January 31, 2020 Revised

SU Toll Road Private Limited – Rating downgraded to [ICRA]BB; outlook retained at 'Negative'

Summary of rated action:

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Term Loans	588.0	588.0	[ICRA]BB (Negative); downgraded from [ICRA]BBB- (Negative)
Non-Convertible debenture (NCD)	80.0	80.0	[ICRA]BB (Negative); downgraded from [ICRA]BBB- (Negative)
Total	**668.0**	**668.0**	

*Instrument details are provided in Annexure-1

Rationale

The downgrade in the rating factors in the delay by the company in undertaking its first major maintenance activity (which was due in FY2018), which could attract penalty from the National Highways Authority of India (NHAI), while also leading to deterioration of the road quality and significant increase in the future maintenance costs. Further, lower-than-anticipated traffic growth in H1FY2020, because 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 and the slowdown in the economic activity, moderated the coverage metrics. Further, ICRA also takes note that the company has prepaid loan to the extent of Rs.15 crore in H1FY2020; the same was met through fund infusion by sponsor. Any debt acceleration/prepayment demand by lenders remains a credit risk given the weak sponsors profile. The rating is also constrained by the residual execution risk as the company has to undertake construction of bypass along the four-lane from FY2022. The capex for this is planned to be funded entirely by external debt, for which the financial closure is yet to be achieved. ICRA notes that the company has awarded the major maintenance (MM) contract, the total outlay is estimated to be ~Rs. 80 crore to be completed by end of FY2021. The MM cost will be funded through major maintenance reserve Rs. 60.7 crore as on Sep 30, 2019, and remaining through operational cashflows. SUTRPL's ability to manage its routine and periodic maintenance expenses within the budgeted levels remains critical from a credit perspective. Over the tenure of the debt, given that two more cycles of MM are required to be taken up, the cash flow cover is expected to remain weak, necessitating dependence on sponsor/external support. Sponsor's ability to meet SUTRPL's cashflow mismatches is constrained by its deteriorated credit profile. While SUTRPL has unencumbered tail period of three years, the ability to raise funds to meet any short-term mismatch in a timely manner remains a key rating sensitivity. SUTRPL's cash flows remain sensitive to traffic growth rates and movement in Wholesale Price Index (WPI, for toll rate hike). Any reduction in either of them will have an adverse impact on toll collections. The rating also remains constrained by the interest rate risk, considering the floating nature of interest rates for the project loan. 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. Though the rating factors in the escrow and waterfall mechanism, which restricts any cash flow leakages, any instances of support to sponsor group will remain key rating sensitivity.

The rating, however, continues to favourably take into account the long operational track record of more than six years, with traffic growing at a CAGR of 15.13% in Passenger Car Unit (PCU) terms between FY2013 to FY2019. The stretch has witnessed traffic growth of around 7% (in PCU terms) in FY2019, primarily driven by increasing commercial activity in the region, including the opening of the new cement factory in Q4FY2018 and the Puducherry port in FY2019. However, the traffic growth has been moderate, at around 4% in 7MFY2020, because 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 and slowdown in the economic activity. The rating also factors in the limited alternate route risk for the project.

Key rating drivers and their description

Credit strengths

Long operational track record – The company has a long operational track record of more than six years, with traffic growing at a CAGR of 15.13% in Passenger Car Unit (PCU) terms between FY2013 to FY2019. The stretch has witnessed traffic growth of around 7% (in PCU terms) in FY2019, primarily driven by increasing commercial activity in the region, including the opening of the new cement factory in Q4FY2018 and the Puducherry port in FY2019. However, the traffic growth has been moderate, at around 4% in 7MFY2020, because 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 and slowdown in the economic activity.

Low alternate route risk - Since the major traffic along the project corridor is from Chennai to Coimbatore, there are five alternative routes between Salem to Chennai. The alternate route risk is not significant because the routes are longer and are tolled. Even for the shorter routes, there is little time saving as the roads are two-lane and in bad condition.

Credit challenges

Delay in undertaking Major Maintenance activity - As per the concession agreement, the company is required to carry out resurfacing of the road at least once every fifth year (from COD) and in the last year of the concession period. Accordingly, the first major maintenance activity was to be undertaken in FY2018. However, there is a delay by the company in undertaking its first major maintenance activity which could attract penalty from the NHAI, while also leading to deterioration of the road quality and significant increase in the future maintenance costs. ICRA notes that the company has awarded the major maintenance contract; the total outlay is estimated to be ~Rs. 80 crore to be completed by end of FY2021. The MM cost will be funded through major maintenance reserve (Rs. 60.7 crore as on Sep 30, 2019) and operational cashflows. SUTRPL's ability to manage its routine and periodic maintenance expenses within the budgeted levels remains critical from a credit perspective.

