L&T Rajkot – Vadinar Tollway Limited

February 07, 2022

Rating

Facilities/Instruments	Amount (Rs. crore)	Rating[1]	Rating Action
Long Term Bank Facilities	480.25 (Reduced from 616.58)	CARE BBB-; Stable (Triple B Minus; Outlook: Stable)	Reaffirmed
Total Bank Facilities	**480.25 (Rs. Four Hundred Eighty Crore and Twenty-Five Lakhs Only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The rating assigned to the bank facilities of L&T Rajkot-Vadinar Tollway Limited (LTRJV) continues to derive strength from its strong parentage, being a wholly owned subsidiary of L&T Infrastructure Development Projects Limited (LTIDPL), along with demonstrated funding support by its parent and LTIDPL management's articulation regarding continued need-based support to LTRJV going forward. The rating also continues to factor operational track record of around ten years of toll collection, strategic importance of the project highway despite the risk of diversion, presence of Debt Service Reserve Account (DSRA) by way of Bank Guarantee extended by the sponsor along with a comfortable tail period of around five years. The rating also factors in growth in average daily toll collection (ADTC) during 8MFY22 (refers to the period April 01 to November 30) after witnessing a marginal degrowth in toll collection during FY21 (refers to the period April 01 to March 31) due to COVID-19.

The above rating strengths, however, continues to be tempered by the inherent traffic risk associated with toll based road projects, inherent operations & maintenance (O&M) risk, interest rate risk and higher reliance on sponsor support in light of lower toll collection as compared with initial estimates.

Rating Sensitivities

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

- Significant increase in the traffic growth and toll collections on sustained basis.

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

- Lack of timely parent support or deterioration in the credit profile of the parent.
- Further increase in cash flow shortfall.

Detailed description of the key rating drivers

Key Rating Strengths

Strong promoter with proven track record of operations

LTIDPL, a 51% subsidiary of Larsen and Toubro Ltd, is the holding company for the L&T group's various infrastructure project investments including LTRJV. LTIDPL has promoted and executed several infrastructure projects under public-private partnership in the field of roads, bridges, seaports, airport, commercial and residential real estate development. LTIDPL's existing portfolio comprises of 10 road projects and one power transmission line project.

L&T with a track record of about eight decades is an established and dominant engineering and construction player with presence across a wide range of industries such as oil and gas, refineries and chemical complexes, industrial projects, power and infrastructure. L&T has strong competencies across the segments and proven operational track record of executing projects.

Favorable location of the project highway, but risk of diversion exists

Project road is of strategic importance to the State of Gujarat as it connects the residential and industrial areas of Jamnagar and Rajkot. Jamnagar is a highly industrialized area with presence of many refineries and other state industrial undertakings. In addition, the project road serves as an important link to the various key ports along the coastline of Gujarat. Further industrialization of areas surrounding Jamnagar is expected to drive growth in traffic for the project highway. The state highway SH-26 (Rajkot-Kalavad-Jamnagar Road) is the alternative road to the project road whose length is same as the Rajkot-Dhrol-Jamnagar stretch of the project road. Major alternate road to the project (TP3 near Vadinar) was a private road which was open to public and there were diversion of Trucks and MAV traffic segment into the alternate road. As heavy trucks and MAV segment is the major contributor to both the traffic volumes and revenues in the project stretch, there is risk due to this diversion and the same is also one of the reasons for the actual income being much lesser than the estimates.

Continued demonstrated support of the promoter

Due to significantly lower traffic volume than the originally envisaged levels, there was cash-flow shortfall from operations during FY13-21. The cash-flow shortfall was supported by the parent and fellow subsidiaries. During FY21, one of RJV's group companies, Vadodara Bharuch Tollway Ltd had extended unsecured loans to the tune of Rs.20 crore to meet out the shortfall as compared to support of Rs.80 crore provided by LTIDPL and its subsidiaries during FY20. Requirement of financial support during FY21 was limited due to availment of moratorium.

With the debt repayments increasing y-o-y till the maturity of the loan in FY25, financial support from LTIDPL and its associates is crucial for timely debt repayment. Although longer tail period offers economic incentive for supporting the project, continuation of support from the promoter group is key for debt servicing.

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

Escrow arrangement
LTRJV has opened an Escrow Account wherein all fees collected by LTRJV from the users of the Project Highway shall be exclusively deposited. The Escrow agreement specifies the order of transfer of funds from the escrow account, as all statutory dues, EPC expenses, O&M expenses, concession fees payable to GSRDC, senior debt servicing, premium and other dues payable to GSRDC, subordinate debt repayments and any other reserve requirement etc., in that order.

