

Jaora Nayagaon Toll Road Company Private Limited

April 24, 2020

Rating

Facilities	Amount(Rs. crore)	Rating ¹	Rating Action
Long-term bank facilities	367.36	CARE AA-; Negative (Double A minus; Outlook: Negative)	Revised from CARE AA-; Stable (Double A minus; Outlook: Stable)
Total bank facilities	367.36 (Rupees Three Hundred Sixty Seven crore and Thirty Six lakh only)		

Detail of Instrument/facilities in Annexure 1
Detailed Rationale and Key Rating Drivers

The rating assigned to the bank facilities of Jaora Nayagaon Toll Road Company Private Limited (JTCL) continue to derive strength from strong promoter group, strategic location of the project stretch, fixed hike in toll rates irrespective of WPI movements, stipulated creation of reserves as per terms of sanction. Further, the rating takes comfort from healthy liquid investments (~Rs.80 crore as on March 31, 2020 which shall act as a cushion besides being available for meeting the major maintenance going forward.

The rating continues to remain constrained by inherent revenue risk associated with toll-based road projects, decline in toll collections in FY20 due to vehicles plying through the alternate route, exposure to regulatory risks, significant dependence on commercial vehicle traffic leading to higher susceptibility of the revenues to economic downturn and Operations and Maintenance (O&M) risk.

Outlook: Negative

The outlook has been revised from stable to negative considering the expected decline in toll collection in FY21 owing to discontinuation of tolling activity coupled with delay in construction of connecting stretch amid present scenario of lockdown due to COVID-19. This is likely to lead to moderation in the debt coverage indicators and dip in liquid investments as against CARE's expectation of healthy debt coverage indicators along with ramp up of toll collections in FY21 at envisaged levels. The Outlook may be revised to 'Stable' if the company can recall funds back from group companies to maintain adequate liquidity cover in case of requirement and adjoining stretch is completed within envisaged timeline leading to ramp up in toll collection and profitability.

Rating Sensitivities
Positive factors

- Ability to achieve envisaged traffic growth and toll revenue on a sustained basis
- Ability to reduce financial cost and operational cost on sustained basis.

Negative factors

- Sharp dip in toll collection impacting the profitability leading to moderation of debt coverage indicators (TD/GCA greater than 4.0x)
- Maintain the road as per the required specification to avoid penalisation.
- Delay in ramp up of toll collection beyond September 2020 post stabilisation of the traffic as envisaged.

Detailed Description of Key Rating Drivers
Key Rating Strengths
Experienced promoters

The management control of JTCL rests with Ashoka Concessions Ltd (ACL), being the majority shareholder. The proven track record and technical capabilities of ACL in execution and operation of infrastructure projects (derived through its parentage from Ashoka Buildcon Ltd) along with presence of other experienced promoters is expected to benefit and provide support to JTCL in times of stress, if any.

Creation of Debt Service Reserve Account (DSRA) and Maintenance Fund

JTCL is required to maintain DSRA to cover one quarter's principal and interest payment in the form of FD, BG or LC. JTCL is maintaining DSRA in the form of fixed deposits and the balance stood at Rs.26.78 as on March 31, 2020 (prov.).

Further, the CA specifies creation of maintenance fund which is being maintained in the form of a bank fixed deposit. This fund shall be used by MPRDC to meet any O&M expenses in the event the O&M contractor does not meet the maintenance specifications.

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

Besides, JTCL has to carry out major maintenance activity as per the concession agreement. It completed the first major maintenance in FY18. However, there is no requirement of maintaining a Major Maintenance Reserve Account as per the latest lender's agreement and the company expects to meet the major maintenance expenditure from the healthy operational cash flows. Further, JTCL had liquid investments of Rs.80 crore and Rs.60 crore in the form of ICD to group companies as on March.31, 2020 part of which are expected to be available to meet the requirements of the company, including major maintenance, going forward.

Strategic location of the project stretch

The project road is a part of Ajmer – Indore SH-31 and is an important highway in the State of M.P. connecting the southern part of the country to north. The project stretch connects commercial cities of Ajmer/ Chittorgarh with commercial capital Indore via Nimach/ Ratlam and provides important links to National Highway (NH)-3 Agra-Indore-Mumbai and NH-59 (Indore-Ahmedabad). The major component of the traffic is freight traffic, comprising Multi-Axle-Vehicles (MAVs), tractors and Light Commercial Vehicles (LCVs).

