

India Ratings Places SP Jammu Udhampur's NCDs on RWN

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India Ratings and Research (Ind-Ra) has placed SP Jammu Udhampur Highway Limited's (SP JUHi) non-convertible debentures (NCDs) on Rating Watch Negative (RWN) as follows:

Instrument	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of Issue (million)	Rating/Rating Watch	Rating Action
NCDs*	-	-	-	INR26,100 (outstanding INR20,770)	IND AAA/RWN	Placed on RWN

* Details in annexure

The RWN reflects the potential erosion of SP JUHi's debt service coverages during FY21-FY26 due to the continued increased tax post the transition to Indian Accounting Standards (Ind AS 116), delays in undertaking major maintenance activity and deteriorating sponsor credit profile. The management estimation of incremental tax liability stands at INR660 million over FY21-FY26 and the agency awaits a tax consultant confirmation to validate this. The company plans to fund the increased tax liability with the existing surplus in reserves of INR300 million, INR150 million of sponsor injections before end-December 2020 and the balance through the retention of all the surpluses from the ensuing annuities. SP JUHi has asserted to formalise a trustee monitored mechanism before end-October 2020 to retain the surplus cash. Ind Ra will monitor the above timelines and delay in any of the same will be negative for the rating.

The delayed start to the major maintenance also introduces an unforeseen risk of possible cuts in annuities. According to the management, the delays were a result of the COVID-19 outbreak and related restrictions imposed on the movement of labour and machinery. The major maintenance activity is likely to start by end-September 2020 and to be completed by July 2021.

Sponsor undertakings are pivotal for the rating and the agency has relied on the sponsor's strength and timely support to meet any shortfall in the project in line with the sponsor undertakings. Therefore, any vulnerability emerging from the sponsor group - including a credit profile weakness will impact the rating. Shapoorji Pallonji & Company Private Limited (SPCPL) through SP Roads owns the entire stake in SPCPL.

SP group plans to raise funds to tide over its liquidity concerns. While the group has improved its average maturity profile over the 12 months ended June 2020, the deleveraging and asset monetisations plans are delayed.

The rating draws strength from the project's steady project cash inflows, satisfactory performance in FY20 supported by the timely receipt of semi-annual annuities from the National Highways Authority of India (NHAI; IND AAA/Stable), the timely redemption of NCDs and the adequate maintenance of reserves (debt service, major maintenance and major replacement reserve) as stipulated in the financing documents. The agency will monitor the tax impact, the major maintenance schedule and the sponsor's credit profile movements; any elevated stress will be negative for the rating.

KEY RATING DRIVERS

Coverage Ratios Trimmed by Higher Taxes: Under Ind AS 116, annuity projects are considered as service concession agreements. This has increased SP JUHI's tax liability and thereby could impact its coverages. Its tax outgo has increased by INR221 million over the past two years and is likely to be INR660 million higher than the earlier base case plan over FY21-FY26, according to the management. The company has proposed to fund the excess liability through surplus funds in reserves available with the company, sponsor funding and cash trap mechanism. Failure to adhere to the mechanism proposed to build up liquidity could lead to an adverse rating action.

Annuity Income from Strong Counterparty: The key credit strength of SP JUHI is demonstrated by the timely receipt of 12 annuities without any major deductions from a highly rated counterparty (NHAI). SP JUHI is eligible to receive fixed and pre-agreed semi-annual annuities (INR2,019 million each), according to the concession agreement.

Final Completion Certificate Issued: The company received the final completion certificate on 7 August 2019 (with effect from 31 May 2018). 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. Subsequently, the balance portion of the project was descoped, resulting in savings of INR11.4 million. In line with the provisions of the concession agreement, the company deposited 80% of the savings with the NHAI. The savings were borne by the sponsor since they were part of the estimated construction cost.

O&M Contractor's Strong Track Record: Maintaining the project according to the requirements of the concession agreement could pose a challenge owing to the topography of the location. Project maintenance is the key for continued and timely receipt of semi-annual annuities from the NHAI.

The operating performance-related risks are mitigated by the fact that SP JUHI has entered into a fixed-rate operations and maintenance (O&M) contract and periodic maintenance contract with SP Cement (Gujarat) Private Limited Company (SP Cement) – 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 its location.

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. Based on the test conducted by the company in December 2019, around 32% of the overall project length exceeded the stipulated roughness indicator. The company intended to start the major maintenance activity in March 2020; however, due to the COVID-19-led disruptions, the activity could not start. SP JUHI has mobilised the required plant and machinery on site and is likely to commence major maintenance activity by end-September 2020, upon the receipt of the permission of from local authority. The company has entered into a fixed-price contract with SP Cement for undertaking the major maintenance work for INR1,081.1 million, in line with the base case plan and adequate according to the lender's independent engineer's report. The company has maintained a major maintenance reserve as stipulated in the financing agreements.

Sponsor Support Undertakings: The company is sponsored by Shapoorji Pallonji Roads Pvt. Ltd. (74%) and SPCPL (26%). SPCPL is the flagship company of Shapoorji Pallonji group with presence across various segments such as engineering and construction, infrastructure development for roads, solar, ports, etc. The rating is supported by the undertakings from the sponsors for meeting any shortfall in annuity for the deductions made by the NHAI due to lane non-availability according to the terms of the concession agreement, funding any damages for the non-compliance of requirements under the concession agreement, meeting O&M cost (including major maintenance) overruns, and covering any shortfall between the termination payments and the total debt outstanding. Notwithstanding the lower debt service coverage, the sponsor undertakings and its credit quality provided salutary effect on the rating earlier. However, weakening of sponsor group profile may put pressure on the promptness of support undertakings.

