D S Toll Road Limited

October 04, 2022

Rating

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long Term Bank Facilities	143.52 (Reduced from 171.67)	CARE BB; Stable (Double B; Outlook: Stable)	Revised from CARE D (Single D); Stable outlook assigned
Total Facilities	143.52 (Rs. One Hundred Forty-Three Crore and Fifty-Two Lakhs Only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

Revision in the rating assigned to the bank facilities of D S Toll Road Limited (DSTRL) factor in timely repayment of debt obligation since April 2022, improvement in toll collection in FY22 and 5MFY23, winning of arbitration claim against National Highway Authority of India (NHAI) of Rs. 166.36 crore which is already deposited by NHAI with Hon'ble Delhi High Court and sanction of bank guarantee limit (of Rs. 50 crore) to be issued to High Court for withdrawal of claim amount.

The rating continues to be constrained by weak credit profile of the promoter Reliance Infrastructure Limited (R- Infra), revenue risk associated with inherent nature of toll-based projects, higher operation and maintenance risk as pending major maintenance expenditure is undertaken in FY23 and FY24 posing pressure on cash flow leading to stretched liquidity position. Rating further continues to be constrained by interest rate risk, long standing loans and advances in the form of Inter corporate deposits (ICDs) extended to promoter Reliance Infrastructure Limited.

Rating continues to derive strength from favourable location stretch with no significant competing route, operational project with improving toll collection, maintenance of Debt Service Reserve Account (DSRA) equivalent to one quarter of debt obligations and arbitration claim awarded to DSTRL, will reduce the burden of debt servicing going forward.

Key Rating Sensitivities

Positive Factors

- Significant improvement in the toll collection resulting into improved Debt/PBILDT ratio
- Timely receipt of arbitration claims from the authority resulting in debt reduction at company level

Negative Factors

- Non-maintenance of road as per the required specifications attracting penalization
- Significant variations in the toll performance as compared to estimates

Detailed description of the key rating drivers

Key Rating Weaknesses

Weak credit profile of the promoter R-Infra

DSTRL is a project specific special purpose vehicle promoted by R-Infra. R-Infra was one of the established companies in infrastructure development in the country, however the credit profile of the company has been significantly deteriorated on the back of delays in the debt servicing as well as delays in the redemption of debentures. Therefore, no comfort is derived from the sponsor support.

Revenue risk associated with inherent nature of toll-based projects

Given the inherent nature of toll-based projects, DSTRL is exposed to the inherent revenue risks arising from traffic fluctuations and toll rate revision translating into unpredictable cash inflows. The traffic has grown moderately during FY11-FY22 signifying the traffic growth has matured.

Higher operation and maintenance risk

As per the industry practice, the company shall undertake major maintenance activity once in every five years. The major maintenance expenditure (MME) is spread over a period of two years. The company had conducted its first MME in FY16. The next MME was due in FY21. The company did not carry out any substantial MME in FY21 due to liquidity issue and hence is expected to do the entire work in FY23. DSTRL has given the contract to Notch India Private Limited with estimated cost of Rs.21.23 lakh per lane Km translates to a total outflow of Rs.45 crore to be done in FY23 and FY24 which will be funded through internal accruals. Work is expected to commence from October 2022 and will be completed in September 2023. However, company has not maintained Major Maintenance Reserve (MMR) and planning to utilize internal accruals for the same. Any change in quantum of MME shall have significant influence on the cash flows available for debt servicing.

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[1]Complete definitions of the ratings assigned are available at www.careedge.in and in other CARE Ratings Ltd.'s publications.

Interest rate risk
DSTRL's cash flows are exposed to interest rate risk. This essentially emanates from the fact that over the life of the concession agreement, the interest on debt component will be reset periodically. Repayment schedule of the term loan is back ended with increasing repayments. The possibility of an increase in the rate over the tenure of the loan exposes the cash flows to interest rate risk which could impact the cash flows and therefore the debt coverage indicators of DSTRL. The entire debt shall be repaid by September 30, 2024. The average rate of interest on term loan remained at 11.60% p.a.

