Salasar Highways Private Limited

September 25, 2020

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long term Bank Facilities-Term loan	179.60 (reduced from 226.00)	CARE BB+; Stable (Double B Plus; Outlook: Stable)	Revised from CARE BB-;Stable; ISSUER NOT COOPERATING (Double B Minus; Outlook: Stable; ISSUER NOT COOPERATING) and removed from INC
Total	179.60 (Rs. One hundred seventy nine crore and sixty Lakh only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in rating assigned to bank facilities of Salasar Highways Pvt Ltd (SHPL) takes into account completion of 99.24% out of project length of 154.141 km, three (3) years track record of operations (toll collections) of the project stretch and creation of debt service reserve account (DSRA) covering one quarter of principal and interest obligation. The rating also derives strength from long track record of the promoters in the construction sector.

The rating is, however, constrained on account of moderate debt coverage indicators coupled with inherent revenue risk associated with toll-based road projects which may get exacerbated on account of the covid-19 pandemic, Operations and Maintenance (O&M) risk due to absence of any fixed price O&M contract and interest rate fluctuation risk.

Rating sensitivities:

Positive factors:

- Growth of about 15%-20% in toll revenues on a consistent basis leading to improvement in DSCR levels on a sustained basis

Negative factors:

- Decrease in toll collections below envisaged levels thereby further affecting the debt servicing metrics
- Adverse movement in the interest rate and O&M cost
- Any decline in DSRA, as against the stipulated level as per the lender's facility agreement
- Augmentation of project stretch to 4 lanes resulting in construction risk

Detailed description of the key rating drivers

Key rating weaknesses:

Moderate Debt Coverage Indicators, though presence of one quarter DSRA: The company has moderate debt coverage indicators and remains exposed to the risk of declining toll collections and any adverse change in the interest rates in future due to floating nature of the interest on term loans availed by the company. Further, the company has a moderate tail period of 2 years. However, comfort can be derived by the presence of DSRA, which is a liquidity buffer covering debt obligation of one quarter.

Operational and Maintenance Risk: SHPL has not entered into any fixed price O&M contract, which is being undertaken by the in-house team. The company could face the risk of a sharp increase in the O&M cost in the event wear and tear on the road is more than envisaged levels.

Inherent revenue risk related to toll road projects which may be exacerbated on account of the Covid-19 pandemic: Being a toll-based project, SHPL is exposed to the inherent revenue risks arising from the traffic fluctuations and annual revision of the toll rates which are indexed to the Wholesale Price Index (WPI).

Owing to Covid-19 pandemic, steps taken to contain the spread virus resulted in nationwide lockdown, which also led to suspension of Toll as per the directions of Ministry of Road, Transport and Highway (MoRTH) vide notification dated March 25, 2020 amidst Covid-19 situation. With easing of inter-state and intrastate movement of trucks with effect from April 20 following revised directives issued by MORTH on April 17, 2020, tolling operations started across all NHAIs, including for the project stretch. For the 5MFY21, the toll collections for the company declined by about 20% as compared to the corresponding period in FY20. The toll collections, however, have gradually improved post lifting of lockdown, with revenues reaching pre-Covid level from July 2020 onwards.

[1]*Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications.*

Key rating strengths:

Experienced promoters: SHPL is promoted by Galfar Engineering & Contracting SAOG (GECS) and Galfar Engineering & Contracting India Pvt Ltd. (GCIPL). GECS, incorporated in 1972, is an Oman based company, listed in Muscat stock exchange (MSM). GECS has more than four decades of presence in the construction industry with EPC capabilities in road & bridges, oil & gas and civil & utilities sectors. GCIPL was incorporated in 2009 and is a 100% subsidiary of GECS. GCIPL was set up to implement projects in India and has executed five BOT projects through its SPVs.

