

October 30, 2020

SP Jammu Udhampur Highway Limited: Rating downgraded to [ICRA]AA+, 'negative' outlook removed, and rating placed under watch with developing implications

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Non-Convertible Debenture Programme	2,137	2,077	[ICRA]AA+&; downgraded from [ICRA]AAA, 'negative' outlook removed, and rating placed under watch with developing implications
Working capital limit	40	40	[ICRA]AA+&; downgraded from [ICRA]AAA, 'negative' outlook removed, and rating placed under watch with developing implications
Total	2,177	2,117	

*Instrument details are provided in Annexure-1

Rationale

The rating downgrade primarily reflects the expected moderation in the debt coverage metrics of SP Jammu Udhampur Highway Limited (SPJUHI) as the revised estimate of tax liability under IndAS is higher than the ICRA's earlier anticipated levels. As per company's estimate, the tax liability under IndAS is expected to increase by Rs. 66 crore over FY2021-2026 compared to the estimated base case tax liability under IGAAP. The company plans to meet the increased tax liability through a mix of existing surplus of ~Rs.30 crore available within the reserves maintained as per the Debenture Trust Deed (DTD), Rs.15 crore through fund infusion by Shapoorji Pallonji Infrastructure Capital Company Private Limited (SPICCP, rated at [ICRA]BBB(Negative)/A3+) by December 2020 and balance Rs. 21 crore through built-up of surplus generated from forthcoming annuities. Timely fund infusion by SPICCP and build-up of balance reserve would remain one of the key rating monitorables.

The rating of SPJUHI has been placed on watch with developing implications to reflect the uncertainty around the likely deductions from annuities/levy of penalties on account of deterioration of pavement quality owing to delay in commencement of major maintenance and ability of the company to either renew the DSRA BG¹ or alternately replace it with equivalent cash at the time of expiry of existing BG falling due in June 2021. The initiation of the already deferred major maintenance activity from April 2020 got further postponed due to Covid induced localised restrictions; the work has commenced from October 2020 and expected to be completed by Q3FY2022.

The rating continues to remain sensitive to SPJUHI's ability to ensure satisfactory maintenance of the road, in terms of regular as well as periodic maintenance, both of which are critical in order to minimize lane closures and consequently, annuity deductions. However, comfort can be drawn from near 100% lane availability since commercial operation date (COD). Further, the ability of the company to manage routine and periodic maintenance costs within the budgeted costs

¹ The company is currently maintaining DSRA in the form of a bank guarantee (BG) which is due for renewal in June 2021.

would be important given the complex topography of the project stretch. The SPV has entered into a long-term fixed price contract for routine and periodic maintenance with Shapoorji Pallonji Cement (Gujarat) Private Limited (SPCGPL), which has further sub-contracted the job to Rajdeep Buildcon Private Limited. The credit profile of the counterparty i.e. NHAI will also remain a key monitorable.

The rating favourably factors in the operational nature of SPJUHI's annuity road project providing a stable revenue stream, eliminating traffic risk and the strong profile of counter-party and annuity provider viz. National Highway Authority of India (NHAI rated [ICRA]AAA(Stable)), a key central government entity entrusted with the responsibility of development and maintenance of India's national highway programme. The rating also takes into account the receipt of annuities in a timely manner with no major deductions; SPJUHI received twelve semi-annuities till date² with negligible deductions. The presence of structural features - debt service reserve account (DSRA, equivalent to six months of debt servicing), major maintenance reserve, contingency reserve and cash reserve (all reserves are maintained in line with the term of the structure), escrow mechanism and cashflow waterfall provide credit support to the NCDs.

Key rating drivers

Credit strengths

Operational status of project with established track-record of annuity receipts - SPJUHI is an annuity project with operational track record of more than 5 years. It is contractually entitled to receive semi-annuity of Rs.201.9 crore in June and December each year till the end of the concession. Till date, SPJUHI has received twelve semi-annuities with negligible deductions.

Strong profile of the annuity provider - SPJUHI's counter-party and annuity provider, NHAI (rated [ICRA]AAA(Stable)), is a key central government entity entrusted with the responsibility of development and maintenance of India's national highway programme.

Structural features provide credit support to NCDs – The annuity payments from NHAI deposited into an escrow account (exclusively charged to the Trustee) are utilised as per the pre-defined cash flow waterfall mechanism. The cash flow waterfall mechanism incorporates adequate provisioning for meeting routine and periodic maintenance expenses. The NCDs are further supported by a DSRA, equivalent to six months of debt servicing and the working capital facility is also supported by a separate DSRA, both of which are maintained in the form of bank guarantee. Nonetheless, timely renewal of BG DSRA or replacement with cash would remain critical. Presence of MM reserve along with cash and contingency reserves provides additional comfort.