Long standing loans and advances in the form of ICDs extended to R Infra
DSTRL had extended Inter-corporate deposits (ICDs) amounting to Rs.64 crore to R Infra which continue to remain outstanding as on March 31, 2022 and the poor credit profile of R Infra leads to risks associated with recoverability of the same. Further, this ICDs have no fixed repayment schedule. R Infra, the sponsor of the project, has extended non-interest-bearing subordinate debt of Rs.46.80 crore (towards project funding - treated as quasi-equity) which is expected to be repaid based on available cash flow after the repayment of the entire project debt.

Key rating Strengths
Timely servicing of debt obligation
DSTRL has regularized term loan interest payment from April 2022 and since then company is regular in paying principal and interest of term loan as per bank statement and as informed by bankers.

Favourable location stretch with no significant competing route
DSTRL operates toll road covering stretch of 53 km from Dindigul to Samyanallore section on National Highway (NH-7) in state of Tamil Nadu. The district primarily has agro based, textile spinning and leather tanning industries. This district is bound by Erode, Tirupur, Karur and Trichy districts on the North, by Sivaganga and Tiruchi District on the East, by Madurai district on the South and by Theni and Coimbatore Districts and Kerala State on the West. NH -7 is one of the prime arterials of the country, connecting extreme south end of the country, with central and northern parts of the country. The project being toll-based is exposed to the inherent revenue risks arising from the traffic fluctuations and annual revision of the toll rates as toll rates are directly linked to Wholesale Price Index (WPI) movements. However, the location of the stretch is favorable as the alternate route is a village road with relatively poor riding quality.

Operational project with improving toll collection
The company started collecting toll from September 29, 2009. It has an operational track record of more than twelve years. The toll revenue increased by 11.43% to Rs.71.18 crore in FY22 as compared to Rs.63.88 crore in FY21.Growth was on account of increase in annual average daily traffic to 19,247 in FY22 vis-à-vis 16,904 in FY21 due to revival of covid-19 restrictions along with increase in average daily toll collection to Rs. 19.50 lakh per day in FY22 from Rs. 17.50 lakh per day in FY21.Incresae in average daily toll collection was due to revision in average toll rates by 15% in September 2021. During 5MFY23, the toll revenue stood at Rs.34.10 crore (41% of projected toll collection in FY23), registering an average daily toll collection of Rs. 22.29 lakh per day.

Creation of Debt Service Reserve Account (DSRA)
The company maintains funded DSRA for one quarter debt obligations (interest and principal) in the form of fixed deposit with the escrow bank - IDFC Bank. The company has maintained a DSRA to the extent of Rs.13.81 crore as on September 01, 2022, which is equivalent to one quarter debt servicing requirement.

Claim awarded to DSTRL by Hon'ble High Court of Delhi
The company has filed claims on account of expenses incurred due to extended construction period with NHAI amounting to Rs.165 crore which was rejected by NHAI. However, it was referred to Arbitration. The Arbitration Tribunal pronounced an award in favour of the DSTRL for an amount of Rs.101.73 crore along with 12% interest till the date of realization amounting to Rs.166.36 crore. However, NHAI has challenged the arbitration award passed by tribunal before the single bench of Hon'ble High Court of Delhi, however, it was rejected by the court. Currently, the High Court of Delhi has passed an order directing NHAI to deposit the amount i.e. Rs.166.36 crore with High Court registry of High Court of Delhi and NHAI deposited the same amount in February 16, 2022. As per order of Hon'ble High Court of Delhi dated February 23, 2022, DSTRL can withdraw the said amount by furnishing bank guarantee of equivalent amount. Bank guarantee of Rs. 50 crore is already sanctioned on September 23, 2022 against which funds are expected to be released in October 2022 by Delhi High Court in escrow account which will be utilized to meet debt obligation from Q3FY23. As a result, the claim proceeds will help the company to repay its term loan and surplus proceeds will be utilized for cash margin of bank guarantee. Timely receipt of the funds and sanction of bank guarantee limit (for balance amount) needs to be seen.

