

## Jaora-Nayagaon Toll Road Company Private Limited

December 07, 2023

Facilities/Instruments	Amount (₹ crore)	Rating <sup>1</sup>	Rating Action
Long-term bank facilities	114.09 (Reduced from 141.92)	CARE AA; Stable	Reaffirmed

Details of instruments/facilities in Annexure-1.

### Rationale and key rating drivers

The reaffirmation of the rating assigned to the long-term bank facilities of Jaora-Nayagaon Toll Road Company Private Limited (JTCL) factors in the increase in the toll revenue, led by healthy growth in traffic during FY23 (FY refers to the period from April 1 to March 31) and H1FY24 (H1 refers to the period from April 1 to September 30), along with the revision in user fee for the project stretch. The same has led to strengthening of the debt coverage metrics, with the debt/toll collection at 0.58x in FY23 and 0.48x in H1FY24.

Furthermore, the rating takes cognisance of the successful completion of the second major maintenance (MM) during June 2023, within the agreed contract price with Ashoka Buildcon Limited (ABL).

The rating continues to derive strength from the presence of a tail period of around 7.5 years. Moreover, the established track record of more than 11 years of tolling operations imparts adequate financial flexibility. The rating also favourably views the presence of a fixed 7% hike in user fee, irrespective of wholesale price index (WPI) movements, as per the terms of the concession agreement (CA) entered into with Madhya Pradesh Road Development Corporation Limited (MPRDC, authority) and the presence of a debt service reserve account (DSRA) covering six months of interest and principal repayment obligations.

The rating also factors in the presence of a fixed-price operations and maintenance (O&M) contract with ACL and the next MM cycle falls beyond the loan tenor, thereby providing enough surplus to complete the scheduled next MM.

CARE Ratings Limited (CARE Ratings) takes cognisance of the share purchase agreement (SPA) entered into by Ashoka group entities, viz., ACL and Viva Infrastructure, with National Investment and Infrastructure Fund Limited (NIIF) for the 100% stake sale of JTCL. The transaction is subject to the completion of conditions precedent and regulatory approvals, on the consummation of which JTCL will cease to be an Ashoka group entity. As articulated by the management, the company is in advanced stages of completion of the stake sale and the pending approvals are expected to be obtained by January 2024. CARE Ratings believes that the transaction will not have any bearing on the debt servicing ability of the special purpose vehicle (SPV) and the rating strengths will continue to prevail, as no significant change in the management risk profile is envisaged.

Furthermore, the rating strengths continue to remain tempered by the inherent revenue risk associated with toll-based road projects. Additionally, it has been observed that a major component of the traffic is freight traffic, comprising multi-axle vehicles (MAVs), forming more than 50% of the traffic in FY23. This implies a significant dependence of traffic volumes registered on the project stretch on commercial vehicles' (CVs') traffic, leading to higher susceptibility of the revenues to economic downturns. The rating strengths are also tempered due to the O&M risk, interest rate risk, and exposure to regulatory risks attributed to the concessioning authority being a state government entity.

### Rating sensitivities: Factors likely to lead to rating actions

#### Positive factors

- Healthy growth in toll revenues on a sustained basis, leading to improvement in the debt service coverage ratio (DSCR) level.

#### Negative factors

- Decline in toll collections or adverse movements in interest rate, resulting in the average DSCR falling below 1.75x.
- Non-adherence of loan covenants.
- Increase in project leverage, leading to the average DSCR falling below 1.75x.

<sup>1</sup>Complete definition of the ratings assigned are available at [www.careedge.in](http://www.careedge.in) and other CARE Ratings Ltd.'s publications

**Analytical approach:** Standalone**Outlook:** Stable

The stable outlook assigned to the bank facilities of JTCL considers the long operational track record of the project, the strategic location of the stretch, and the low leverage.

**Detailed description of the key rating drivers****Key strengths****Favourable 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 Madhya Pradesh, connecting the Southern part of the country to the North. The project stretch connects the commercial cities of Ajmer and Chittorgarh with the commercial capital, Indore, via Nimach and Ratlam and provides important links to National Highway (NH)-3 (Agra-Indore Mumbai) and NH-59 (Indore-Ahmedabad). Notably, the stretch passes through densely populated cities as well as through industrial areas, marked by the presence of a number of cement and automobile plants. The project stretch will also act as a feeder road to the Delhi-Mumbai Expressway, as the expressway will pass through the Madhya Pradesh districts of Jhabua, Mandsaur, and Ratlam and connect major cities like Garoth, Jaora, Ratlam, and Thandla. The major component of the traffic along the project stretch is freight traffic, comprising MAVs, tractors, and light commercial vehicles (LCVs). The freight revenue comprises 93% of the overall toll revenue.

