CARE Ratings
Professional Risk Opinion

CARE rated toll roads resilient to Covid II

May 19, 2021 I Ratings

CARE Ratings' investment grade toll road portfolio is likely to deliver a stable credit performance, despite Covid II. Forty seven out of fifty-six CARE rated investment grade operational projects are likely to be stable from credit perspective, despite possible shocks of traffic disruption. This is on account of resilient toll collections, adequate debt coverage indicators and presence of liquidity buffers. For these projects, CARE Ratings expects a debt service coverage ratio (DSCR) of at least 1.10 times for FY22, coupled with liquidity reserve equivalent to one quarter of debt servicing amount. Balance nine projects are likely to be supported with need-based liquidity backup from the sponsors.

CARE Ratings expects overall growth in toll collection of around 10-11% in FY22 on the low base of FY21 factoring in prevailing Covid-II situation. This is in-spite of expectations of de-growth in toll collections by twenty percent in first two months of FY22 as compared to last year. Continued government thrust on infrastructure development; burgeoning E-commerce activity combined with expected increase in penetration of Electronic Toll Collection (ETC) to ~ 90% of nation's toll roads through the mandatory use of FASTag shall continue to support toll collections in FY22 amidst the pandemic. Going forward, the severity of prevailing Covid-II, the extent of economic activity and resumption of toll collection in states of Haryana and Punjab impacted by farmers' agitation shall determine the pace of toll growth. Outlook for the sector is stable.

Toll Collections:
Change in axle norms, traffic leakages to alternate routes and Covid-19 outbreak in March 2020 led to minor y-o-y de-growth of 2.5% during FY20. In a bid to evaluate the overall sector performance during FY21, for operating toll Roads in particular, CARE Ratings assessed performance of one hundred and five toll road projects (including rated by CARE Ratings) admeasuring 38,000 lane km spanning across 15 states.

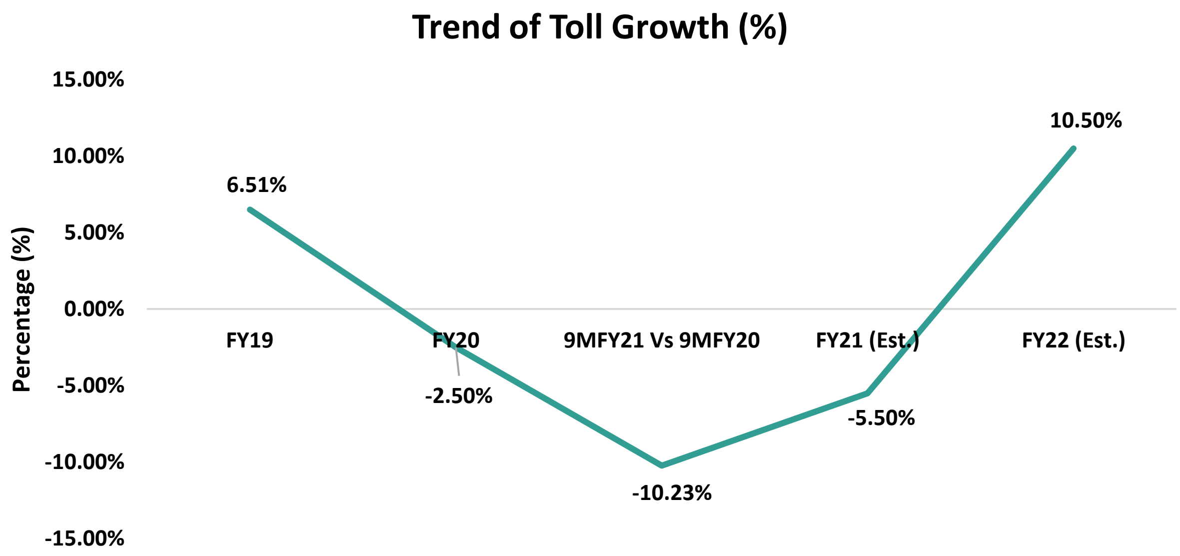


Chart 1: Trend of toll growth (%); Source: CARE Ratings Study

Toll revenues witnessed y-o-y de-growth of 10.23% in 9MFY21 as against 9MFY20 on account of the severe impact of lockdown during Q1FY21, restricted traffic movement due to Covid-19 pandemic and other regional issues. The strong recovery in toll collections from Q3FY21 is likely to restrict the decline to 5.50% on y-o-y basis as against earlier expectations of over 20% de-growth for FY21.

