

## India Ratings Revises SP Jammu Udhampur's NCDs Outlook to Negative; Affirms at 'IND AAA(SO)'

# 13

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By Vishal Kotecha

India Ratings and Research (Ind-Ra) has revised SP Jammu Udhampur Highway Limited's (SP JUHi) Outlook to Negative while affirming the rating of its senior, listed, rated, redeemable, secured, rupee non-convertible debentures (NCDs/bonds) at 'IND AAA(SO)'. The details are below:

Instrument	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of Issue (million)	Rating/Outlook	Rating Action
NCDs*	-	-	-	INR26,100 (outstanding INR21,930)	IND AAA(SO)/Negative	Affirmed; Outlook revised to Negative

\* Details in Annexure

The Outlook revision reflects the lower-than-expected future coverages on account of higher-than-expected tax outgo post the implementation of Indian Accounting Standards (IND AS). However, the risk is partially mitigated by SP JUHi's adequate liquidity being maintained in the form of various reserves as stipulated under the financing documents. The rating reflects the project's satisfactory performance in FY19 in line with Ind-Ra's base case expectations, which include timely receipt of semi-annual annuities, timely redemption of NCDs and adequate maintenance of reserves (debt service, major maintenance and major replacement reserve).

### KEY RATING DRIVERS

**Annuity Income from Strong Counterparty:** The key credit strength of SP JUHi is demonstrated by the receipt of 10 annuities from a highly rated counterparty, National Highways Authority of India (NHAI; 'IND AAA/Stable'). The annuities received by SP JUHi are timely and without any major deductions. Ind-Ra expects SP JUHi to continue receiving fixed and pre-agreed semi-annual annuities (INR2,019 million each) in accordance with the concession agreement.

**Final Completion Certificate Issued:** The company received the final completion certificate on 7 August 2019. The project achieved provisional completion, effective June 2014. However, due to the acquisition issue of the balance land, the company was unable to complete the punch list items. The company has now completed all punch list items, except for some portions

for which descoping has been approved by NHAI. While the final cost saving on account of the descoping is yet to be ascertained, the company indicated that such works will be around INR11.4 million (80% of these savings needs to be shared with NHAI as per the concession agreement) and will be borne by the sponsor as per their undertaking.

**Strong Track Record of O&M Contractor:** In view of the topography of the location, project maintenance (according to the requirements of the concession agreement) could pose a challenge. Project maintenance is important for the full receipt of semi-annual annuities from NHAI.

The operating performance-related risks are mitigated by the fact that SP JUHI has entered into a fixed rate O&M contract and periodic maintenance contract with SP Cement (Gujarat) Private Limited Company – a Shapoorji Pallonji group company. The contract has pass-through provisions for non-performance/under-performance of any conditions delineated in the concession agreement. The project's O&M costs are significantly higher than those of its peers on account of the tough terrain of the project location.

The company undertook micro-surfacing in FY19 at some places to rectify the damaged pavement. Basis the latest roughness indicator test conducted in December 2018, the road roughness index is within the stipulated guidelines mentioned in the concession agreement.

**Timely Major Maintenance Critical for Future Annuities:** According to the concession agreement, the company needs to undertake major maintenance when the roughness indicator value reaches 2,500mm/km. The management is planning to undertake major maintenance from 4QFY20, any deduction in annuity on account of delay in undertaking the same could affect the rating. The company has maintained adequate liquidity in major maintenance reserve as stipulated in the financing agreements.

**Sponsor Support Undertakings:** The rating is supported by the undertakings from the sponsors for meeting any shortfall in annuity for the deductions made by NHAI due to lane non-availability according to the terms of the concession agreement, funding any damages for non-compliance of requirements under the concession agreement, O&M cost (including major maintenance) overruns, and covering any shortfall between termination payments and total debt outstanding.

**Strong Structural Features:** The debt structure risk is mitigated as the debt amortisation schedule is structured to suit expected cash flows. A debt service reserve equivalent to succeeding six months' debt service obligations has been created in the form of a bank guarantee of INR1,550 million and INR179.3 million in debenture redemption reserve. This guarantee, valid until July 2021, is likely to be extended prior to its expiry. A gap of 30 days between the annuity receipt date and the NCD redemption date provides cushion against any potential administrative delays in the receipt of the annuities.

**Liquidity Indicator - Adequate:** The overall liquidity of the company is INR3,978 million against the stipulated INR3,735 million. Of this, INR1,998 million is fund-based and INR1,980 million is non-fund-based limits. The company maintains INR1,550 million of debt service reserve account (DSRA) and INR179.3 million in debenture redemption reserve that is higher than the succeeding six months of debt service obligations. The company has a working capital limit worth INR200 million that is used for meeting O&M obligations in between the two annuity payments and has a peak utilisation of INR120 million over the 12 months ended July 2019. Furthermore, a steady stream of annuities from NHAI enables the company to generate adequate cash accruals for meeting its scheduled debt obligation.