**Track record of toll collection, fixed hike in toll rates**

JTCL has an operational track record of around 11.9 years as on November 2023, for the entire project stretch, although the individual sections commenced tolling from September 2009 onwards. As per the CA, the company is entitled to hike the toll rates by 7% annually (effective from April 1<sup>st</sup> of every year), irrespective of the WPI movements. The same decreases the inherent revenue risk associated with WPI movements as well as traffic movements to a considerable extent.

**Improvement in toll collections**

The toll revenue has increased by 20% to ₹207 crore in FY23 from ₹172 crore in FY22, primarily driven by traffic growth of 8.90% and revision in user fee revision, thereby the average daily toll collections increased to ₹57 lakh per day in FY23 from ₹47 lakh per day. Furthermore, the project achieved a toll revenue of ₹113 crore for H1FY23, with the average daily toll collections at ₹62 lakh per day, driven by traffic growth and user fee revision for the project stretch. However, the annual average daily traffic (AADT) for the project stretch recovered post the impact of COVID-19 and stood at 75,168 Passenger Car Units (PCUs) for H1FY23, which is 91% of the pre-COVID-19 level. The fixed revision in user fee has been instrumental in supporting the growth in toll revenue on the project stretch.

**Presence of DSRA and maintenance fund**

JTCL maintains a DSRA of ₹27.77 crore as on September 30, 2023, in the form of fixed deposits (FDs), which covers more than two quarters of interest and principal repayment obligations. Furthermore, the CA specifies the creation of a maintenance fund, which is being maintained in the form of a bank FD. This fund will be used by MPRDC to meet any O&M expenses in case the O&M contractor does not meet the maintenance specifications. The balance of the maintenance fund stood at ₹7.54 crore as on September 30, 2023.

**Low project leverage and tail period of seven years**

The project was financed at a low debt-to-equity ratio of 2.16x. The debt-to-annual toll collection ratio for the company stood at a comfortable level of 0.58x as on March 31, 2023 (0.96x as on March 31, 2022), against a remaining repayment period of three years, resulting in satisfactory debt servicing ratios. Furthermore, the tail period of about seven years and six months imparts financial flexibility and is viewed favourably.

**Established track record of the sponsor**

The management control of JTCL rests with ACL, being the majority shareholder. The proven track record and technical capabilities of ACL in the execution and operation of infrastructure projects (derived through its parentage from ABL) along with the presence of other experienced promoters is expected to benefit and provide support to JTCL in times of stress, if any. Furthermore, considering the SPA signed for divestment of the SPV, the incumbent sponsor (NIIF) is also of a strong credit profile. NIIF, anchored by the Government of India (GoI), is a collaborative investment platform for international and Indian investors and has over US\$ 4.9 billion assets under management (AUM) through its funds. CARE Ratings believes that the fundamental strengths of the SPV will continue to prevail, even post completion of the divestment, and the debt servicing ability of the company will not be negatively impacted.

**Key weaknesses**

### **Inherent revenue risk associated with toll-based projects**

JTCL continues to remain exposed to the inherent traffic risk associated with toll road projects due to its linkages with various macro-economic factors. A slowdown in the industrial activity can also hamper the traffic growth, especially of CVs and, in turn, can negatively impact the toll collections. However, toll collections, and consequently, the debt servicing ability of the project continue to be insulated from any downward movements in traffic volumes by the annual fixed hike of 7% in the toll rates, irrespective of the WPI movements.

### **O&M risk associated with the project**

Besides being a flexible pavement type, the company can face the risk of a sharp increase in O&M cost in the event of wear and tear on the road or road facilities, being more than the extent envisaged O&M cost. Furthermore, the company does not maintain any reserve towards MM expenditure. The O&M risk is mitigated to a large extent, as the company has a fixed-price O&M contract (maintenance fees payable on a monthly basis) with ACL, which has over four decades of demonstrated experience in road construction and maintenance.