Liquidity analysis: Adequate
The liquidity position remained stretched marked by tightly matched gross cash accruals to repay its debt obligations of Rs. 59.10 crore out of which Rs. 27.90 crore are already repaid in H1FY23. Further company has undertaken major maintenance expenditure of Rs. 45 crore and out of which Rs. 35 crore will be incurred in FY23 and rest Rs. 10 crore in FY24 through internal accruals. Thus, any delay in receipt of arbitration claim amounting to Rs. 166.36 crore which will result in cashflow mismatch. Comfort can be drawn from the fact the company has cash and bank balance of Rs. 8.95 crore and DSRA balance of Rs. 13.81 crore as on September 01, 2022.

Analytical approach: Standalone

Applicable Criteria:
Policy on default recognition
Financial Ratios – Non financial Sector
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Credit Watch
Construction
Infrastructure Sector Ratings
Toll Road Projects

About the Company
DS Toll Road Limited (DSTRL) is a Special Purpose Vehicle (SPV) promoted by Reliance Infrastructure Limited for construction of the toll road covering stretch of 53 km from Dindigul to Samyanallore section on National Highway (NH-7) in state of Tamil Nadu on Build-Operate-Transfer (BOT) basis. The project involved widening of two lanes into four laning dual carriageway facility. The company entered into the Concession Agreement (CA) on January 30, 2006 with National Highway Authority of India for a period of 20 years ending July 29, 2026. The total cost of the project was Rs.428 crore which was funded by sponsor equity of Rs.65 crore; grant paid by NHAI Rs.31 crore and balance debt. The road became operational from September 29, 2009.

Brief Financials (Rs. crore)	31-03-2021 (A)	31-03-2022 (Prov.)	5MFY23 (Prov.)
Total operating income	67.23	72.67	34.10
PBILDT	52.22	57.71	NA
PAT	-1.17	2.41	NA
Overall gearing (times)	3.30	2.43	NA
Interest coverage (times)	1.88	2.30	NA

A: Audited, Prov.: Provisional, NA: Not Available

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not applicable

Rating history for the last three years: Please refer Annexure-2

Covenants of the rated instruments/facilities: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated for this company: Annexure-4

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Term Loan		-	-	30/09/2024	143.52	CARE BB; Stable

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Fund-based - LT-Term Loan	LT	143.52	CARE BB; Stable	1)CARE D (04-Apr-22)	1)CARE B; Stable (06-Apr-21)	1)CARE B; Stable (08-May-20)	1)CARE BB+; Stable (03-Apr-19)

*Long term/Short term.

Annexure-3: Detailed explanation of the covenants of the rated instruments/facilities

Name of the Instrument (Term loan)	Detailed Explanation
A. Financial covenants	
I. Debt to Equity Ratio	An overall debt to equity ratio of not more than 4:1 during the currency of the loan
II. Debt Service Coverage Ratio (DSCR)	The company shall maintain a DSCR of not less than 1.10x throughout the currency of the facility
B. Non-financial covenants	
I. Debt Service Reserve Account	Maintain DSRA to the extent of Rs.13.90 crore, to meet the debt service requirements equivalent to the ensuing average 1 quarter principal and interest payments due.
Ii. Major Maintenance Reserve Account	The company shall maintain a MMRA in the form of reserve account from project cashflows to meet the major maintenance requirements of the project
Name of the Instrument (Bank guarantee)	**Detailed Explanation**
A. Non-financial covenants	
I. Major Maintenance Expenditure	Major maintenance to be completed by June 30, 2023
II. Debt Service Reserve Account	DSRA as stipulated for the term loan facility (i.e. one quarter's average debt servicing) to be compiled by March 31, 2023

Annexure-4: Complexity level of various instruments rated for this company

Sr. No.	Name of Instrument	Complexity Level
1	Fund-based - LT-Term Loan	Simple

Annexure-5: Bank lender details for this company

To view the lender wise details of bank facilities please click here

Note on complexity levels of the rated instruments: CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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With an established track record of rating companies over almost three decades, we follow a robust and transparent rating process that leverages our domain and analytical expertise backed by the methodologies congruent with the international best practices. CARE Ratings Limited has had a pivotal role to play in developing bank debt and capital market instruments including CPs, corporate bonds and debentures, and structured credit.

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