

L&T Rajkot Vadinar Tollway Limited

April 07, 2021

Ratings

Facilities/Instruments	Amount (Rs. crore)	Ratings	Rating Action
Long term Bank Facilities	616.58 (Reduced from 637.47)	CARE BBB-; Stable (Triple B Minus; Outlook: Stable)	Reaffirmed
Total Bank Facilities	616.58 (Rs. Six hundred sixteen crore and fifty-eight 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 (LTRJV) Limited continues to derive strength from the strong promoter background (L&T Infrastructure Development Projects Limited, LTIDPL, parent) of LTRJV and their proven operational track record, the demonstrated funding support by its parent and the expectation of continuation of support and the strategic importance of the project highway despite the risk of diversion.

The rating is constrained by the revenue risk associated with a toll-based project owing to uncertainty in traffic volumes and lower traffic levels 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 Strength

Strong promoter with proven track record of operations

L&T Infrastructure Development Projects Ltd (LTIDPL, rated 'CARE AA; Stable'), 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.

Continuation of financial support from the promoter

Due to significantly lower traffic volume than the originally envisaged levels, there was cash-flow shortfall from operations during FY13-20. The cash-flow shortfall was supported by the parent and fellow subsidiaries. During FY19, one of RVJ's group companies, VBTL had extended unsecured loans to the tune of Rs.66 crore to meet out the shortfall. During FY20, LTIDPL and its subsidiaries have provided support to an extent of Rs.80 crores to cover the shortfall. Requirement of financial support during FY21 was limited as moratorium was availed.

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. The continuation of support from the promoter group is key for debt servicing.

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. The company also maintains DSRA in the form of bank guarantee equivalent to 1 quarter interest and principal. As on March 31, 2020, BG to the tune of Rs.47.87 crore has been kept as DSRA.

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 FY20, traffic declined by 2% Y-o-Y, with volumes across all the segments witnessing degrowth. Toll collections witnessed marginal Y-o-Y growth of 1% during FY20. Toll revenue during FY20 was largely driven by CJV (31%) and MAV (58%) segments. The muted performance in FY20 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 9mFY21, toll collections stood at Rs.85.05 crore (9mFY20: Rs.99.26 crore) largely due to covid related slowdown in vehicle movement. Average Daily Collection (ADC) during 9mFY21 stood at Rs.34.85 lakhs as against ADC of Rs.40.68 lakhs during 9mFY20. ADC during the month of January 2021 stood at Rs.39.78 lakhs/day which translates into 2% y-o-y growth from January 2020.

Covid-19 impact

During 9mFY21, toll collections declined by 14% while the overall volumes dropped by 24%, largely due to lockdown restrictions during Q1FY21. Additionally, the movement of commercial vehicles remained subdued due to lower demand of fuel and its eventual impact on the commercial activity occurring in and around the vicinity of the stretch. Subsequently, with relaxation of the lockdown restrictions from June 2020 onwards, traffic levels started gradually improving. The month-wise ADT-ADC comparison suggest a recovery of traffic volumes and revenue from September 2020. Company had availed a Moratorium for the period of 6 months from March 2020-August 2020. The accrued interest is added to the principal repayment.

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, 2020, the unpaid revenue share (including interest) stood at Rs. 100.71 crore. As per the supplementary agreement dated August 01, 2017, the company is required to pay Rs.1.42 Crores in FY20 and Rs.10.14 Crores in FY21, out of which the company has paid Rs. 0.47 Crores during FY20. During 9mFY21, the company has made a deferment payment of Rs.6.03 crore.

Major share of revenue from MAVs making the stretch susceptible to downturn in economic cycles

During FY20, MAV segment contributed around 58% (FY19: 56%) of total revenues. The significant contribution of these MAV segment to the total revenue makes the project stretch susceptible to economic downturns.

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. Also, the liquidity position of LTIDPL is comfortable with cash and bank balance (including liquid mutual funds) to the tune of Rs.262 crore (of which Rs. 77 crores is unencumbered) as on January 31, 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

[Criteria on assigning 'outlook' and 'credit watch' to credit ratings](#)

[CARE's Policy on Default Recognition](#)

[CARE's Policy on Liquidity analysis for Non-Financial Sector Entity](#)

[Rating Methodology: Notching by factoring linkages in Ratings](#)

[Financial ratios - Non-Financial Sector](#)
[Rating Methodology - Infrastructure Sector Ratings \(ISR\)](#)
[Rating Methodology - Toll Road Projects](#)

About the Company

L&T Rajkot Vadinar Tollway Limited (RVJ), 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)	FY19 (A)	FY20 (A)
Total operating income	105	104
PBILDT	74	73
PAT	-108	-35
Overall gearing (times)	NM	NM
Interest coverage (times)	0.96	1.02

A: Audited; NM: Not meaningful

Status of non-cooperation with previous CRA: NA

Any other information: NA

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

Complexity level of various instruments rated for this company: Annexure 3

Covenants of rated instrument / facility: Nil

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	-	-	July 2024	616.58	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 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	616.58	CARE BBB-; Stable	1)CARE BBB-; Stable (06-Apr-20)	-	1)CARE BBB-; Stable (29-Mar-19) 2)CARE BBB-; Stable (06-Apr-18)	1)CARE BBB-; Stable (25-May-17)

Annexure 3: Complexity level of various instruments rated for this company

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

Annexure-4: Detailed explanation of covenants of the rated instrument / facilities: Nil

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

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