Ahmedabad Maliya Tollway Limited

January 06, 2023

Ratings

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	761.47 (Reduced from 821.25)	CARE A; Stable (Single A; Outlook: Stable)	Reaffirmed
Total Bank Facilities	**761.47 (₹ Seven Hundred Sixty-One Crore and Forty-Seven Lakhs Only)**		
Non-Convertible Debentures @	175.00	CARE AA (CE) (RWD)	(Rating Watch with Developing Implications)
Total Long-Term Instruments	**175.00 (₹ One Hundred Seventy-Five Crore Only)**		

Details of instruments/facilities in Annexure-1.

@ Backed by unconditional and irrevocable Sponsor Support Undertaking (for coupon payment) and Put Option Agreement (for redemption) on the NCD provided by L&T Infrastructure Development Projects Limited (LTIDPL, rated 'CARE AA (RWD)').

Unsupported Rating	**CARE A (Single A) [Reaffirmed]**

Note: Unsupported Rating does not factor in the explicit credit enhancement.

Detailed rationale and key rating drivers for the credit enhanced debt

The rating assigned to the long-term non-convertible debentures (NCDs) of Ahmedabad Maliya Tollway Limited (AMTL) derives strength from the credit enhancement in the form of an unconditional and irrevocable Sponsor Support Undertaking (for coupon payment) and Put Option Agreement (for redemption) on the NCDs provided by L&T Infrastructure Development Projects Limited (LTIDPL).

Detailed rationale and key rating drivers of L&T Infrastructure Development Projects Limited (Credit enhancement provider)

The ratings of LTIDPL has been placed on rating watch with developing implications consequent to the recent share purchase agreement (SPA) entered by Larsen & Toubro Limited and CPPIB for transfer of its entire shareholding to Epic Concesiones Private Limited, a Special Purpose Vehicle created for the said transaction which is a part of the Infrastructure Yield Plus II, an infrastructure fund managed by Edelweiss Alternative Asset Advisors Limited. The stake sale is expected to be completed subject to satisfaction of customary closing conditions including applicable regulatory and other approvals. The credit profile of the incoming investor and the strategic importance of LTIDPL for the new investor remains a key monitorable before resolving credit watch. CARE Ratings Limited (CARE Ratings) shall take a view on the ratings once the transaction is completed and/or more clarity is available with respect to the same. In line with this, the ratings based on credit enhancement of AMTL has also been placed on watch with developing implication.

The ratings of LTIDPL continue to derive strength the company's healthy capital structure, established track record of operational assets under LTIDPL, notable growth in toll collections at special purpose vehicles (SPVs) of LTIDPL and nil debt levels on standalone level. The aforementioned rating strengths are, however, moderated by the limited revenue source at LTIDPL standalone level, traffic risk associated with its SPVs, majority of which are toll-based, and consistent operational funding support towards few SPVs.

Rating Sensitivities (LTIDPL)

Positive Factors - Factors that could lead to positive rating action/upgrade:

- Significant improvement in the performance of operational projects, resulting in minimal funding support requirement from LTIDPL.

Negative Factors- Factors that could lead to negative rating action/downgrade:

- Significantly higher-than-envisaged support requirements.
- Steep decline in liquidity at standalone and SPV levels

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

[2]As stipulated vide SEBI circular no SEBI/ HO/ MIRSD/ DOS3/ CIR/ P/ 2019/ 70 dated June 13, 2019. As per this circular, the suffix 'CE' (Credit Enhancement) is assigned to the ratings with explicit external credit enhancement, against the earlier used suffix 'SO' (Structured Obligation).

Detailed rationale and key rating drivers of Ahmedabad Maliya Tollway Limited

The reaffirmation of the rating assigned to the long-term bank facilities and unsupported rating of AMTL derive strength from the company's established track record of toll collections, favourable location of the project and its strategic importance to the state of Gujarat. The rating also factors in strong sponsor and the demonstrated support extended by the parent LTIDPL. Availability of liquidity buffers in the form of Debt Service Reserve Account (DSRA), deferment of the revenue share payable to authority and notable toll growth during 8MFY23 are other credit positives. The rating also considers the completion of pending capex in the current fiscal.

