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Covid-19 Speed breaker for operational toll roads?

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Quick impact assessment of Covid-19 pandemic in FY20 and FY21

- Amid outbreak of Covid-19, traffic on the roads has displayed signs of slowdown from mid of March 2020. Subsequently, toll collections have also been suspended by Ministry of Road Transport and Highways (MoRTH) from March 25, 2020 during lockdown period. Sustained intensity of Covid-19 pandemic in India with possibilities of prolonged lockdown is expected to impact the traffic volume of majority of its operational toll roads. Further, migration of labor, travel restrictions and ruined consumption of non-essential goods are impending barriers for traffic growth in the medium term.
- Multitude of factors decelerated the toll growth from 9% in FY17 to mere 1% in the period 9MFY20. Revision of axle load norms, weak economic revival prospects and traffic leakage due to alternate routes have led to underperformance of toll roads. These have been further accentuated with COVID-19 outbreak in March 2020. CARE Ratings believes the toll collections will witness a decline of 2.5% in FY20 on y-o-y basis and continue to be dismal in FY21. CARE Ratings expects decline in toll collection by around 10-12% in FY21 even on declined toll base of FY20 due to restricted vehicle movement, global economic slowdown and subdued pick up in in construction and mining activity post monsoon (around September 2020) considering prolonged lockdown duration and intensity of Covid-19.
- CARE Ratings estimates overall annual revenue loss of around 3.5% for FY20 due to the pandemic. Loss of revenue shall substantially increase during FY21 due to aftermath emerging from lockdown and sustained pandemic impact. Covid-19 outbreak being epidemic in nature, may be treated as a non-political FM event under relevant concession agreement clauses. Resultantly as a fallout of this, SPVs might be eligible only for extension of concession period to compensate for the loss of revenue owing to sustained decline in traffic despite resumption of toll collection at later stages.

DSRA and moratorium for three months to curtail the negative impact in the near term

- Presence of DSRA and cash trap mechanism assumes paramount importance for the short term given the ambiguity prevailing over extension of lock down period and revival of the economy thereafter. Furthermore, timely action by Reserve Bank of India (RBI) to permit banks to offer moratorium on servicing of bank loans until May 2020 comes as a respite to tide over short term challenges for all borrowers including operational toll road projects. These companies have flexibility to retain DSRA and surplus cash in a bid to preserve liquidity against pandemic impact while availing moratorium for interest and loan repayments for now.

- Toll suspension due to lock down is likely to be regarded as Political Force Majeure (FM) event akin to demonetization. NHAI had reimbursed SPVs for the interest on term loans and O&M payment during demonetization period. Nevertheless, compensation amount, if any, from the Concessioning Authority this time around may not be substantial as significant relief has already been availed by the SPVs in the form of moratorium on interest payment and negligible O&M activity on roads during lock down. Although concessionaire can claim compensation for the interest component on which moratorium is availed, compensation modalities for loss of revenue due to Covid-19 pandemic (if any), post resumption of toll collection remains to be seen.
- Benchmark lending rates of some of the banks have already declined by 70-100 bps during last one year which is expected to sustain or decline further amidst economic slowdown. Hence, decline in interest rate and fall in crude prices which in turn shall translate into reduce major maintenance expenditure are expected to provide some respite to cash flow in the scenario of de-growth in toll collections due to Covid-19 impact.

FY21- Outlook 'Negative' for operational toll roads

- CARE Ratings has rated 85 operational toll projects with aggregate debt of around Rs.35,000 crore, out of which 39 projects are rated under investment grade category. Immediate relief measures announced by RBI viz. 3-month moratorium for debt service requirements and presence of Debt Service Reserve Account (DSRA) mechanism shall impart relief in near to medium term to 82% of CARE rated toll road projects with investment grade rating.
- CARE Ratings has undertaken study on 42 operational toll road projects with aggregate length of 15,000 lane km and aggregate debt of Rs.19,500 crore, spanning across 12 states to analyze cash flow risk of toll roads in Covid-19 outbreak. Based on study of these 42 operational toll road projects, nearly Rs.7,500 crore of project debt is viewed to be in low cash flow risk category, Rs. 8,000 crore worth of project debt is viewed to be in high cash flow risk category and balance under moderate cash flow risk category under scenario of expected de-growth in toll collection in FY21 prevailing Covid-19 outbreak. Projects fall under low risk category are mature projects, possessing average operational track record of around seven years with some of them also deriving benefit from being part of Infrastructure Investment Trust (InvIT). Projects falling under high cash flow risk have thin or weak debt coverage indicators and recourse to weak-to-moderate sponsor in some of them.
- Magnitude and duration of COVID-19 impact and resultant relief measures to be granted by the Concessioning Authorities remain crucial monitorables which shall influence the prospects of the toll road projects, the outlook of which is "negative" for FY21.

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