Key drivers of toll roads performance for FY21 are as below:

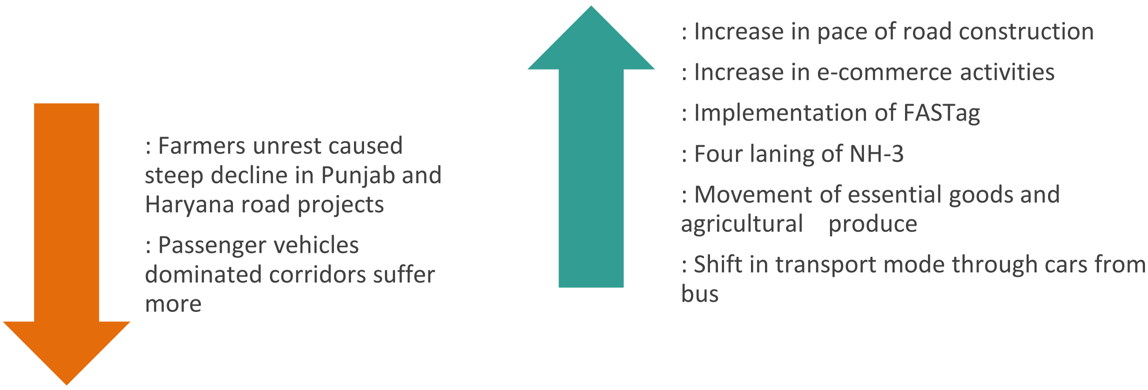
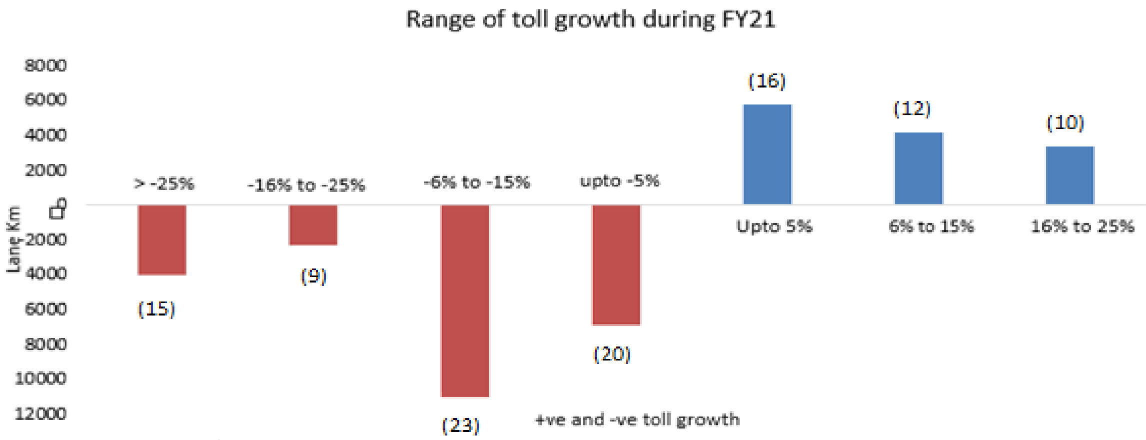


Chart 2: Key drivers of toll roads performance for FY21



*Numbers in bracket indicate the number of projects in the respective toll growth bracket

Chart 3: Range of toll growth during FY21

Implementation of FASTag also helped in curbing the leakages and resurrecting investor confidence for the toll roads projects. Share of Electronic Toll Collection (ETC) in overall toll collections for National Highways witnessed a steep increase from 34% in November 2019 to 76% in December 2020 as presented below:

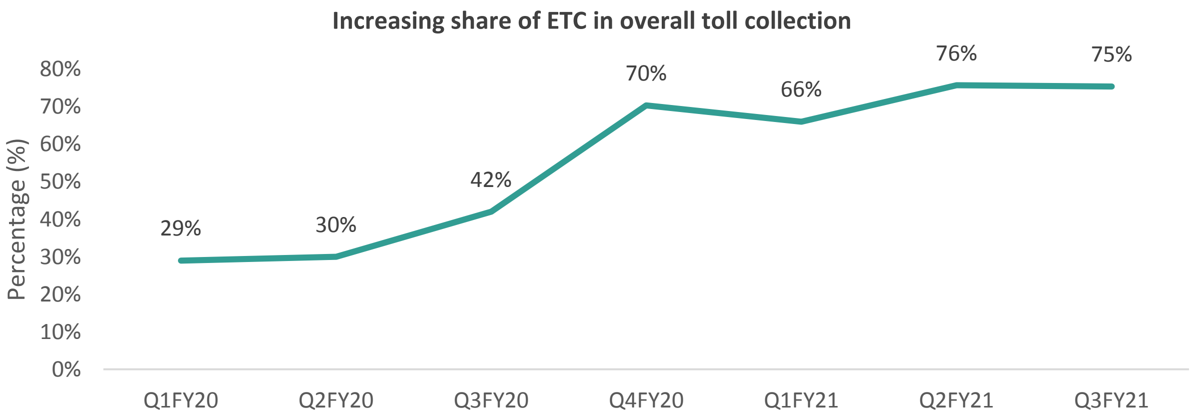


Chart 4: Quarterly trend of (%) share of ETC in total toll collection for NH; Source: MoRTH

On an overall basis de-growth in toll collection was restricted to 5.5% despite Covid 19 in FY21.