The above rating strengths for AMTL are, however, tempered by the inherent risks associated with the toll-based road projects, inherent regulatory risk being state project and exposure to Operation & Maintenance (O&M) as well as the interest rate risk.

Rating Sensitivities (AMTL)

Positive Factors - Factors that could lead to positive rating action/upgrade:

- Significant increase in the traffic growth and toll collection on a sustained basis.
- Substantial prepayment of debt resulting in improved debt coverage indicators over 1.25 times on a sustained basis.

Negative Factors- Factors that could lead to negative rating action/downgrade:

- De-growth in toll collections as well as lower receipt in compensation payment, resulting in the debt coverage indicators below 1.15 times on a sustained basis.

Detailed description of the key rating drivers (LTIDPL – credit enhancement provider)

<u>Key rating strengths</u>

Benefits derived from strong parentage

As on September 30, 2022, L&T Ltd held 51% stake in LTIDPL, and balance 49% is held by Canadian Pension Plan Investment Board (CPPIB). L&T has strong competencies across the segments and sound track record of executing projects. It is also to be 1Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications 2 CARE Ratings Ltd. Press Release noted that performance of the various SPVs are periodically monitored at the group level to ensure smooth execution of projects and the promoter aids with the management of cash flows on a need basis.

The Board of directors comprise two representatives from L&T, one from CPPIB and three independent directors. Moreover, the Chief Financial Officer is also on deputation from L&T. CPPIB holds its stake in LTIDPL through its wholly-owned subsidiary, CPPIB India Private Holdings Inc. CPPIB is one of the largest Canadian pension fund managers with a large, global investment across sectors and strong financial position.

In light of the recent SPA signed, the above-mentioned strengths may change based on the incumbent investor and LTIDPL's strategic importance for it. CARE Ratings shall be monitoring the transaction and its impact on the credit profile on LTIDPL.

Entire portfolio consists of operational projects

LTIDPL acts as a holding company with investments in SPVs that undertake infrastructure projects. LTIDPL's portfolio consists of 11 projects and all the projects are operational as on September 30, 2022. Portfolio consists of one power transmission project and 1 road projects. Out of road projects – nine are toll-based road projects and one is annuity-based. With all the projects being operational, execution risk is nil with no major equity commitments towards these projects.

Nil Leverage and strong liquidity position

LTIDPL as on March 31, 2022 stood debt free on the back of prepayment of its entire debt through the sale of first tranche of 5.55 crore units of Indinfravit Trust providing and inflow of ₹563.60 crore. LTIDPL also received warranty payments of ₹189 crore from L&T in FY22. These Proceeds are utilised for the prepayment of entire standalone term debt of LTIDPL and extending support to Vadodara Bharuch Tollways Ltd for its bullet repayment in June 2021. LTIDPL had zero external debt, mutual fund investment of ₹177.47 crore and liquid balances in fixed deposits/current account of ~₹67.60 crore as on March 31, 2022. Financial flexibility is also derived from balance InvIT units with cost ₹468.21 crore as on March 31, 2022.

Comfortable capital structure supported by periodic equity infusion and divestments of stake in SPVs

LTIDPL had a net worth of ₹3,145 crore as on March 31, 2022. Its healthy net worth is a result of periodic divestments of its stake in completed projects besides infusion of fresh equity from the promoter and investors. Leverage stood nil as on March 31, 2022. Adjusted overall gearing (adding guaranteed debt and excluding investment and advances to weaker SPVs) stood at comfortable levels due to nil debt of LTIDPL.

Thrust of GoI on highways development albeit with increasing competitive intensity

GOI through National Highways Authority of India (NHAI; rated 'CARE AAA; Stable') has taken various steps to improve the prospects of the road sector. These include bidding of tenders only after 80% land has been acquired for the project, release of

75% of arbitration award against submission of bank guarantee and 100% exit for developers after two years of project completion. NHAI made favourable changes in the clauses of model concession agreement of HAM projects in November 2020 and linked interest annuities to average MCLR of top five schedule commercial banks in place of bank rate. However, competition has intensified in the sector for last two years in terms of bidder participation and deviation in bidding from authority cost amidst hike in the steel and cement prices.

