April 06, 2020

PS Toll Road Private Limited – Rating downgraded to [ICRA]B+; outlook revised to 'Stable' from 'Negative'

Summary of rating action:

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Term Loans	790.0	790.0	[ICRA]B+ (Stable); downgraded from [ICRA]BB+ (Negative)
Total	**790.0**	**790.0**	

*Instrument details are provided in Annexure-1

Rationale

The downgrade in the rating reflects the lower-than-anticipated traffic growth in 9MFY2020, on account of the Ministry of Road Transport and Highways'(MORTH) directive to increase the load carrying capacity of heavy vehicles by 20%-25% in July 2018; the slowdown in the economic activity; and the incessant rains in the region from July 2019-October 2019, wherein the stretch after Satara was completely flooded. The deluge lead to a decline in traffic, thereby moderating the debt coverage metrics. The rating is also exposed to heightened regulatory risk as the company deferred the premium payable to the NHAI to the extent of Rs.68.82 crore for the period January 2019-June 2019 as per independent engineer approval; however, the NHAI had not approved the same. ICRA is given to understand that the NHAI has asked the company to make the payment, including an interest of 12% on the outstanding amount. Further, the project execution has been delayed by more than seven years; partially because of non-availability of land. Till date, PSTRPL received the NHAI's approval for three extensions of time line (EOT) till December 15, 2017, for project completion. ICRA notes that the independent engineer has recommended four more EOTs; however, the same are yet to be approved by the NHAI. Given that the project is awarded under NHDP Phase-V, tolling during construction is permitted. The delayed execution along with the pending NHAI approval for deferment of COD exacerbates the risk of the NHAI imposing restrictions on use of toll collections as noticed in some of the other NHDP Phase-V projects. In such a case, the debt servicing ability of the SPV gets severely constrained, necessitating dependence on the sponsor. Also, part of the pending project cost is estimated to be funded through equity support from sponsor. Given the overall weakening of the sponsor group, the likelihood of such a support from the sponsor is low. The rating is further constrained by the residual execution risk; the company achieved 97.18% physical progress till December 31, 2019. The rating also remains constrained by the interest rate risk, considering the floating nature of interest rates for the project loan. Further, PSTRPL's ability to manage its routine and periodic maintenance expenses within the budgeted levels remains crucial from a credit perspective. The rating remains constrained by the WPI-linked escalation in toll rates, which could limit the growth in toll collections during periods of low WPI rate. Notwithstanding the track record of toll collections, the project remains exposed to risks inherent in BOT (Toll) road projects, including risks arising from political acceptability of rate hikes linked to WPI over the concession period and development/improvement of alternate routes.

The rating, however, continues to favourably take into account the importance of the project highway as part of the Golden Quadrilateral connecting important cities, Pune and Satara. The rating also factors in the long operational track record of more than eight years, with traffic growing at a CAGR of 7.0% in Passenger Car Unit (PCU) terms between FY2011 to FY2019. The stretch witnessed 4.8% growth in traffic during FY2019 (in PCU terms), primarily driven by increasing commercial activity in the region. However, the traffic declined by 0.8% in 9MFY20 (in PCU terms) on account of the Ministry of Road Transport and Highways'(MORTH) directive to increase the load carrying capacity of heavy vehicles by 20%-25% in July 2018; the slowdown in the economic activity; and the incessant rains in the region from July

2019-October 2019, wherein the stretch after Satara was completely flooded. Further, the rating factors in the flexibility by virtue of the five-year long tail period and the presence of structural features such as escrow and waterfall mechanism, which restricts any cash flow leakages; however, any instances of support to sponsor group will remain a key rating sensitivity.

ICRA takes note of the constrained vehicular movement in the run up to the lockdown due to Covid-19, followed by suspension of tolling for the 21-day period (i.e. from March 25, 2020 – April 14, 2020) after the lockdown announcement by the Government of India. As per the concession agreement, the 21 -day toll suspension will be treated as force majeure (political) event and occurrence of the epidemic event as force majeure (Non-political) event. Under force majeure (political) event, all force majeure costs (include interest payments on debt, O&M expenses, any increase in the cost of construction works on account of inflation and all other costs directly attributable to the force majeure event) will be reimbursed by the NHAI for the affected period. However, the quantum and timelines for release of compensation is uncertain as on date.