Lower-than-expected traffic growth impacts coverage metrics – The traffic growth of the company in H1FY2020 is lower than anticipated, because 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 and the slowdown in the economic activity, resulting in moderate coverage metrics.

Reduction in financial flexibility – The company has prepaid loan to the extent of Rs.15 crore in H1FY2020; the same was met through fund infusion by sponsor. Any debt acceleration/prepayment demand by lenders remains a credit risk given the weak sponsors profile. Over the tenure of the debt, given that two more cycles of MM are required to be taken up, the cash flow cover is expected to remain weak, necessitating dependence on sponsor/external support. Sponsor's ability to meet SUTRPL's cashflow mismatches is constrained by its deteriorated credit profile. While SUTRPL has unencumbered tail period of three years, the ability to raise funds to meet any short-term mismatch in a timely manner remains a key rating sensitivity. Though the rating factors in the escrow and waterfall mechanism, which restricts any cash flow leakages, any instances of support to sponsor group will remain a key rating sensitivity.

Exposure to residual execution risk and funding risk – The company is exposed to residual execution risk as the company has to undertake construction of bypass along the four-lane from FY2022. The capex for this is planned to be funded entirely by external debt for which the financial closure is yet to be achieved.

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

Project cash flows sensitive to traffic growth rates and acceptability of toll rate hike - SUTRPL's cash flows remain sensitive to traffic growth rates and movement in Wholesale Price Index (WPI, for toll rate hike). Any reduction in either of them will have an adverse impact on toll collections. 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.

Liquidity position: Stretched

The liquidity position of SUTRPL remains stretched with unencumbered cash balance of Rs.4.3 crore as on March 31, 2019. The company has created a debt service reserve account (DSRA) equivalent to six months of interest and principle payment in the form of fixed deposit of Rs.3.5 crore and bank guarantee of Rs.35.2 crore as on March 31, 2019. The bank guarantee is due for renewal in March 2020; timely renewal of same remains critical from the credit perspective. The company has a repayment obligation of Rs.4.8 crore in FY2021 and Rs.31.5 crore in FY2022, as against thin cushion available in cash flow from operation.

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 alternate sources to fund the cash gap are identified, the ratings might be upgraded.

Negative triggers – Negative pressure on SUTRPL's ratings could arise if traffic growth is lower than 3% and toll collection growth is less than 7% on a sustained basis or the company incurs higher-than-anticipated routine O&M and scheduled major maintenance expense due in FY2020/21 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 SUTRPL.

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 March 2007, SU Toll Road Private Limited (SUTRPL, the company) is a special purpose vehicle (SPV) promoted by Reliance Infrastructure Limited (R Infra) to finance, design, build and operate a 136-kilometer-long 4-lane (for 97.46 Km and 2-lane for balance 38.90 Km) toll road between Salem and Ulundurpet on National Highway 68. The project was awarded by the National Highway Authority of India (NHAI) on Build, Operate and Transfer (BOT) basis, with a concession period of 25 years commencing from January 15, 2008. The stretch serves as the connecting corridor between Coimbatore and Chennai in Tamil Nadu. The project road meets NH-7 at Salem and NH-45 at Ulundurpet.

Key Financial Indicators (Audited)

	FY2018	FY2019
Operating Income (Rs. crore)	92.2	102.3
PAT (Rs. crore)	(18.4)	(27.9)
OPBDIT/ OI (%)	71.5%	71.1%
RoCE (%)	6.3%	7.3%
Total Debt/ TNW (times)	4.4	5.4
Total Debt/ OPBDIT (times)	9.9	8.9
Interest coverage (times)	0.8	0.9
DSCR	0.93	1.03

Source: SUTRPL, 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)		Date & Rating in FY2019	Date & Rating in FY2018	Date & Rating in FY2017
					31-Jan 2020	23-May 2019	31-October 2018	12-July 2017	07-April 2016
1.	Term Loan	Long term	588.0	555.94	[ICRA]BB (Negative)	[ICRA]BBB- (Negative)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)
2.	NCD	Long term	80.0	77.86	[ICRA]BB (Negative)	[ICRA]BBB- (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

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	TL	FY2015	11.45% - 13.45%	FY2030	588.0	[ICRA]BB (Negative)
INE558K07015	NCD	FY2015	10.75%	FY2029	80.0	[ICRA]BB (Negative)

Source: SUTRPL

Corrigendum

Document dated January 31, 2020 has been corrected with revision as detailed below:

Revision in Rationale – Reason for prepayment of loan has been updated.

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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.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

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