Liquidity - LTIDPL: Strong

LTIDPL's liquidity is strong marked by mutual fund investment of ₹177.47 crore and liquid balances in fixed deposits/current account of ~₹67.60 crore as on March 31, 2022, at LTIDPL standalone level and ₹425 crore of mutual fund investments and free cash and cash equivalent of ₹938.10 crore at consolidated level over and above the standalone figures. LTIDPL has zero external debt as on March 31, 2022, aiding cash flow cushion. Moreover, as articulated by the management, LTIDPL shall maintain liquidity buffer of the amount equivalent to outstanding commercial paper, whenever placed by it.

<u>Key rating weaknesses</u>

Underperformance of few of the SPV leading to dependence on LTIDPL for meeting their shortfall

Due to the high premiums being involved in the project or having lesser than envisaged traffic owing higher leakages, few projects require financial assistance from LTIDPL or its stronger SPVs. Of the 10 operational projects, majority of the projects are self-sufficient and do not require any support from LTIDPL, while two projects, L&T Rajkot-Vadinar Tollway Limited and L&T Samakhiali Gandhidham Tollway Private Ltd would majorly require shortfall funding in the near term. Loan and advances aggregating to ₹242.46 crore remained o/s with these projects as on March 31, 2022. Going forward, unprecedented support requirement to the aforesaid SPVs shall be a key rating monitorable. However, free cash and cash equivalents/mutual funds of ₹245 crore as on March 31, 2022, at standalone level of LTIDPL and ₹425 crore of mutual fund investments and free cash and cash equivalent of ₹938.10 crore at consolidated level over and above the standalone figures provide significant financial flexibility in the near to medium term.

Traffic and revenue risk for toll-based projects

Except for one project, all the road projects of LTIDPL portfolio are tollbased. Toll-based nature of the projects exposes the company to the cash flow risk arising out of traffic flow and toll collection over the tenure of the loan facility. All the toll-based SPVs remain exposed to the inherent revenue risks arising from traffic fluctuations and annual revision of the toll rates which 3 CARE Ratings Ltd. Press Release are linked to WPI. Furthermore, traffic diversion risks on account of alternative routes leading to lower collections and interest rate risks also exist. Absence of MMRA in majority of the SPVs also pose O&M risk.

Steady decline in revenue from operations

LTIDPL acquires concessions through a competitive bidding process for the development of various infrastructure assets such as roads, bridges, ports, airports, etc. LTIDPL generates regular income from the O&M of projects commissioned by its subsidiaries, providing advisory services on financing and engineering, interest / dividend from associates/subsidiaries, income from bank deposits/mutual funds apart from the construction income. LTIDPL implements any project by procuring EPC contract from its subsidiaries along with a back-to-back contract with L&T Construction. Until FY18, the company had been generating majority of its income from construction activities. However, with no new project additions, total operating income had declined steadily over last three years ended FY21.

Detailed description of the key rating drivers (AMTL)

<u>Key rating strengths</u>

Demonstrated track record of support from parent and group entities

LTIDPL has extended financial support to AMTL for the cash flow shortfall in the past in the form of unsecured loans. During FY18 (refers to the period April 1 to March 31), AMTL has refinanced existing loan with new term loan of ₹900 crore and NCD of ₹175 crore. As part of the refinancing, the company has raised ₹175 crore in the form of NCDs which carry credit enhancement in the form of unconditional and irrecoverable "Sponsor Support Undertaking" and "Promoter Put Option Agreement" given by LTIDPL to the NCD investors of AMTL to meet the NCD (interest and principal) obligations.

Favourable location of the project highway

The existing road is a two-lane carriageway traversing through the districts of Ahmedabad, Surender Nagar and Rajkot. The Project Road is of strategic importance to the state of Gujarat and mainly caters to the traffic within Gujarat besides the traffic from Maharashtra and the southern states. The stretch passes through many large industrial establishments connecting some of the industrial towns such as Viramgam, Morbi and Kadi. The project road serves mainly port traffic and traffic originating from

Gujarat and Maharashtra destined to Kandla, Mundra, Mandvi and Navalki ports (in the Kutch region). The project road is the shortest road connecting the Kutch region and the nearby ports from Ahmedabad, Maharashtra and South India.