Further, PS Toll Road Private Limited did not honour its scheduled payment obligations falling due on March 31, 2020, pertaining to the Rs. 790 crore term loan facilities rated, as it is seeking a moratorium on payments from its lenders as part of the COVID-19 - Regulatory package announced by the Reserve Bank of India (RBI) on March 27, 2020. However, despite the missed payment and the absence of a formal approval from the lenders allowing for a payment relief, ICRA has not recognized this instance as a Default as of now. This is based on ICRA's expectation that a formal approval for rescheduling the loan would be received soon, as permitted by the RBI as part of the relief measures announced recently. Non-recognition of default in this case is as per the guidance provided by the SEBI circular SEBI/ HO/ MIRSD/ CRADT/ CIR/ P/ 2020/ 53 dated March 30, 2020. It may, however, be noted that if the lenders do not approve of the moratorium in due course, ICRA would review the above stance on default recognition.

Key rating drivers and their description

Credit strengths

Long operational track record - The project stretch has a long operational track record of more than eight years with traffic growing at a CAGR of 7.0% in Passenger Car Unit (PCU) terms between FY2011 to FY2019. The stretch witnessed 4.8% growth in traffic during FY2019 (in PCU terms) primarily driven by increasing commercial activity in the region. However, the traffic declined by 0.8% in 9MFY20 (in PCU terms) on account of the Ministry of Road Transport and Highways'(MORTH) directive to increase the load carrying capacity of heavy vehicles by 20%-25% in July 2018; the slowdown in the economic activity; and the incessant rains in the region from July 2019-October 2019, wherein the stretch after Satara was completely flooded.

Favourable location of project - The project is a part of NH-4 (Mumbai – Chennai highway and part of the Golden Quadrilateral), which passes through the states of Maharashtra, Karnataka and Tamil Nadu. NH-4 is 1,235 km in length and is a major National Highway in Western and Southern India, linking four of the 10 most populous Indian cities - Mumbai, Pune, Bangalore, and Chennai. The entire transportation from western and southern Maharashtra takes place along this highway. The project section carries heavy commercial traffic destined towards Shirwal Special Economic Zone. The passenger traffic is destined to Pune, Satara, Kolhapur and Sangli.

Presence of structural features and long tail period – The rating factors in the flexibility arising from five-year long tail period, presence of structural features such as escrow and waterfall mechanism, which restricts any cash flow leakages, however, any instances of support to sponsor group will remain a key rating sensitivity.

Credit challenges

Lower-than-expected traffic growth impacts coverage metrics – The traffic growth of the company in 9MFY2020 is significantly lower than anticipated, on account of the Ministry of Road Transport and Highways'(MORTH) directive to increase the load carrying capacity of heavy vehicles by 20%-25% in July 2018; the slowdown in the economic activity; and the incessant rains in the region from July 2019-October 2019, wherein the stretch after Satara was completely flooded.

Heightened regulatory risk – PSTRPL had to pay a premium of Rs.134.3 crore in FY2019 and Rs.105.8 crore in 9MFY2020 to the NHAI. Premium is payable monthly within 7 days of the close of each month. The company deferred the premium of Rs.68.82 crore for the period January 2019 – June 2019 as per independent engineer approval; however, the NHAI had not approved the same, thereby heightening the regulatory risk. ICRA is given to understand that the NHAI has asked the company to make the payment including an interest of 12% on the outstanding amount.

Continued delays in project execution and residual execution risk – There have been continuous delays in project executions for more than seven years. Till date, PSTRPL received NHAI's approval for three extensions of time line (EOT) till December 15, 2017 for project completion. ICRA notes that the independent engineer has recommended four more EOTs, however, the same are yet to be approved by the NHAI. The rating is further constrained by the residual execution risk; the company achieved 97.18% physical progress till December 31, 2019.

Significant dependence on sponsor support to service debt obligation in case of restriction by NHAI on usage of toll revenue - The project is awarded under NHDP Phase-V, wherein tolling during construction is permitted. The delayed execution along with pending NHAI approval for deferment of COD exacerbates the risk of the NHAI imposing restrictions on use of toll collections as noticed in some of the other NHDP Phase-V projects. In such a case, the debt servicing ability of the SPV gets severely constrained, necessitating dependence on the sponsor. Also, part of the pending project cost is estimated to be funded by equity from sponsor. Given the overall weakening of the sponsor group, the likelihood of such a support from the sponsor is low.

