the experience of the SP group in road maintenance for other projects. ICRA's assumptions on expenses towards O&M and major maintenance are based on empirical per-kilometre 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. Further, CA allows up to 2% lane unavailability without any corresponding deduction in annuity, which in ICRA's opinion, provides adequate cushion. For assessing the timeliness of NCD payments, the 30-days gap between any annuity due date and the corresponding NCD due date of payment, and additionally, the DSRA provision was taken into account.

About the Company

SP Jammu Udhampur Highway Limited ('SPJUHI') is an SPV-promoted by Shapoorji Pallonji Roads Pvt. Ltd. (SPRPL) (74%) and SPCPL (26%) for strengthening and four-laning of 64.58 km of Jammu to Udhampur section on NH 1A in Jammu & Kashmir on Design, Build, Operate, Finance and Transfer (DBFOT) Annuity basis. The concession has been granted to SPJUHI for a period of 20 years from 17 June, 2011. The COD has been achieved with provisional certificate being issued with effect from June 1, 2014 ahead of Scheduled Four-Laning Date (SFLD) of June 16, 2014 by 14 days. The company has received four semi-annuities till date, including bonus towards early completion. The annuity payments from NHAI were made in a timely manner with negligible deductions—SPJUHI received Rs.806.59 crore as against Rs. 807.60 crore (equivalent to four semi-annuities) till date.

The project cost appraised at the time of financial closure was Rs. 2400 crore to be funded through promoter contribution of Rs. 240 crore (10% of project cost) and remaining Rs. 2160 crore (90%) through debt. Of the Rs. 2160 crore debt, Rs. 535.29 crore (25%) was rupee term loan and remaining Rs. 1624.71 crore (75%) was ECB loan. The initial project loan, including INR and ECB loan, has been entirely refinanced through the NCD issuance. As on March 31, 2016, the outstanding debt stood at Rs. 2544 crore and the sponsors have brought in Rs. 161 crore out of Rs. 240 crore of equity.

Status of the Project

As on September 30, 2016, around 1.6 km of right of way (RoW) was yet to be handed over and work on another 1.8 km is under execution (handed over by NHAI in May 2015). The remaining 61.18 km was completed. For meeting all pending project cost, construction guarantee has been provided. Any project cost overrun beyond this amount is covered through a sponsor undertaking. The construction guarantee can fall-off after the entire construction work is complete and all pending costs have been fully settled. The construction guarantee facility is availed by the sponsor, and SPJUHI would not be under any obligation to repay it.

About Shapoorji Pallonji and Company Private Limited

SPCPL is the flagship company of the Shapoorji Pallonji Group (SP Group). The SP Group has a diversified presence across sectors such as construction (SPCPL, Afcons Infrastructure Limited), electrical contracting (Sterling & Wilson Private Limited), water purification (Eureka Forbes Limited), infrastructure development (Shapoorji Pallonji Infrastructure Capital Company Private Limited), solar power generation and contracting (SP Infrastructure Capital Company Private Limited and Sterling & Wilson Private Limited respectively), floating production storage and offloading (FPSO) vessels (Armada D1 and Armada C7) etc. SPCPL, which is held by the Mistry family through various group companies, functions as the holding-cum-operating company of the SP Group.

SPCPL is one of India's leading construction companies having a heritage of almost 150 years. Over the years, SPCPL has built diverse civil and engineering structures such as factories, stadiums and auditoriums, airports, hospitals, housing complexes, and power plants. Some of the major contracting works executed by SPCPL include construction of office building for clients such as Bank of India, Citibank and Reserve Bank of India in Mumbai; construction of Birla Residential School in Bangalore; construction of factory for ITC in Chirala in Andhra Pradesh; Some of the notable projects executed by SPCPL abroad include construction of the Palace of Sultan of Oman in Muscat, the Ghana Presidential complex and construction of an IT park at Mauritius.

About the NHAI

NHAI (rated [ICRA]AAA(Stable)) is an autonomous authority of the Government of India (GoI) under the Ministry of Road, Transport and Highways (MoRTH) constituted on June 15, 1989 by an Act of Parliament - The National Highways Authority of India Act, 1988 (NHAI Act). NHAI was operationalised in February 1995 and functioning of NHAI is governed by NHAI Act and rules, and regulations framed thereunder.