Key Rating Weaknesses
Lower traffic levels as compared to the initial estimates
The traffic levels and thereby the toll collections have been lower than the envisaged levels since commercial operations in 2012. During FY21, toll collection declined to Rs.120 crore as against Rs.131 crore in FY20. ADTC declined by around 5% during FY21 and remained at Rs.34.67 lakh per day as against Rs.36.53 lakh perday in FY20. The decline in ADTC is primarily on account of COVID-19 related disruptions.
The muted growth can be attributed to the traffic diversion towards state coastal highway on account of restriction of commercial vehicle on a connecting route. Additionally, the decline in the traffic volumes in the MAV segment is mainly on account of the private alternate road since 2014. LTRJV has made representation to the Concession Authority, Gujarat State Road Development Corporation (GSRDC) regarding the traffic diversion into the alternate road and is in discussions with the authority to solve the issue. The company has also submitted claims for the loss of revenue due to the presence of alternate road and for various other reasons to GSRDC.
During 8MFY22, RJV reported a toll collection of Rs.90.36 crore as against toll collection of Rs.72.25 crore in 8MFY21. ADTC recovered from Rs.32.11 lakh per day in 8MFY21 to Rs.37.03 lakh per day owing to gradual recovery in traffic. During 8MFY22, MAV segment contributed around 60% (FY20: 59%) of total revenues. The significant contribution of these MAV segment to the total revenue makes the project stretch susceptible to economic downturns.

Deferment of GSRDC for revenue share
As per the CA, RJV should share 12.95% of the toll fee with GSRDC in the first year (FY13) which shall increase by 1% every year throughout the concession period. RJV had sought GSRDC for deferment of revenue share payable to GSRDC and has received approval from GSRDC in April 2017 for deferment of revenue share. As on March 31, 2021, the unpaid revenue share to GSRDC stood at Rs.115.83 crore. As per the supplementary agreement dated August 01, 2017, the company is obliged to pay Rs.10.14 crore to GSRDC in FY20 against which the company has paid Rs.8.46 crore during FY21.

Liquidity: Stretched
Liquidity of LTRJV is stretched as its cash flow from operations is not adequate to repay the debt and GSRDC premium. However, LTIDPL and group entities have supported LTRJV since inception through equity infusion or by way of extending unsecured loans for ensuring its uninterrupted operations. The company also maintains DSRA in the form of bank guarantee equivalent to 1 quarter of interest and principal. As on November 30, 2021, BG to the tune of Rs.53.25 crore has been kept as DSRA. Also, the liquidity position of LTIDPL and its subsidiaries is comfortable with free cash and bank balance (including liquid mutual funds) to the tune of Rs.1389 crore as on September 30, 2021. Timely support from the sponsor will be crucial from credit perspective.

Analytical approach:
Standalone approach, factoring in the linkages with strong parent

Applicable Criteria
Policy on default recognition
Factoring Linkages Parent Sub JV Group
Financial Ratios – Non financial Sector
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Credit Watch
Toll Road Projects

About the Company
L&T Rajkot Vadinar Tollway Limited (RJV), an SPV incorporated and fully owned by LTIDPL (rated, 'CARE AA; Stable') has entered into a 20-year Concession Agreement (CA) on September 17, 2008 with Gujarat State Road Development Corporation (GSRDC) for strengthening the existing two lane stretch, widening to a four lane of the existing carriageway, operation and maintenance of a 131.65 km road project in Gujarat on Build Operate and Transfer ('BOT') Toll basis. The Concession period of 20 years includes 2 years and 3 months of Construction period and 17 years and 9 months of Operations period. The project has three stretches/sections namely TP-1 (Rajkot to Dhrol), TP-2 (Dhrol to Jamnagar) and TP-3 (Jamnagar to Vadinar). The project achieved provisional COD on February 01, 2012.

Brief Financials (Rs. crore)	31-03-2020 (A)	31-03-2021 (A)	H1FY22 (UA)
Total operating income	104.78	95.35	51.00
PBILDT	72.87	74.12	41.00
PAT	-34.54	-15.35	-18.00
Overall gearing (times)	NM	NM	NM
Interest coverage (times)	0.84	0.99	1.28

A: Audited; UA: Unaudited; NM: Not meaningful

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

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

Covenants of rated instrument / facility: 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	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Term Loan	-	-	-	July 2024	480.25	CARE BBB-; Stable

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 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1	Fund-based - LT-Term Loan	LT	480.25	CARE BBB-; Stable	1)CARE BBB-; Stable (07-Apr-21)	1)CARE BBB-; Stable (06-Apr-20)	-	1)CARE BBB-; Stable (29-Mar-19) 2)CARE BBB-; Stable (06-Apr-18)

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities: Not applicable

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 instrument: CARE Ratings Ltd. 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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