Wainganga Expressway Private Limited (Revised)

January 03, 2019

Rating

Facilities	Amount (Rs. Crore)	Rating[1]	Rating Action
Long Term Bank Facilities	310.33 (reduced from 322.17)	**CARE BBB; Stable (Triple B; Outlook : Stable)**	Reaffirmed
Total Bank Facilities	**310.33 (Rupees Three Hundred Ten Crore and Thirty Three Lakh Only)**		

Details of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The rating for the bank facilities of Wainganga Expressway Pvt. Ltd. (WEPL) continues to derive strength from its strong parentage, being a wholly owned subsidiary of JMC Projects (India) Ltd. (JMC; rated CARE A+; Stable / CARE A1+) and a step-down subsidiary of Kalpataru Power Transmission Ltd. (KPTL; rated CARE AA; Stable / CARE A1+). The rating also factors JMC's demonstrated support to WEPL so as to enable it to meet its debt servicing obligations along with some benefit derived in the medium-term from partial deferment of payment of concession premium to National Highways Authority of India (NHAI). The rating also factors JMC management's articulation that they would continue to provide timely need-based support to WEPL going forward.

The rating is, however, constrained by inadequate revenue on account of much lower than initially envisaged traffic and toll estimates despite significant time having elapsed since it became operational and commenced toll collection. The rating is further constrained by interest rate risk, absence of any considerable tail period, sizeable premium payable to NHAI spread over concession period along with high amount of back ended bullet loan installment repayment, relative to present revenue along with uncertainty over maintenance expenditure and traffic growth rates.

Continued support from its sponsors for meeting its operational and debt servicing requirements in a timely manner in the light of significantly lower than required toll revenue, along with significant improvement in trajectory of traffic growth on the road and debt coverage indicators are the key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Strengths

Strong parentage and support of JMC and KPTL: JMC promoted WEPL as an SPV to benefit from its core competency in civil construction and enhance its position as an asset developer. The parentage of JMC provided strong financial flexibility to WEPL and expertise for the execution and operations of the project. Also, JMC has infused additional unsecured loans to fund the cost overrun to complete the construction of the project highway along with need-based support for meeting operational and debt servicing requirement post commencement of its operations. Furthermore, JMC is a 67% subsidiary of KPTL, which is a major player in the domestic transmission and distribution infrastructure (TDI) sector with strong financial risk profile.

Continued demonstrated support of the sponsor: Till September 30, 2018, JMC had infused Rs.171 crore in WEPL, which is Rs.71 crore more than its envisaged initial commitment of Rs.100 crore, primarily to fund the cost over run in the project and towards meeting the continued shortfall in debt servicing requirement, underlining the commitment of JMC towards its SPV. The ultimate parent entity, KPTL, has also infused funds in JMC in two tranches of Rs. 90 crore in FY11 and Rs. 150 crore in FY16 to support JMC and its SPVs. Continued timely need-based support of the sponsors in light of the inadequate toll revenue would be crucial from the credit perspective.

Key Rating Weaknesses

Significantly lower than envisaged traffic on the toll road resulting in modest debt coverage indicators: WEPL commenced toll collections at its toll plaza in January 2015, post the completion of construction of the road and achievement of provisional COD. Toll collection witnessed growth of 21% in FY18 and 7% in H1FY19 on y-o-y basis. However, the traffic on the road has remained significantly lower than what was originally envisaged. As a result, the toll revenue is inadequate to meet the entire operational and debt servicing requirements of WEPL and this has resulted in its modest debt coverage indicators. The residual requirement is being met through timely infusion of funds by its sponsor, JMC.

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

Partial deferment of concession premium by NHAI: WEPL had won the concession for the toll road project in May 2011 for a period of 18 years, based on its bid for paying annual premium of Rs.27.35 crore (fixed escalation of 5% p.a.) to NHAI. However, in October 2014, WEPL applied to NHAI for partial deferment of premium on the expectation of lower than envisaged traffic. WEPL's request was approved by NHAI in December 2014. As per the approval for partial premium deferment, WEPL is required to pay Rs.185 crore of premium during FY15-FY24, instead of Rs.328 crore over this period (i.e. deferment of Rs.143 crore). However, this arrangement entails significant amount of premium payment of Rs.302 crore which would be paid over the balance concession period.
Further, to compensate for the shortfall in traffic, the concession agreement provides for extension in the concession period in case of shortfall in the traffic as compared to the estimated traffic calculated based on target date. In such cases the concession period can be extended by maximum up to 20% of the concession period.

Traffic risk associated with toll based road projects: WEPL continues to remain exposed to inherent traffic risk as toll collection is its only source of revenue. WEPL's highway is located on the NH-6, connecting Hazira in Gujarat to Kolkata in West Bengal and witnesses good east-west traffic movement. Around 70% of the traffic on the toll road during FY18 was from commercial vehicles, which augurs favourably for toll collections due to general willingness of commercial vehicle users to pay toll for better road quality.

