L&T Rajkot-Vadinar Tollways Limited
April 06, 2020

Rating

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long- term Bank Facilities	**637.47** (reduced from **713.51**)	**CARE BBB-; Stable (Triple B Minus; Outlook: Stable)**	**Reaffirmed**
Total Facilities	**637.47 (Rs. Six hundred thirty-seven crore and forty seven lakh 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 of LTRJV and their proven operational track record, the demonstrated funding support by its parent and the expectation of continuation of support, 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, lower traffic levels as compared with initial estimates and interest rate risk.

Rating Sensitivities
Positive Factors
- Significant increase in the traffic growth and toll collections on sustained basis.

Negative Factors
- Any change in the policy of its parent towards extending funding support to this company.
- Further increase in the cash flow shortfall

Detailed description of the key rating drivers
Key Rating Strengths
Strong promoter with proven track record of operations
L&T Infrastructure Development Projects Limited (LTIDPL), a 51% subsidiary of L&T (as on February 2020), 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 10 road projects and one power transmission line project. L&T with a track record of about seven 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 segments & proven operational track record of executing projects.
The remaining 49% stake of LTIDPL is held by Canadian Pension Plan Investment Board (CPPIB) through its subsidiary. CPPIB is a professional investment management company that invests the funds not needed by the Canada Pension Plan (CPP) to pay current benefits on behalf of 20 million Canadian contributors and beneficiaries. The assets of the Canada Pension Plan have Assets Under Management of US$ 420 billion (Rs.31,44,800 crore) as on December 30, 2019.

Favorable location of the project highway, but risk of diversion exists
The 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 be drivers for 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 one of the reasons for the actual income being much lesser than the estimates.

Continuation of financial support from the promoter

Since the commercial operations in 2012, due to significantly lower traffic volume than the originally envisaged levels, there was cash-flow shortfall from operations during FY13-19. The cash-flow shortfall was supported by the sponsor and fellow subsidiaries. During FY18, mezzanine debt amounting to Rs.46.3 crore was converted to preference shares. During FY19, one of RJV's group companies has extended unsecured loans to the tune of Rs.66 crore to meet out the shortfall. During 10MFY20, LTIDPL and its subsidiaries have provided support to an extent of Rs.71.30 crore to cover the shortfall.

With the debt repayments increasing y-o-y till the maturity of the loan in FY24, financial support from LTIDPL and its associates is crucial for timely debt repayment. The continuation of support from the promoter group is a key monitorable.

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, 2019, BG to the tune of Rs.42.26 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 FY19, the traffic grew by 6% Y-o-Y, with volumes in CJV, bus and 2 Axle segments witnessing positive growths while volumes in bus segment dipped by 5% and Multi Axle Vehicle (MAV) segment by 10%. During FY19, the gross toll collections stood at Rs.128.69 crore (PY: Rs.128.09 crore), witnessing marginal Y-o-Y growth of 0.5% during FY19. Despite the growth in CJV segment and 2A Segment, the moderate growth in the toll collections is mainly due to decline in traffic in MAV segment during the same period. 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 9mFY20, the company registered toll collections of Rs.97.62 crore (9mFY19: Rs.96.89 crore). In terms of volume, the company witnessed Y-o-Y dip of 1% during 9mFY20 on account of the slowdown in the economic activity.

Going forward, considering the lesser than expected cash accruals from the project, realignment of the debt profile is important.

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 the 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, 2019, the unpaid revenue share (including interest) stood at Rs.88.03 crore. For FY19, the company has paid Rs.3.58 crore of revenue share to GSRDC against the obligated payment of Rs.14.38 crore to GSRDC for FY19. Pending GSRDC dues pertaining to FY19 have been settled with GSRDC during the current year (FY20).

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

During FY19, MAV segment contributed around 55% (FY18: 60%) 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 lien-free cash and cash equivalents (including liquid funds) of Rs.198 crore as on February 29, 2020. Timely support from the sponsor will be crucial from credit perspective.

Analytical approach:

Standalone approach, factoring in the linkages with strong parent.

Applicable Criteria
Rating Methodology - Infrastructure Sector Ratings (ISR)
Rating Methodology - Toll Road Projects
Rating Methodology: Consolidation and Factoring Linkages in Ratings
Financial ratios – Non-Financial Sector
Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings
CARE's Policy on Default Recognition

About the Company
LTRJV, a special purpose vehicle (SPV) incorporated and fully owned by L&T Infrastructure Development Private Limited (LTIDPL; rated 'CARE AA; Positive'), 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 for a concession period of 20 years. 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 1, 2012.

Brief Financials (Rs. crore)	FY18 (A)	FY19 (A)
Total operating income	107	104
PBILDT	76	74
PAT	-46	-108
Overall gearing (times)	NM	NM
Interest coverage (times)	0.75	0.98

A: Audited; 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

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	-	-	January 2024	637.47	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 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Fund-based - LT-Term Loan	LT	637.47	CARE BBB-; Stable	-	1)CARE BBB-; Stable (29-Mar-19) 2)CARE BBB-; Stable (06-Apr-18)	1)CARE BBB-; Stable (25-May-17)	1)CARE BBB- (Under Credit Watch) (13-Apr-16)

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

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