The major competing route is NH-8A, which meets the project road at Maliya. Distance-wise, NH-8A is longer than the project road by about 100 km. There are various competing and alternate routes for the whole or part of the project road; however, the possibility of traffic diversion from the project road is estimated to be moderate as the distance of the alternate routes are longer than the project route.

Also, as indicated by the company, under-construction dedicated rail freight corridor between Delhi and Mumbai would not have any major impact on the traffic flow of the project, as AMTL project stretch has negligible vehicles moving towards Delhi.

Recovery in toll collection witnessed in FY22 and continued in 8MFY22

Toll collection grew by 24% to ₹273 crore (ADC: ₹75 lakh/day) during FY22 from ₹221 crore (ADC: ₹62 lakh/day) during FY21 as a result of lifting of lockdown restrictions. The recovery trend continued with ₹209 crore (ADC: ₹86.5 lakh/day) of toll collection recorded during 8MFY23 as compared to ₹170 crore (ADC: ₹71 lakh/day) toll collection recorded during 8MFY22.

Escrow arrangement and presence of DSRA

AMTL maintains an Escrow Account wherein all toll fees collected by AMTL from the users of the Project Highway shall be exclusively deposited. The Escrow Agreement also defines the priorities in accordance with which the above funds are to be applied, under different conditions. All statutory dues shall have a priority followed by EPC expenses, O&M expenses, dues payable to GSRDC, senior debt servicing, and any other reserve requirement set forth in the financing agreement, in that order. AMTL is required to maintain DSRA equivalent to one quarter interest and principal repayments either in the form of fixed deposit or bank guarantee. As on September 30, 2022, AMTL maintained DSRA of ₹39 crore in the form of fixed deposit.

Deferment of GSRDC for revenue share

As per the concession agreement, AMTL should share 12.13% of the toll fee with GSRDC in the first year (FY13) which shall increase by 1% every year throughout the concession period. AMTL had sought GSRDC for deferment of revenue share payable to GSRDC due to lower-than-expected toll collections. AMTL has received approval from GSRDC for deferment of revenue share. As on March 31, 2022, the unpaid revenue share (including interest) stood at ₹99 crore.

Liquidity - AMTL: Adequate

Liquidity is marked by adequate accruals against repayment obligations in FY23. Furthermore, AMTL has created DSRA equal to 3 months of debt servicing in the form of fixed deposit for an amount of ₹39 crore. The company had free cash balance of ₹26 crore as on September 30, 2022.

<u>Key rating weaknesses</u>

Inherent risks associated with road projects and major share of revenue from MAVs making the stretch susceptible to downturn in economic cycles

The project is exposed to inherent revenue risk associated with any toll road project due to its susceptibility to lower than envisaged vehicular traffic movement on the road. During FY22, MAV segment contributed around 69% (FY21: 68%) of the total revenues. The significant contribution of these MAV segments to the total revenue makes the project stretch susceptible to economic downturns. Going forward, with the expected improvement in economic activities and increase in the industrial activity near the project stretch will guide the future growth prospects of the project.

Regulatory risk

AMTL is exposed to the inherent regulatory risk being a state highway project. GoG had earlier announced toll exemption of cars and has been regular in payment of compensation within 25 to 30 days of claim. While the requisite compensation from GoG is being released consistently, significant delay shall impact the debt coverage indicators of AMTL and is therefore a key rating monitorable.

Inherent O&M and interest rate risk

AMTL is exposed to the inherent O&M risk elevated by absence of major maintenance reserve account (MMRA). The company also faces interest rate-related risk as majority of debt is held in the form of term loans with floating interest rate.