Inherent uncertainty in maintenance expenditure: WEPL is also exposed to the risk of higher than envisaged maintenance costs, but its fixed price contract with Skylark Highways Solutions Ltd. for a period of three years (renewed in February 2017) provides some control over it. Also, WEPL is required to create a reserve for meeting its major maintenance requirements, first of which is envisaged in FY23-24 according to the company management (as against previously envisaged timeline of FY21). JMC, as the sponsor, has articulated to provide adequate and timely support to WEPL for meeting the same.

Exposure to inherent interest rate risk: WEPL is also exposed to interest rate risk as the interest rate on its loans is floating in nature linked to the benchmark of the lenders. Also, majority of the debt repayment is back-ended (around 80% in the last six years of repayment, as against repayment tenure of 11 years), magnifying the interest rate risk more so on account of absence of any considerable tail period which would have otherwise aided in any take-out financing. However, expected increase in toll rates (partly linked to inflation) may mitigate this risk to a certain extent.

Liquidity Analysis
Moderate liquidity: WEPL's liquidity remained moderate, being significantly reliant on timely cash flow support from JMC for meeting the shortfall in its operational and debt servicing obligations; albeit its toll collections have shown improvement in FY18 and H1FY19 on y-o-y basis. Although, the requisite debt service reserve account (DSRA) is not created by WEPL, JMC as the sponsor has provided a bank guarantee of Rs.9.85 crore in lieu of the same, which provides some cushion to its liquidity. JMC has continued to demonstrate its timely commitment to WEPL over the years which underpins its liquidity.

Analytical approach: Standalone along with cash flow support from the sponsors
The debt taken by WEPL for the construction of its road project does not have any recourse to its sponsor, JMC and KPTL. The construction for the toll road is complete and JMC, being the sponsor, has also infused the entire amount committed towards its project, including the cost over-run in the project. Hence, a standalone approach has been considered for analysis. However, as JMC and KPTL, the sponsors have continued to provide WEPL with need-based funds in a timely manner to meet part of its operational and debt servicing requirements, the same is envisaged to continue in the medium-term, which has also been factored in the analysis of the sponsor.

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Applicable Criteria
Criteria on assigning Outlook to Credit Ratings
CARE's Policy on Default Recognition
Rating Methodology – Factoring Linkages of Group companies in Ratings
Rating Methodology - Infrastructure Sector Ratings
CARE's methodology for Toll Road Projects
Financial ratios – Non-Financial Sector

About the Company
Incorporated in June 2011, Wainganga Expressway Pvt. Ltd. (WEPL) is a Special Purpose Vehicle (SPV) sponsored by JMC Projects (India) Ltd. promoted to undertake four-laning of Nagpur to Wainganga Bridge section of National Highway (NH) 6, spanning 46 KMs, under National Highways Development Programme (NHDP) Phase-III on Design, Build, Finance, Operate and Transfer (DBFOT) – Toll basis. JMC, a 67% subsidiary of Kalpataru Power Transmission Ltd., is engaged in

various types of civil and mechanical construction activities like infrastructure, real estate, industrial and institutional buildings as well as power plants with a strong presence across the country.

The Concession Agreement (CA) between WEPL and National Highways Authority of India (NHAI; rated CARE AAA; Stable) was executed on June 21, 2011 for a concession period of 18 years (incl. 2.5 years construction period). The project was completed at a cost of Rs.455 crore funded through term loan of Rs.328 crore and balance through equity and unsecured loan from JMC. This was higher than the initially envisaged project cost of Rs.428 crore, and the entire cost over-run, mainly pertaining to interest during construction and pre-operative expenses, was borne by JMC, the sponsor. The provisional COD for the project was declared on January 7, 2015, three months behind the scheduled COD in October 2014. In December 2014, NHAI approved the partial premium deferment application of WEPL.

Brief Financials (Rs. crore)	FY17 (A)	FY18 (A)
Total operating income	41.29	49.67
PBILDT	33.13	41.21
PAT	(43.32)	(38.65)
Overall gearing (times)	NM	NM
Interest coverage (times)	0.50	0.62

A: Audited; NM- Not Meaningful

During H1FY19, WEPL earned toll revenue of Rs.25.93 crore

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

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

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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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	-	-	June 2026	310.33	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 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Fund-based - LT-Term Loan	LT	310.33	CARE BBB; Stable	-	1)CARE BBB; Stable (07-Nov-17)	1)CARE BBB; Stable (20-Jan-17)	1)CARE BBB (06-Oct-15)

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CIN - L67190MH1993PLC071691