Credit challenges

Moderation in debt coverage indicators due to increase in tax liability - The estimated increase in the tax liability vis-à-vis the anticipated levels had led to moderation in the debt coverage indicators. The increase in the tax liability is planned to be funded through mix of existing surplus of ~Rs.30 crore available within the reserves maintained, Rs.15 crore through fund infusion by SPICCP by December 2020 and balance Rs. 21 crore through built-up of surplus generated from forthcoming annuities. Timely fund infusion by SPICCP and build-up of balance reserve would be one of the key rating monitorables.

² The last semi-annuity was due on June 1, 2020 and was received on the same day.

Delay in on-going major maintenance cycle - The initiation of the already deferred major maintenance activity from April 2020 further postponed due to Covid induced localised restrictions; the work has commenced from October 2020 and expected to be completed by Q3FY2022. Any deductions from annuities/levy of penalties on account of deterioration of pavement quality owing to deferral in commencement of major maintenance would remain a key credit negative.

Ensuring regular and periodic maintenance expenditure within budgeted levels - Poor maintenance of the road could result in lane closures leading to potential deductions from annuity by NHAI. Ability of the company to undertake routine and periodic maintenance expenditure within budgeted costs remains important. Fixed price contract for routine and periodic maintenance with SPCGPL mitigates cost overrun risk to an extent. The estimated cost of the ongoing major maintenance stands at Rs. 108 crore and requisite reserves have been created.

Liquidity Position: Strong

The liquidity position of the company is strong marked by presence of liquid reserves earmarked towards major maintenance, debt servicing, contingency and cash reserve. SPJUHI's aggregate funded reserves³ stood at Rs. 244.3 crore as on September 30, 2020. Besides this, additional cushion is available in the form of undrawn working capital line of Rs. 10 crore as on September 30, 2020. The annuity receipts of the company are expected to be sufficient to meet the operational expenses and external debt servicing obligation.

Rating sensitivities

Positive trigger:

The rating watch would be resolved upon successful completion of the first major maintenance cycle within the budgeted levels, without any deduction from annuity by NHAI on account of delay in completion of the same and timely renewal of the DSRA bank guarantee or alternately replace it with cash in case of non-renewal.

Negative trigger:

Downward pressure on the rating could emerge if there is any further delay in completion of major maintenance activity and/or any deduction from annuities on account of delay in completion of the same. Rating could also be downgraded if the company is unable to renew the DSRA bank guarantee in a timely manner or alternately replace it with cash in case of non-renewal of bank guarantee. The rating may also be downgraded if there is a deterioration in the credit profile of the annuity provider or significant delay/deduction in annuity payments or higher than budgeted O&M costs leading to a deterioration in the cumulative debt coverage ratio or lower than anticipated reserve creation by SPJUHI vis-a-vis base case plan or non-adherence to the structure. Any impact on entity's debt structure on account of weakening of credit profile of the promoter group would also have a bearing on the rating.

³ Excludes reserves of Rs. 198 crore maintained in the form of bank guarantee towards DSRA (Rs. 170 crore), Contingency reserve (Rs. 17 crore) & MMRA (Rs. 11 crore)

Analytical approach:

Analytical Approach	Comments
Applicable Rating Methodologies	Rating Methodology for BOT (Annuity) Roads Approach for rating debt instruments supported by structural features (Non-securitized transactions)
Parent/Group Support	NA
Consolidation / Standalone	The rating is based on the standalone financial profile of the company

About the company:

SP Jammu Udhampur Highway Limited ('SPJUHI') is an SPV promoted by Shapoorji Pallonji Roads Private Limited (74%) and Shapoorji Pallonji and Company Private Limited (26%) for strengthening and four-laning of 64.58 km of Jammu to Udhampur section on NH 1A in Jammu & Kashmir on Design, Build, Operate, Finance and Transfer (DBFOT) Annuity basis. The concession has been granted to SPJUHI for a period of 20 years from 17 June 2011. The COD has been achieved with provisional certificate being issued with effect from June 1, 2014 ahead of Scheduled Four-Laning Date (SFLD) of June 16, 2014 by 14 days. The company achieved final commercial operation date with effect from May 31, 2018 post completion of the pending work to the extent of available right of way. The project cost appraised at the time of financial closure was Rs. 2400 crore to be funded through promoter contribution of Rs. 240 crore (10% of project cost) and remaining Rs. 2160 crore (90%) through debt. Of the Rs. 2160 crore debt, Rs. 535.29 crore (25%) was rupee term loan and remaining Rs. 1624.71 crore (75%) was ECB loan. The initial project loan, including INR and ECB loan, has been entirely refinanced through the NCD issuance of Rs. 2,670 crore.