Furthermore, the company has successfully completed the second MM during June 2023, within the agreed contract price, with ABL. This apart, the next MM cycle falls beyond the loan tenor, thereby providing enough surplus to complete the scheduled next MM.

### **Inherent interest rate risk**

JTCL is exposed to interest rate risk due to the floating rate structure of the project term loan, which may lead to higher interest costs in case of any adverse interest rate movements.

### **Regulatory risks associated with state concessions**

The stretch is a state highway (concessioning authority: MPRDC) and is exposed to the inherent risk associated with regulations announced by the state government, which can affect the cash flow visibility of the company.

### **Liquidity: Strong**

The liquidity profile of JTCL is marked by the cash flow visibility of the company based on the strategic location of the project stretch and the extensive track record of operations of the project. Furthermore, the company is maintaining a DSRA covering two quarters of debt servicing obligations in the form of FDs and the DSRA balance stood at ₹27.77 crore as on September 30, 2023. The company has been investing surplus cash flows in mutual funds throughout its operations, apart from maintaining the required levels of DSRA and maintenance fund.

**Assumptions/Covenants:** Not applicable

**Environment, social, and governance (ESG) risks:** Not applicable

### **Applicable criteria**

[Policy on default recognition](#)

[Financial Ratios – Non financial Sector](#)

[Liquidity Analysis of Non-financial sector entities](#)

[Rating Outlook and Credit Watch](#)

[Toll Road Projects](#)

[Policy on Withdrawal of Ratings](#)

### **About the company and industry**

#### **Industry classification**

Macro-economic Indicator	Sector	Industry	Basic Industry
Services	Services	Transport infrastructure	Road assets – Toll, annuity, hybrid-annuity

JTCL was originally promoted by a consortium of the SREI group of Kolkata, PNC Infratech Limited (PNC; rated 'CARE AA+; Stable/CARE A1+') and Subhash Projects & Marketing Limited, as a SPV to undertake the four-laning, strengthening, and

upgradation of the Jaora-Nayagaon section of SH-31 (erstwhile NH-79) in Madhya Pradesh, on a build, operate, and transfer (BOT)-Toll basis. ACL (subsidiary of ABL) was inducted as a stakeholder in FY13 and the group gradually increased its stake holding to 48% and has management control of the project. The CA was executed between JTCL (concessionaire) and MPRDC on August 20, 2007, for a concession period of 25 years from the commencement date (i.e., August 25, 2008). The four-laning of the entire project, which is divided into three sections, Section I (48 km), Section II (49 km) and Section III (31 km), has already been completed and commenced phase-wise operations from May 2011, February 2012, and September 2009, respectively.

Brief Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)	Q1FY24 (Prov.)
Total operating income	172.50	207.07	57.49
PBILDT	120.64	129.82	36.24
PAT	39.03	41.10	10.88
Overall gearing (times)	0.39	0.26	0.23
Interest coverage (times)	2.39	3.04	3.25

A: Audited; UA: Unaudited; Prov: Provisional. Note: The above results are the latest financial results 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 the covenants of the rated instruments/facilities is given in Annexure-3

**Complexity level of the various instruments rated:** Annexure-4

**Lender details:** Annexure-5

#### 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	-	-	-	01-01-2026	109.59	CARE AA; Stable
Non-fund-based - LT-Bank guarantee	-	-	-	-	4.50	CARE AA; 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 2023-2024	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
1	Fund-based - LT-Term loan	LT	109.59	CARE AA; Stable	-	1)CARE AA; Stable (05-Jan-23)	1)CARE AA-; Stable (30-Dec-21)	1)CARE AA-; Negative (07-Jan-21)
2	Non-fund-based - LT-Bank guarantee	LT	4.50	CARE AA; Stable	-	1)CARE AA; Stable (05-Jan-23)	1)CARE AA-; Stable (30-Dec-21)	1)CARE AA-; Negative (07-Jan-21)

\*Long term/Short term.

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

Not applicable

**Annexure-4: Complexity level of the various instruments rated**

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT-Term loan	Simple
2	Non-fund-based - LT-Bank guarantee	Simple

**Annexure-5: Lender details**

To view the lender wise details of bank facilities please [click here](#)

**Note on the 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.

## Contact us

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