Likely performance of CARE rated toll road portfolio in FY22

Growth in toll collections (detailed earlier), transfer of some of the road assets to InvIT leading to prepayment of significant debt at the SPV level, and change in ownership leading to tempering O&M risk cumulatively led to more upgrades that downgrades in FY 21.

In FY22, CARE Ratings estimates eighty four percent of its investment grade operational toll roads portfolio with aggregate debt of around Rs.14,000 crore to report stable performance. Expected increase in penetration of ETC to around 90% through the mandatory use of FASTag, growth in E-commerce activity and government's thrust on infrastructure development shall provide continued impetus to traffic growth. For these projects, CARE Ratings expects a debt service coverage ratio (DSCR) of at least 1.10 times for FY22, coupled with maintenance of one quarter debt service reserve account (DSRA). The balance portfolio is expected to have relatively low cash flow resilience on account of modest debt coverage indicators. Nevertheless, presence of DSRA and longer tail period in some of these projects shall provide partial cash flow cushion and economic incentive for sponsor to support them during temporary disruption.

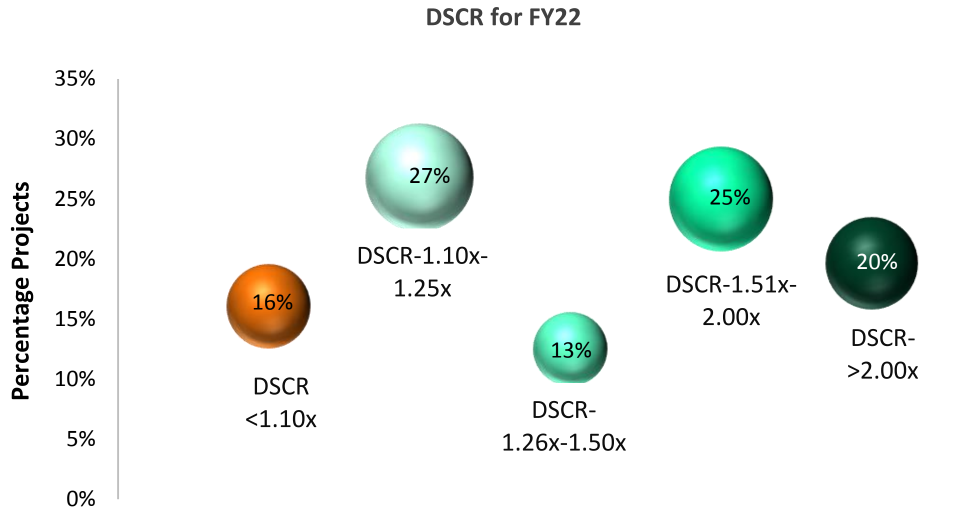


Chart 5: DSCR for FY22 ; Source: CARE Ratings Study

With the onset of the second wave of Covid-19 and stringent guidelines announced by some states, passenger vehicular traffic is expected to witness a decline again in Q1FY22 after reaching closer to pre-covid levels in Q4FY21. Nevertheless, electricity consumption and Goods and Services Tax (GST) e-way bill collections which are proxy for economic activity and movement of goods, have remained higher than Q1FY21 levels. Despite expectations of de-growth in toll collections by twenty percent in first two months of FY22 from March 2021 level, CARE Ratings expects overall growth in toll collection of around 10%-11% in FY22 on a low base of FY21.

Contact:

Amod Khanorkar	Senior Director	amod.khanorkar@careratings.com	+91-22-6837 4444
Maulesh Desai	Associate Director	maulesh.desai@careratings.com	+91-79-4026 5605
Rajashree Murkute	Associate Director	rajashree.murkute@careratings.com	+91-22-6837 4474
Purnank Patel	Analyst	purnank.patel@careratings.com	+91-79-4026 5681
Mradul Mishra	(Media Contact)	mradul.mishra@careratings.com	+91-22-6754 3573

CARE Ratings Limited
Corporate Office: 4th Floor, Godrej Coliseum, Somaiya Hospital Road, Off Eastern Express Highway, Sion (East), Mumbai - 400 022
Tel. : +91-22-6754 3456 I CIN: L67190MH1993PLC071691

Connect :