

L&T Sambalpur-Rourkela Tollway Limited

May 25, 2018

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. Crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund based - Term Loans	1016.4	1016.4	[ICRA]BBB; Reaffirmed Outlook revised to 'Positive' from 'Stable'
Total	1016.4	1016.4	

Rating action

ICRA has revised the outlook from 'Stable' to 'Positive' and reaffirmed the long-term rating for the Rs. 1016.4 crore¹ fund based bank facilities (term loans) of L&T Sambalpur-Rourkela Tollway Limited (SRTL / the company)² at [ICRA]BBB (pronounced ICRA triple B).

Rationale

The rating reaffirmation takes into consideration receipt of provisional completion certificate and commencement of tolling from March 13, 2018, albeit with a delay of ~8 months from the initial estimates. The rating continues to take support from SRTL's strong parentage in the form of L&T Infrastructure Development Private Limited (IDPL, rated [ICRA]AA/Stable/A1+); strategic location of the stretch between Sambalpur and Rourkela, two prominent cities in Odisha, that connect to various mineral rich areas in the region.

The rating is, however, constrained by the limited toll collections track record since the tolling on the project stretch has commenced from March 13, 2018. The delay in commencement of toll has increased the project cost (primarily on account of increase in interest cost) which has largely nullified the cost savings expected earlier. The rating is also constrained by the dependence on timely receipt of the remaining construction grant (~Rs. 56 crore), and the grant to be received during the first five years of operations from the Government of Odisha (GoO). Delay in receipt of grants can result in mismatch of cash flows thereby further increasing the dependence on promoter's support. The rating continues to be constrained by the risk associated with a toll road project including users' willingness to pay tolls, accept toll rate hike, traffic diversion/alternate route risk, traffic growth, and inflation linked toll rate increase.

Outlook: Positive

The positive outlook on SRTL's rating reflects the expected improvement in SRTL's credit profile over the next few months post achievement of final COD, receipt of the remaining construction grant from the GoO, and establishment of toll collection track record. The outlook may be revised to 'Stable' if there is delay in achieving final completion and receipt of the grant, or a decline in toll collection. The outlook may be revised to 'Negative' if there is a sizeable decline in toll collections, or any regulatory decision restricting toll collections.

¹ 100 lakh = 1 crore = 10 million

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

Key rating drivers

Credit strengths

Strong promoter with long track record of operating BOT road projects – SRTL is promoted by L&T-IDPL which is part of the L&T group with very strong financial profile (IDPL is rated at [ICRA]AA/[ICRA]A1+) and has a healthy track record of executing BOT projects. The group has nearly 15 BOT projects which are operational. The company benefits from the professional and experienced management in handling various road assets.

Project received provisional completion certificate in March 2018 – The company has received the provisional completion certificate on March 12, 2018 and the company is on track to complete the pending works as specified in the punch list items by June 2018. This reduces the execution risk to a major extent.

Presence in a major mining belt – The project is part of SH-10 which connects Sambalpur and Rourkela, two of the three most prominent cities in Odisha state and provides connectivity to Jharsuguda and Sundargarh districts in the state. The road also provides linkage between coal and iron ore mines to other industrial towns in Odisha and neighboring states.

Credit weaknesses

Delay in achievement of COD by 8 months has nullified the expected project cost savings – The provisional commercial operations date was achieved on March 12, 2018 as against the Scheduled Commercial Operations Date of July 14, 2017. The delay in COD by nearly 8 months is on account of various reasons including change of scope in the project, inclusion of safety features, political reasons, etc. The delay in the operations of the project has resulted in negating the gains as result of lower EPC cost during construction due to higher interest outgo till the commencement of tolling.

Limited toll collections track record as the project commenced operations recently – The project had commenced toll collections in March 2018. The initial toll collection was impacted due to multiple local issues including road bandh etc. The toll collection has witnessed improvement in the last one month. However, since the toll collection started only about 2 months back, there is a limited toll collection track record.

Delay in receipt of grants can result in mismatch in cash flows: The project involves grant from Odisha Work Department (OWD), Government of Odisha part of which is to be received during construction, while remaining is in the form of O&M grant to be received during first five years of achieving COD. About Rs. 56 crore of the total construction grant of Rs. 258 crore is yet to be received while the company has already achieved PCOD in March 2018. Timely receipt of construction grant and Operations & Maintenance (O&M) grant in the future would be a key monitorable; as a delay in receipt for the same would lead to mismatch in cash flows resulting in increased dependence on support from the parent entity.

Significant alternate route risk – The second toll plaza along the stretch from Sambalpur to Rourkela has an alternate route which has resulted in lower traffic at this location.

Risks associated with a toll road project – Like a typical toll road project, SRTL is also exposed to risks including user willingness to accept toll rate hikes, alternate route diversion, inflation linked toll rates, and dependence of traffic growth on the economic activities in the region. Since the project has an operational track record of about 2 months, some users' willingness to pay toll is established, however absence of concessional rates for daily/monthly passes for commercial vehicles and double the toll rates for major mineral carrying commercial vehicles could result in resistance to tolling.

Analytical approach: For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

Links to applicable criteria:

[Corporate Credit Rating Methodology](#)

[Rating Methodology for BOT \(Toll\) Roads](#)

[Impact of Parent or Group Support on an Issuer's Credit Rating](#)

About the company:

L&T Sambalpur-Rourkela Tollway Limited ('SRTL') is a 100% subsidiary of L&T Infrastructure Development Projects Limited (IDPL). L&T IDPL is a subsidiary company of Larsen & Toubro Limited (L&T)[rated [ICRA]AAA (Stable)] and is the holding company of various infrastructure projects being developed by L&T under the public private partnership (PPP) model.

SRTL was incorporated in October 2013 as a Special Purpose Vehicle (SPV) to implement the four-laning of Orissa's State Highway 10 (SH-10) from Sambalpur to Rourkela for a total length of 161.73 km. The project highway is to be constructed under the Design-Build-Finance-Operate-Transfer (DBFOT) model under the Odisha State Road Project (OSRP). The total cost of the project is envisaged to be Rs 1565 crore, of which Rs.1016 crore is being funded through term loans, promoter contribution of Rs.290 crore, and the remaining Rs.259 crore through construction grant from Odisha Works Department (OWD), State Government of Odisha.

The concession was granted to SRTL for a period of 22 years from the Appointed Date, which was achieved on 15 July, 2014 while the PCOD was received on March 12, 2018 as against scheduled COD of July 14, 2017.

Key Financial Indicators

	FY 2018*
Operating Income (Rs. crore)	5.81
PAT (Rs. crore)	-5.87
OPBDIT/ OI (%)	49.43%
RoCE (%)	-
Total Debt/ TNW (times)	3.82
Total Debt/ OPBDIT (times)	314.75
Interest coverage (times)	0.63

*Provisional; operational since FY2018

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

		Current Rating (FY2019)			Chronology of Rating History for the past 3 years			
Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs Crore)	Date & Rating	Date & Rating in FY2018	Date & Rating in FY2017	Date & Rating in FY2015	
				May 2018	Aug 2017	Apr 2016	Mar 2015	
1 Term Loans	Long Term	1016.4	908.0	[ICRA]BBB (Positive)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (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
NA	Term Loans	May 2014	-	April 2030	1016.4	[ICRA]BBB (Positive) Source: L&T SRTL

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