NHAI is responsible for development, maintenance and management of the national highways entrusted to it by the GoI. It is also entitled to construct offices or workshops; establish and maintain hotels, restaurants and rest rooms at or near the highways vested in or entrusted to it; regulate and control plying of vehicles; develop and provide consultancy and construction services and collect fees for services and benefits rendered.

NHAI receives its funding through (i) Government support in the form of capital base, cess fund, additional budgetary support, capital grant, maintenance grant, ploughing back of toll revenue and loan from GoI; (ii) loan from multilateral agencies such as ADB, JBIC and (iii) market borrowings.

October 2016

For further details please contact:

Analyst Contacts:

Mr. Rohit Inamdar (Tel. No. +91-124-4545847)
rohit.inamdar@icraindia.com

Kalpesh Gada (Tel. No. +91-22-61693369)
kalpesh@icraindia.com

Shubham Jain (Tel. No. +91-124-4545306)
shubhamj@icraindia.com

Vibhor Mittal (Tel. No. +91-22-61143440)
vibhorm@icraindia.com

Rajeshwar Burla (Tel. No. +91-40-40676527)
rajeshwar.burla@icraindia.com

Relationship Contacts:

Mr. L. Shivakumar, (Tel. No. +91 22 6114 3406)
shivakumar@icraindia.com

© Copyright, 2016, 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.

**Registered Office****ICRA Limited**

1105, Kailash Building, 11th Floor, 26, Kasturba Gandhi Marg, New Delhi 110001
Tel: +91-11-23357940-50, Fax: +91-11-23357014

Corporate Office**Mr. Vivek Mathur**

Mobile: +91 9871221122

Email: vivek@icraindia.com

Building No. 8, 2nd Floor, Tower A, DLF Cyber City, Phase II, Gurgaon 122002
Ph: +91-124-4545310 (D), 4545300 / 4545800 (B) Fax; +91- 124-4050424

Mumbai**Mr. L. Shivakumar**

Mobile: +91 9821086490

Email: shivakumar@icraindia.com

3rd Floor, Electric Mansion
Appasaheb Marathe Marg, Prabhadevi
Mumbai—400025,
Board : +91-22-61796300; Fax: +91-22-24331390

Kolkata**Mr. Jayanta Roy**

Mobile: +91 9903394664

Email: jayanta@icraindia.com

A-10 & 11, 3rd Floor, FMC Fortuna
234/3A, A.J.C. Bose Road
Kolkata—700020
Tel +91-33-22876617/8839 22800008/22831411,
Fax +91-33-22870728

Chennai**Mr. Jayanta Chatterjee**

Mobile: +91 9845022459

Email: jayantac@icraindia.com

5th Floor, Karumuttu Centre
634 Anna Salai, Nandanam
Chennai—600035
Tel: +91-44-45964300; Fax: +91-44 24343663

Bangalore**Mr. Jayanta Chatterjee**

Mobile: +91 9845022459

Email: jayantac@icraindia.com

'The Millenia'
Tower B, Unit No. 1004, 10th Floor, Level 2 12-14, 1 & 2,
Murphy Road, Bangalore 560 008
Tel: +91-80-43326400; Fax: +91-80-43326409

Ahmedabad**Mr. L. Shivakumar**

Mobile: +91 9821086490

Email: shivakumar@icraindia.com

907 & 908 Sakar -II, Ellisbridge,
Ahmedabad- 380006
Tel: +91-79-26585049, 26585494, 26584924; Fax:
+91-79-25569231

Pune**Mr. L. Shivakumar**

Mobile: +91 9821086490

Email: shivakumar@icraindia.com

5A, 5th Floor, Symphony, S.No. 210, CTS 3202, Range
Hills Road, Shivajinagar, Pune-411 020
Tel: + 91-20-25561194-25560196; Fax: +91-20-
25561231

Hyderabad**Mr. Jayanta Chatterjee**

Mobile: +91 9845022459

Email: jayantac@icraindia.com

4th Floor, Shobhan, 6-3-927/A&B. Somajiguda, Raj
Bhavan Road, Hyderabad—500083
Tel:- +91-40-40676500