Constrained vehicular movement in the run up to the Covid-19 lockdown followed by suspension of tolling for the 21-day period will impact toll collection - Constrained vehicular movement in the run up to the lockdown due to Covid-19 followed by suspension of tolling for the 21-day period (i.e. from March 25, 2020 – April 14, 2020) following the lockdown announcement by Government of India will impact the toll collections. Though NHAI will reimburse the costs including interest payments on debt, O&M expenses, and any increase in the cost of construction works on account of inflation; however, quantum and timelines for release of compensation is uncertain as on date.

Project cash flows sensitive to traffic growth rates and acceptability of toll rate hike - PSTRPL's cash flows are exposed to volatility in toll collections due to future traffic growth rate and movement in WPI (for toll rate hike). Any moderation in traffic growth or WPI from anticipated levels may lead to weakened project metrics. The project also remains exposed to risks inherent in BOT (Toll) road projects, including risks arising from political acceptability of rate hikes linked to WPI over the concession period.

Project remains exposed to interest rate risk – PSTRPL cash flows are exposed to interest rate risk, considering the floating nature of interest rates for the project loan.

Liquidity position: Stretched

The liquidity position of PSTRPL remains stretched with unencumbered cash balance of Rs.7.9 crore as on March 31, 2019. The company has to create a Debt Servicing Reserve Account (DSRA) equivalent to one quarter of debt servicing obligations; the same will be created out of undisbursed loan amount of Rs.32 crore as on December 31, 2019. The company has to incur a pending project cost of Rs.62 crore (excluding DSRA) as on December 31, 2019 which will be funded through Rs.9 crore of term loan and balance through internal accruals/ promoter's contribution. The repayment obligation stands at Rs.16.4 crore in FY2021 and Rs.24.2 crore in FY2022 respectively.

Rating sensitivities

Positive triggers – The crystallisation of scenarios for rating upgrade is unlikely over the medium term. However, if there is an improvement in the sponsor's credit profile or the company identifies alternate sources to fund the cash gap, the ratings might be upgraded.

Negative triggers – Downward pressure on the ratings might emerge if lenders do not approve of the moratorium in due course or if there is further delay in achieving COD, resulting in cost overrun or if traffic growth is lower-than-anticipated, or the company incurs higher-than-anticipated O&M expense (routine and major maintenance expense), or the company contracts any further debt and/or non-adherence to cashflow waterfall mechanism resulting in cash flow leakages, thereby weakening the liquidity profile of PSTRPL.

Analytical approach:

Analytical Approach	Comments
Applicable Rating Methodologies	Rating Methodology for BOT (Toll) Roads Corporate Credit Rating Methodology
Parent/Group Support	Not Applicable
Consolidation / Standalone	The ratings are based on the standalone financial profile of the company

About the company:

Incorporated in February 2010, PS Toll Road Private Limited (PSTRL), is a special purpose vehicle (SPV) promoted by Reliance Infrastructure Limited (R Infra) and Jiangsu Provincial Transportation Engineering Group Co. Ltd. (JTEG) for widening of Pune - Satara stretch from existing 4 lanes to 6 lanes on Built-Operate-Transfer (BOT Toll) basis in the state of Maharashtra. The Project is a part of NH 4 and starts at Km 725.00 and ends at km 865.35 of NH 4, with a total length of about 140.35 km. The project was awarded by the National Highways Authority of India (NHAI) based on the highest premium quoted of Rs. 90.90 crore in the first year (escalates at 5% p.a. thereafter). The concession period is for 24 years from the appointed date (i.e., October 1, 2010). The project is expected to achieve COD in May 2020.

Key Financial Indicators (Audited)

	FY 2018	FY 2019
Operating Income (Rs. crore)	346.2	352.0
PAT (Rs. crore)	(110.8)	(68.5)
OPBDIT/ OI (%)	60.4%	68.4%
RoCE (%)	2.6%	6.1%
Total Debt/ TNW (times)	0.5	0.6
Total Debt/ OPBDIT (times)	3.5	3.1
Interest coverage (times)	1.1	1.3
DSCR	1.1	1.3

Source: PSTRPL, ICRA research

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

	Instrument	Current Rating (FY2020)					Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding* (Rs Crore)	Date & Rating (FY2020) 06-March 2020	23-May 2019	Date & Rating in FY2019 23-November 2018	Date & Rating in FY2018 06-October 2017	Date & Rating in FY2017 30-December 2016
1.	Term Loan	Long term	790.0	753.28	[ICRA]B+ (Stable)	[ICRA]BB+ (Negative)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)

*As on December 31, 2019

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

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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 Loan	FY2015	11.54%	FY2029	790.0	[ICRA]B+ (Stable)

Source: PSTRPL

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
None	NA	NA

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

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