Key financial indicators (audited)

	FY2019	FY2020
Operating Income (Rs. crore)	321.9	295.2
PAT (Rs. crore)	76.5	82.1
OPBDIT/OI (%)	82.9%	88.1%
PAT/OI (%)	23.8%	27.8%
Total Outside Liabilities/Tangible Net Worth (times)	(23.85)	(139.85)
Total Debt/OPBDIT (times)	8.44	8.22
Interest Coverage (times)	1.28	1.30

(Source: Company, ICRA research)

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

	Instrument	Current Rating (FY2020)			Rating History for the Past 3 Years				
		Type	Amount Rated	Amount Outstanding	Rating	FY2020	FY2019	FY2018	
					30-Oct-20	31-Mar-2020	29-Jan-2019	02-Feb-2018	05-Dec-2017
1	NCD	Long Term	2077	2077	[[ICRA]AA+ &	[[ICRA]AAA (Negative)	[[ICRA]AAA (SO) (Stable)	[[ICRA]AAA (SO) (Stable)	[[ICRA]AAA (SO) (Stable)
2	Working Capital limits	Long Term	40	-	[[ICRA]AA+ &	[[ICRA]AAA (Negative)	[[ICRA]AAA (SO) (Stable)	[[ICRA]AAA (SO) (Stable)	[[ICRA]AAA (SO) (Stable)

Amount in Rs. crore

&: Rating under watch with developing implications

Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1: Instrument Details

ISIN No	Instrument Name	Date of issuance	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
INE923L07118	NCD	06-Aug-15	7.82%	31-Dec-20	61	[ICRA]AA+&
INE923L07126	NCD	06-Aug-15	7.82%	30-Jun-21	70	[ICRA]AA+&
INE923L07134	NCD	06-Aug-15	7.82%	31-Dec-21	71	[ICRA]AA+&
INE923L07142	NCD	06-Aug-15	7.82%	30-Jun-22	76	[ICRA]AA+&
INE923L07159	NCD	06-Aug-15	7.82%	31-Dec-22	77	[ICRA]AA+&
INE923L07167	NCD	06-Aug-15	9.15%	30-Jun-23	78	[ICRA]AA+&
INE923L07175	NCD	06-Aug-15	9.15%	31-Dec-23	79	[ICRA]AA+&
INE923L07183	NCD	06-Aug-15	9.15%	30-Jun-24	85	[ICRA]AA+&
INE923L07191	NCD	06-Aug-15	9.15%	31-Dec-24	88	[ICRA]AA+&
INE923L07209	NCD	06-Aug-15	9.15%	30-Jun-25	91	[ICRA]AA+&
INE923L07217	NCD	06-Aug-15	9.15%	31-Dec-25	93	[ICRA]AA+&
INE923L07225	NCD	06-Aug-15	9.15%	30-Jun-26	102	[ICRA]AA+&
INE923L07233	NCD	06-Aug-15	9.15%	31-Dec-26	105	[ICRA]AA+&
INE923L07241	NCD	06-Aug-15	9.15%	30-Jun-27	110	[ICRA]AA+&
INE923L07258	NCD	06-Aug-15	9.15%	31-Dec-27	113	[ICRA]AA+&
INE923L07266	NCD	06-Aug-15	9.15%	30-Jun-28	125	[ICRA]AA+&
INE923L07274	NCD	06-Aug-15	9.15%	31-Dec-28	129	[ICRA]AA+&
INE923L07282	NCD	06-Aug-15	9.15%	30-Jun-29	134	[ICRA]AA+&
INE923L07290	NCD	06-Aug-15	9.15%	31-Dec-29	125	[ICRA]AA+&
INE923L07308	NCD	06-Aug-15	9.15%	30-Jun-30	140	[ICRA]AA+&
INE923L07316	NCD	06-Aug-15	9.15%	31-Dec-30	125	[ICRA]AA+&
NA	OD/STL	-	-	-	40	[ICRA]AA+&

Source: Company

&: Rating under watch with developing implications

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