Key Rating Weaknesses

Declined in toll collection during FY20 on account of construction activity on connecting stretches getting delayed along with impact of COVID-19

JTCL has an operational track record of around 97 months as on March, 2020 for the entire project stretch, even though the individual sections commenced tolling from Sep.2009 onwards. The toll collection of the project since commencement of operation has been healthy and has been on an upward trend. However the toll collection in FY20 (refers to the period April 1 to March 31) declined to ~Rs.175 crore as against ~Rs.202 crore in FY19 with Average daily toll collection (ADTC) of Rs.0.49 crore (Rs.0.55 crore in FY19) on account of traffic de-growth of 14.79% despite constant revision of tariff rates at 7% p.a. as per the Concession Agreement. The de-growth was on account of construction activities on the connecting stretches which has diverted the traffic to a large extent along with shut down of tolling from March 27, 2020 with significant impact on toll collection during last week of March 2020 on account of COVID-19. Further the tolling revenue will be impacted in FY21 on account of lockdown and slowdown of economic activities. The decline in toll collection in the stretch has resulted in moderation of debt coverage indicators.

Inherent revenue risk associated with toll based project

JTCL continues to remain exposed to inherent traffic risk associated with a toll road project due to its linkages with various macro-economic factors. A slowdown in the industrial activity can also hamper the traffic growth especially of commercial vehicles and in turn toll collection.

Operation and Maintenance Risk

The operation and maintenance risk is an inherent risk for such projects. However, it remains mitigated to a certain extent since the O&M activity of the project has been outsourced to ACL.

Regulatory risk

The stretch is a state highway and is exposed to inherent risk associated with regulations announced by the state government which can affect the liquidity profile of the company.

Liquidity: Strong

The liquidity position of the company is strong with JTCL already made repayments for its entire term debt obligations for FY20. In Q1FY21 JTCL has debt repayment obligation of Rs.20.62 crore which is due on June 30, 2020 (to be recovered on July 1, 2020). The company has approximately Rs.80 crore in liquid investment and Rs.60 crore given as ICD to group company (to be recalled whenever required) which provides sufficient liquidity to meet the debt obligation in Q1FY21 (Rs.82.46 crore in FY21). Further, the company also maintained DSRA in the form of Fixed deposit of Rs.26.78 crore and Rs.2 cr in Current account as on March 31, 2020 which further acts as a liquidity support.

Analytical Approach: Standalone

Applicable Criteria:

Criteria on assigning Outlook and credit watch to Credit Ratings

CARE's Policy on Default Recognition

Financial ratios – Non-Financial Sector

Rating Methodology - Toll Road Projects

About the Company

JTCL was originally promoted by a consortium of SREI group of Kolkata, PNC Infratech Ltd (PNC, rated CARE AA-; Stable/A1+) and SPML Infra Ltd, as a Special Purpose Vehicle (SPV) to undertake the four-laning, strengthening and

upgradation of the Jaora-Nayagaon section of SH-31 (erstwhile NH-79) in the State of Madhya Pradesh (MP), on Build, Operate and Transfer (BOT) – Toll basis. ACL (subsidiary of Ashoka Buildcon Ltd.) was inducted as a stakeholder in FY13 and the group gradually increased its stakeholding to 48% and has management control of the project. The CA was executed between JTCL (Concessionaire) and Madhya Pradesh Road Development Corporation Limited (MPRDC) on Aug.20, 2007, for a concession period of 25 years from the construction commencement date (i.e. Aug.25, 2008). The same has been extended by 22 days till Sept. 16, 2033 as compensation for demonitisation impact by MPRDC. The four laning of the entire project, which is divided into three sections, Section I (48 km), Section II (49 km) & Section III (31 km), has already been completed and commenced phase-wise operations from May 2011, February 2012 and September 2009 respectively.

Brief Financials (Rs. crore)	FY18 (A)	FY19 (A)
Total operating income	202.91	201.98
PBILDT	162.92	174.25
PAT	43.08	57.46
Overall gearing (times)	2.06	1.44
Interest coverage (times)	2.44	2.80

Status of non-cooperation with previous CRA: Not applicable.

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Term Loan	-	-	Jan.2026	362.86	CARE AA-; Negative
Non-fund-based - LT-Bank Guarantees	-	-	-	4.50	CARE AA-; Negative

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based - LT-Term Loan	LT	362.86	CARE AA-; Negative	-	1)CARE AA-; Stable (03-Jan-20)	1)CARE AA-; Stable (03-Dec-18)	1)CARE A+; Stable (09-Oct-17)
2.	Non-fund-based - LT-Bank Guarantees	LT	4.50	CARE AA-; Negative	-	1)CARE AA-; Stable (03-Jan-20)	1)CARE AA-; Stable (03-Dec-18)	1)CARE A+; Stable (09-Oct-17)

Note on complexity levels of the rated instrument: CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

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