Analytical approach

NCDs (CE Rating): Guarantor's Assessment

Term Loan/Unsupported: Standalone, factoring linkages with the parent, LTIDPL

Approach for credit enhancement provider (LTIDPL): Standalone while factoring the support requirement in the two weaker operational SPVs and explicit support extended to the part debt of other two operational SPVs (Ahmedabad Maliya Tollway Limited and L&T Deccan Tollways Limited). Portfolio of LTIDPL comprises operational assets and management has no plans to bid for new projects in near to medium term. Therefore, surplus of other operational assets is expected to be up streamed to fund the deficit of two operational toll projects. The rating also factors parentage of L&T along with sharing of common name.

Applicable criteria

- Policy on default recognition
- Factoring Linkages Parent Sub JV Group
- Liquidity Analysis of Non-financial sector entities
- Criteria on assigning 'outlook' and 'credit watch' to credit ratings
- Criteria for Rating Credit Enhanced Debt
- Rating Methodology - Toll Road Projects
- Financial Ratios - Non-Financial Sector
- Rating Methodology - Infrastructure Sector Ratings

About the company – LTIDPL (CE Provider)

L&T Infrastructure Development Projects Ltd (LTIDPL), formerly L&T Holdings Ltd, is promoted by Larsen & Toubro Ltd (L&T) and serves as the holding company for the group's various infrastructure projects. As on March 31, 2022, L&T held 51% stake in LTIDPL and balance 49% is held by Canadian Pension Plan Investment Board (CPPIB). LTIDPL's existing portfolio comprises 10 road projects and one power transmission line project.

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	H1FY23 (UA)
Total operating income*	50.94	51.42	NA
PBILDT	-11.00	-2.68	NA
PAT	-53.10	-43.02	NA
Overall gearing (times)	0.10	0.00	NA
Interest coverage (times)	NM	NM	NA

A: Audited; UA: Un-Audited; NM: Not meaningful; NA: Not available

*Only includes revenue from operations

Note: Financials classified as per CARE Rating's internal standards

About the company – AMTL

Ahmedabad Maliya Tollway Limited (AMTL), an SPV incorporated and fully owned by L&T Infrastructure Development Projects Limited, has entered into 22-year Concession Agreement on September 17, 2008, with Gujarat State Road Development Corporation (GSRDC) for the design, construction, development, O&M of a 180-km road project in Gujarat on Build Operate and Transfer (BOT) Toll basis. The concession period of 22 years includes 2 years and 6 months of construction period from Appointed Date of October 12, 2009. As per the supplementary agreement dated December 18, 2015, the concession period has been extended by 103 days. The project involves four-laning of the existing two-lane Ahmedabad-Viramgam and Viramgam-Maliya Section of SH-17 & SH-7, respectively, located in Gujarat. The project achieved COD on November 22, 2012.

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	H1FY23 (UA)
Total operating income	224	281	NA
PBILDT	124	151	NA
PAT	-7	-17	NA
Overall gearing (times)	14.63	18.52	NA
Interest coverage (times)	1.30	1.40	NA

A: Audited; UA: Unaudited; 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
Debentures-Non Convertible Debentures	INE557L07031	August 28, 2017	8.60%	August 28, 2030	175.00	CARE AA (CE) (RWD)
Fund-based - LT-Term Loan	-	-	-	March 2030	761.47	CARE A; Stable
Un Supported Rating	-	-	-	-	0.00	CARE A

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	Debentures-Non Convertible Debentures	LT	175.00	CARE AA (CE) (RWD)	-	1)CARE AA (CE); Stable (15-Feb-22) 2)CARE AA (CE); Stable (05-Apr-21)	1)CARE AA (CE); Stable (06-Apr-20)	1)CARE AA (SO); Positive (16-May-19)
2	Fund-based - LT-Term Loan	LT	761.47	CARE A; Stable	-	1)CARE A; Stable (15-Feb-22) 2)CARE A; Stable (05-Apr-21)	-	1)CARE A; Stable (05-Mar-20)
3	Un Supported Rating	LT	0.00	CARE A	-	1)CARE A (15-Feb-22)	-	-

*Long term/Short term.

Annexure-3: Detailed explanation of the covenants of the rated instruments/facilities: Not Applicable

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

Sr. No.	Name of Instrument	Complexity Level
1	Debentures-Non Convertible Debentures	Simple
2	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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