SPCPL has been planning to deleverage its balance sheet through equity infusion, promoter funding and asset monetisation. SPCPL had outstanding debt of INR109.33 billion at 1QFY21 with repayment obligation of INR60.83 billion until March 2021. Given the importance of the undertaking to the project, any further deterioration in the credit profile of sponsor group, including SP Cement (Gujarat), could pose a risk to the project's rating.

Strong Structural Features: The debt structure risk is mitigated as the debt amortisation schedule is structured to suit the calculated 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 INR189.4 million in form of cash. 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. The project has a tail period of six months.

Liquidity Indicator - Adequate: Although the overall coverages of the company may be impacted due to increased tax liability, the company maintains adequate liquidity and plans to augment by additional sponsor infusion and restricting surplus generation until such additional liability for FY21 to FY26 is fully funded.

The overall liquidity of the company including INR1,830 million (non-fund-based) and INR2,539 million (fund-based) reserves was INR4,369 million against the stipulated INR4,069.5 million at end-June 2020. Of this, INR1,830 million is non-fund-based and INR2,539 million is fund-based limits. The management has asserted its intention to maintain the additional INR300 million surplus available with

the company. The company may use this reserve towards any additional tax liability. The company has not availed for any moratorium.

The company maintains INR1,739 million of debt service reserve account that is higher than the succeeding six months of debt service obligations (INR1,550 million). The company also maintains a contingent reserve and a cash reserve of INR650 million and INR191 million, respectively.. The company has a working capital limit worth INR200 million that is used for meeting O&M obligations in between the two annuity payments; it had a peak utilisation of INR123 million over the 12 months ended July 2020. Furthermore, a steady stream of annuities from the NHAI enables the company to generate adequate cash accruals for meeting its scheduled debt obligation.

RATING SENSITIVITIES

The RWN indicates that the ratings may be either downgraded or affirmed. Ind-Ra will review the ratings upon additional sponsor fund injection, receipt of tax consultant confirmation on the exact estimated tax liability, inclusion of new cash trap under the trustee monitoring mechanism and progress on major maintenance.

Any delay in the timelines of above aspects individually or collectively and credit profile deterioration of the sponsor group could trigger a rating downgrade.

COMPANY PROFILE

SP JUHi is a special purpose vehicle promoted by Shapoorji Pallonji Roads and SPCPL 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 was 1 June 2014, 14 days prior to the scheduled commercial operation date.

FINANCIAL SUMMARY

Particulars (INR million)	FY20	FY19
Revenue from operations	2,952	3,219
Other income	251	205
Total income	3,203	3,424
EBITDA	2,853	2,873
Profit after tax	821	765
Source: Company, Ind Ra		

RATING HISTORY

Instrument Type	Current Rating/Rating Watch			Historical Rating/Outlook			
	Rating Type	Rated Limits (million)	Rating	16 September 2019	13 September 2019	30 July 2018	22 May 2017
NCDs	Long-term	INR26,100	IND AAA/RWN	IND AAA/Negative	IND AAA(SO)/Negative	IND AAA(SO)/Stable	IND AAA(SO)/Stable

ANNEXURE

Instrument	ISIN	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of Issue (million)	Rating/Rating Watch
NCD	INE923L07373	6 August 2015	7.82	30 December 2020	INR610	IND AAA/RWN
NCD	INE923L07381	6 August 2015	7.82	30 June 2021	INR700	IND AAA/RWN
NCD	INE923L07399	6 August 2015	7.82	30 December 2021	INR710	IND AAA/RWN
NCD	INE923L07407	6 August 2015	7.82	30 June 2022	INR760	IND AAA/RWN
NCD	INE923L07415	6 August 2015	7.82	30 December 2022	INR770	IND AAA/RWN

NCD	INE923L07167	6 August 2015	9.15	30 June 2023	INR780	IND AAA/RWN
NCD	INE923L07175	6 August 2015	9.15	30 December 2023	INR790	IND AAA/RWN
NCD	INE923L07183	6 August 2015	9.15	30 June 2024	INR850	IND AAA/RWN
NCD	INE923L07191	6 August 2015	9.15	30 December 2024	INR880	IND AAA/RWN
NCD	INE923L07209	6 August 2015	9.15	30 June 2025	INR910	IND AAA/RWN
NCD	INE923L07217	6 August 2015	9.15	30 December 2025	INR930	IND AAA/RWN
NCD	INE923L07225	6 August 2015	9.15	30 June 2026	INR1,020	IND AAA/RWN
NCD	INE923L07233	6 August 2015	9.15	30 December 2026	INR1,050	IND AAA/RWN
NCD	INE923L07241	6 August 2015	9.15	30 June 2027	INR1,100	IND AAA/RWN
NCD	INE923L07258	6 August 2015	9.15	30 December 2027	INR1,130	IND AAA/RWN
NCD	INE923L07266	6 August 2015	9.15	30 June 2028	INR1,250	IND AAA/RWN
NCD	INE923L07274	6 August 2015	9.15	30 December 2028	INR1,290	IND AAA/RWN
NCD	INE923L07282	6 August 2015	9.15	30 June 2029	INR1,340	IND AAA/RWN
NCD	INE923L07290	6 August 2015	9.15	30 December 2029	INR1,250	IND AAA/RWN
NCD	INE923L07308	6 August 2015	9.15	30 June 2030	INR1,400	IND AAA/RWN
NCD	INE923L07316	6 August 2015	9.15	30 December 2030	INR1,250	IND AAA/RWN
Total					INR 20,770	

COMPLEXITY LEVEL OF INSTRUMENTS

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Applicable Criteria

Rating Criteria for Infrastructure and Project Finance

Rating Criteria for Availability-Based Projects

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