Completion of about 99% of the stretch mitigating the execution risk to large extent: Out of total project length of 154.141 km, while PCOD-1 was achieved on May 18, 2017 for 148.37 Km length, PCOD-2 for additional 4.60 Km length has been achieved on June 1, 2020, thus mitigating the project execution risk with completion of 99.24% of the project stretch.
As per terms of the concession agreement, SHPL has provision for Augmentation of project from existing two lane to four lanes and the same shall be completed within 10th anniversary of Appointed Date (AD). As articulated by the management, the company is yet to take a decision on undertaking the aforesaid augmentation. However, any augmentation taken up by the company in future would expose it to the project execution and financing risks and would remain a rating sensitivity.

Track record of toll collection for more than 3 years: Tolling has commenced from May 2017 onwards with the receipt of provisional completion certificate. The toll revenues have shown improvement on y-o-y basis with the increase in traffic volumes. The toll revenues have increased by about 14.50% to Rs.54.50 crore in FY20 as compared to Rs.47.60 crore during the FY19.

Liquidity analysis: Adequate

The company has cash and cash equivalents of Rs. 2.80 crore as on August 20, 2020. DSRA of Rs.12.80 crore covering one quarter of debt obligation is being maintained in the form of FD. Projected GCA for FY21 and FY22 are around Rs.34 crore and Rs. 41 crore respectively as against repayment of Rs. 19.25 crore and Rs. 37.63 crore in FY21 and FY22 respectively.
The company has availed moratorium for its debt obligations under the COVID-19 - Regulatory Package announced by the RBI on March 27, 2020 and May 22, 2020.

Analytical approach: Standalone

Applicable Criteria:
Criteria on assigning Outlook to Credit Ratings
CARE's Policy on Default Recognition
CARE's Policy on Liquidity analysis for Non-Financial Sector Entity
Financial Ratios – Non-Financial Sector
CARE's Policy on curing period
CARE’s methodology for Toll Road Projects

About the Company

Salasar Highways Private Limited (SHPL), incorporated in December 2012, promoted by Galfar Engineering & Contracting SAOG and Galfar Engineering and Contracting India Pvt. Ltd. SHPL is established to undertake the two lane construction with paved shoulder and provision of capacity augmentation of Rajasthan Border – Fatehpur – Salasar section of NH – 65 (length 154.14 km) in the state of Rajasthan under NHDP Phase IV on Design, Build, Finance, Operate and Transfer (DBFOT) Toll Basis. Toll operation has commenced May 2017.
Out of the total envisaged project cost of Rs.558.12 crore, the company has incurred Rs.554.87 crore, which has been funded through equity of Rs.102.73 crore, grant of 142 crore, Debt of Rs. 223.09 crore and balance Rs. 87.05 crore through promoters’ subordinated un-secured loans (USL).

Covenants of rated instrument / facility: *Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3*

Brief Financials (SHPL) (Rs. crore)	FY19 (A)	FY20 (A)
Total operating income	55.43	57.92
PBILDT	37.74	46.17
PAT	-47.06	-7.58
Overall gearing (times)	1.46	1.37
Interest coverage (times)	1.59	2.45

A: Audited

Status of non-cooperation with previous CRA: NA

Any other information: NA

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	-	-	July-24	179.60	CARE BB+; 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	179.60	CARE BB+; Stable	-	1)CARE BB-; Stable; ISSUER NOT COOPERATING* (03-Sep-19)	-	1)CARE BB-; Stable; ISSUER NOT COOPERATING* (09-Mar-18) 2)CARE BB+; Stable (03-Jul-17)

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

Name of the Instrument	Detailed explanation
A. Financial covenants	
I. Debt Equity ratio (DER)	DER shall not exceed 1.47:1
Ii. Debt Service Coverage Ratio (DSCR)	DSCR shall not fall below 1.1x
B. Non financial covenants	
I. Change in Capital Structure	The borrower shall not effect any change in capital structure except as per base case business plan without lender's permission
Ii. Withdrawal of shareholder's money	The borrower, without permission of lenders, shall not withdraw monies brought in by principal shareholders except to the extent allowed in provision of restricted payment condition.

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

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

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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