

MAY 30, 2016

CARE ASSIGNS FINAL RATING TO THE NCD ISSUE OF GUJARAT ROAD AND INFRASTRUCTURE COMPANY LIMITED

Rating

Facilities	Amount (Rs. crore)	Ratings ¹	Remarks
Long term Non-Convertible Debenture (NCD) issue	300.00	CARE AAA (SO) [Triple A (Structured Obligation)]	Final Rating
Total instruments	300 (Rupees Three Hundred Crore Only)		

Rating Rationale

CARE confirms the rating assigned to the long-term Non-Convertible Debentures (NCDs) of Gujarat Road and Infrastructure Company Ltd (GRICL) following the receipt of executed version of key documents such as Information Memorandum, Debenture Trust Deed, Direct Agreement for both road stretches, Project Escrow Agreements and Master Escrow Agreement.

The rating principally derives comfort from the two independent stable and mature toll road assets (i.e. Vadodara Halol Road Project (VHRP) and Ahmedabad Mehsana Road Project (AMRP)) with operational history of 13-15 years and demonstrated stable cash flow generation with a residual concession period of 14-16 years (Service Concession Agreements (SCAs) till 2030/2033, respectively). This is supplemented by a Trustee monitored Structured Payment Mechanism (SPM) having tight Waterfall for servicing of the proposed NCDs with surplus cash trapping (till free cash flow before debt servicing exceeds the trigger levels, no distribution can be made to the shareholders). Further, the upfront creation of adequate Major Maintenance Reserve Account (MMRA) and Debt Service Reserve Account (DSRA) lends comfort on the liquidity reserves in the aspect to the credit structure. Additionally, elimination of interest rate risk, fixed price contractual arrangement (with pre-determined annual escalations) for Operation & Maintenance (O&M) with the Sponsor ITNL (rated CARE A/CARE A1) and Government of Gujarat's active involvement as a stakeholder are other credit positives.

However, being a toll road, GRICL is associated with traffic fluctuation risk and changes in its tariff mix leading to cash flow fluctuations. Non-adherence to the SPM and GRICL's ability to award Toll collection contracts at envisaged rates, and Force Majeure events constitute key rating sensitivities.

Background

GRICL was incorporated in June 1999 as Gujarat Toll Road Investment Company Ltd. (GTRICL), a non-banking financial company, registered under the Reserve Bank of India Act, 1945. Subsequently, the name of the Issuer was changed to Gujarat Road and Infrastructure Company Limited as on 12 June 2007. It has been granted concessions for development, design, financing, procurement, engineering, construction, operation and maintenance of: (i) the SH-87 stretch starting from km 8 to km 40, including widening the existing 2 lanes to 4 lanes, covering 32 kms, in the State of Gujarat, pursuant to the Halol Concession Agreement; and (ii) the SH-41 stretch starting from km 19 to km 70.6, including widening the existing 2 lanes to 4 lanes, covering 51.6 kms, in the State of Gujarat, pursuant to the Mehsana Concession Agreement. Subsequent to the amalgamation of both road projects into GRICL, ITNL held 83.61% stake with the balance stake held by GoG. However, in 2015, ITNL divested 50% of its stake to MAIF Investments India Pte. Ltd (MAIF) As on March 31, 2016, shareholding of ITNL, MAIF and GoG constituted 42%, 42% and 16% respectively.

In VHRP, SCA had been entered dated October 17, 1998 between Vadodara Halol Toll Road Company Limited (VHTRL) and Government of Gujarat (GoG) for widening of Vadodara Halol Road (SH-87) beginning at Km 8 and ending at Km 40 from two lane carriageway to a dual two lane carriage way with physically segregated service roads abutting the main carriageway. The SCA has since devolved to GRICL.

¹ Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications

Similarly, in AMRP, SCA had been entered dated May 12, 1999 between AMTRL and GoG for widening of Ahmedabad-Mehsana Road (SH-87) beginning at Km 19 and ending at Km 70.6 from two lane carriageway to a dual two lane carriageway with physically segregated service roads abutting the main carriageway. The SCA has since devolved to GRICL.

Both SCAs have been granted for initial term of 30 years from the Operations Date which is October 24, 2000 for VHRP and February 24, 2003 in case of AMTRL. The SCAs also envisage projects earning designated returns over the Concession period (30 years). In event, the company is unable to earn 20% returns on the "Total project Cost (TPC)", the SCAs provide extension of 2 years until the TPC and 20% returns thereon are not recovered by the company.

Summary of two Toll projects under (GRICL)		
Road Projects	Vadodara Halol Road Project	Ahmedabad Mehsana Road Project
State	Gujarat	Gujarat
Concession Type	Toll	Toll
Lane Kms	333.2	
Landed Project cost (Rs cr)	170.9	342.2
CoD	October 24, 2000	February 20, 2003

Initially, on account of lower than expected toll collections due to extraneous factors such as riots and earthquake in Gujarat leading to reduced economic activity at AMTRL and VHTRL and similar set of lenders at both entities, the debt was restructured with both entities being merged into GTRICL w.e.f. October 2003 to form a single entity. As per terms of the restructuring, IL&FS and GoG infused capital of Rs.105 crore in order to support the company's operations. The name of the company was changed to GRICL in 2007.

In 2007, as a part of internal restructuring exercise, IL&FS transferred its stake in several of its toll road SPVs, including GRICL, to its subsidiary, ITNL [rated 'CARE A' and 'CARE A1']. As a result, all the rights and obligations of IL&FS under the restructuring scheme were transferred to ITNL. As a result of steady uptick in toll revenues, the company has since serviced all its obligations as part of the restructuring process. The Issuer, in the past, instead of collecting the toll proceeds itself, has often auctioned off the toll collection activity. In the toll auction process, bids are invited for toll collection on the road stretches with the highest bidder being given the responsibility for toll collections on the road stretches for a specified time period. The Toll Auction Agent transfers fixed amounts to the Issuer in accordance with the bid at specified time intervals documented in the Toll Auction Agreement. Any excess/deficit in actual toll collections will be absorbed by the Toll Auction Agent. However, if no agent is appointed, the company is capable of collecting toll, as demonstrated in the past.

GRICL posted net profit of Rs.31.76 crore on a total operating income of Rs.121.56 crore in FY15 [refers to the period April 01 to March 31] as against net profit of Rs.68.04 crore on a total operating income of Rs.111.17 crore in FY14.

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