**Impact of IND AS:** According to IND AS, annuity projects are now considered as service concession agreements. This has increased the tax liability and thereby impacted the coverages. The tax outgo has increased by INR251 million over the past two years due to the use of IND AS. As per the management, there are certain interpretation issues on certain provisions of IND AS and its implications on annuity projects. The clarifications sought from the relevant authorities are awaited leading to uncertainties in ascertaining the exact tax liability. The company has a cash reserve of INR150 million build up for such contingencies; any dip into this reserve account would be a key monitorable. Ind Ra will monitor the extent of tax liability in FY20 and cash outflows on account of taxes.

## RATING SENSITIVITIES

**Negative:** Future developments that could, individually or collectively, lead to a negative rating action are:

- An increase in potential tax liabilities
- Any negative rating action on NHAI
- Non-infusion of funds from the sponsors, when required

**Positive:** The Outlook would be revised back to Stable if the extant of increased future tax liabilities are finalised and funded if required.

## COMPANY PROFILE

SP JUHi is a special purpose vehicle promoted by Shapoorji Pallonji Roads Pvt. Ltd. (74%) and SPCPL (26%) for the expansion of the 64.58km of the Jammu-Udhampur section in Jammu and Kashmir to four lanes on a build, operate and transfer annuity basis. The concession period is 20 years from 17 June 2011. The provisional certificate was issued on 1 July 2014 and the commercial operation date (COD) was 1 June 2014, 14 days prior to the scheduled COD.

## FINANCIAL SUMMARY

Particulars	FY19	FY18
Revenue from operations (INR million)	3219	3,251
Other income (INR million)	205	167
Total income (INR million)	3424	3,418
EBITDA (INR million)	2873	2,928
Profit after tax (INR million)	765	740
Source: SP JUHi		

## RATING HISTORY

Instrument Type	Current Rating			Historical Rating/Outlook		
	Rating Type	Rated Limits (million)	Rating	30 July 2018	22 May 2017	26 May 2016
NCDs	Long-term	INR26,100	IND AAA(SO)/Negative	IND AAA(SO)/Stable	IND AAA(SO)/Stable	IND AAA(SO)/Stable

## ANNEXURE

S. No.	Instrument	ISIN	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of Issue (INR million)	Rating/Outlook
1	NCD	INE923L07357	6 August 2015	7.82	30 December 2019	560	IND AAA(SO)/Negative
2	NCD	INE923L07365	6 August 2015	7.82	30 June 2020	600	IND AAA(SO)/Negative
3	NCD	INE923L07373	6 August 2015	7.82	30 December 2020	610	IND AAA(SO)/Negative
4	NCD	INE923L07381	6 August 2015	7.82	30 June 2021	700	IND AAA(SO)/Negative
5	NCD	INE923L07399	6 August 2015	7.82	30 December 2021	710	IND AAA(SO)/Negative
6	NCD	INE923L07407	6 August 2015	7.82	30 June 2022	760	IND AAA(SO)/Negative
7	NCD	INE923L07415	6 August 2015	7.82	30 December 2022	770	IND AAA(SO)/Negative
8	NCD	INE923L07167	6 August 2015	9.15	30 June 2023	780	IND AAA(SO)/Negative
9	NCD	INE923L07175	6 August 2015	9.15	30 December 2023	790	IND AAA(SO)/Negative
10	NCD	INE923L07183	6 August 2015	9.15	30 June 2024	850	IND AAA(SO)/Negative
11	NCD	INE923L07191	6 August 2015	9.15	30 December 2024	880	IND AAA(SO)/Negative

12	NCD	INE923L07209	6 August 2015	9.15	30 June 2025	910	IND AAA(SO)/Negative
13	NCD	INE923L07217	6 August 2015	9.15	30 December 2025	930	IND AAA(SO)/Negative
14	NCD	INE923L07225	6 August 2015	9.15	30 June 2026	1,020	IND AAA(SO)/Negative
15	NCD	INE923L07233	6 August 2015	9.15	30 December 2026	1,050	IND AAA(SO)/Negative
16	NCD	INE923L07241	6 August 2015	9.15	30 June 2027	1,100	IND AAA(SO)/Negative
17	NCD	INE923L07258	6 August 2015	9.15	30 December 2027	1,130	IND AAA(SO)/Negative
18	NCD	INE923L07266	6 August 2015	9.15	30 June 2028	1,250	IND AAA(SO)/Negative
19	NCD	INE923L07274	6 August 2015	9.15	30 December 2028	1,290	IND AAA(SO)/Negative
20	NCD	INE923L07282	6 August 2015	9.15	30 June 2029	1,340	IND AAA(SO)/Negative
21	NCD	INE923L07290	6 August 2015	9.15	30 December 2029	1,250	IND AAA(SO)/Negative
22	NCD	INE923L07308	6 August 2015	9.15	30 June 2030	1,400	IND AAA(SO)/Negative
23	NCD	INE923L07316	6 August 2015	9.15	30 December 2030	1,250	IND AAA(SO)/Negative
	<b>Total</b>					<b>21,930</b>	

## COMPLEXITY LEVEL OF INSTRUMENTS

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## Applicable Criteria

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Rating Criteria for Infrastructure and Project Finance

Rating Criteria for Availability-Based Projects

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