

March 31, 2020

SP Jammu Udhampur Highway Limited: Rating reaffirmed, outlook revised to ‘Negative’ from ‘Stable’

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Non-Convertible Debenture Programme	2,248	2,137	[ICRA]AAA(Negative); Reaffirmed, Outlook revised to ‘Negative’ from ‘Stable’
Working capital limit	40	40	[ICRA]AAA(Negative); Reaffirmed, Outlook revised to ‘Negative’ from ‘Stable’
Total	2,288	2,177	

*Instrument details are provided in Annexure-1

^The [ICRA]AAA (Stable) rating was earlier denoted as [ICRA]AAA(SO) (Stable). In line with the SEBI guidelines, ICRA has discontinued the use of the (SO) suffix alongside rating symbols for denoting the ratings of instruments backed by structural features (such as Escrow and DSR A). The change in the suffix should not be construed as a change in the rating.

Rationale

The revision in the outlook of SP Jammu Udhampur Highway Limited’s (SPJUHI) rating factors in the deferral of the first major maintenance cycle from the base case plan despite adequate built-up of major maintenance reserves in line with the terms of the NCDs. As per the base case plan, SPJUHI’s first major maintenance cycle was to commence in June, 2019 with target completion of May 2020. However, SPJUHI did not undertake the same as the roughness index¹, a key determinant for undertaking major maintenance as per the Concession agreement, was within the permissible limits at that point in time. The company conducted two tests, one in December 2018, wherein no portion of the carriageway was below the permissible limit of roughness index, and the second in October 2019 wherein ~50% of the left-hand side and ~10% of the right-hand side of the carriageway were below the permissible limits. ICRA is given to understand that, basis the results of the second test conducted in October 2019 indicating roughness index being below the permissible limits, SPJUHI will be commencing the major maintenance activity from April 2020. 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.

ICRA notes that the uncertainty with regards to the exact tax liability with shift to IndAS accounting continues to remain as final clarity is yet to be received from the relevant authorities. While ICRA has looked at several scenarios with regards to increase in the tax liability due to shift to IndAS accounting, any increase in tax liability beyond anticipated levels would have an adverse impact on SPJUHI’s debt coverage ratios. However, comfort can be drawn to some extent from the cash reserve of Rs. 15 crore.

The rating reaffirmation 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

¹ Measures the unevenness of the road stretch, using Wheel Bump Indicator. Concession Agreement mandates major maintenance to be undertaken when roughness index reaches 2,500 mm per km.

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 eleven semi-annuities till date 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. The company is maintaining DSRA in the form of a bank guarantee (BG) which is to be renewed once in three years. Timely renewal of the BG or alternately replacement with equivalent cash remains critical from credit perspective.

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 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). The credit profile of the counterparty i.e. NHAI will also remain a key monitorable.

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 eleven 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. Similarly, the working capital facility is also supported by a separate DSRA. Presence of MM reserve along with cash and contingency reserves provides additional comfort.

Credit challenges

Deferral in carrying out first major maintenance cycle compared to the base case plan: Despite adequate built-up of major maintenance reserves in line with the terms of the NCDs, the first major maintenance cycle was deferred as compared to the timelines assumed in the base case plan. As against the base case plan of commencing the major maintenance in June 2019, the company did not undertake the same as the roughness index was within the permissible limit when the first test was conducted in December 2018. The company would be commencing the major maintenance from April 2020 as the results of the second test conducted in October 2019 indicated the roughness index to be below

the permissible limit. 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. As against the estimated cost of Rs. 108 crore, the current major maintenance reserve remains adequate at Rs. 122.4 crore.

Increase in tax liability in medium term: Shift to IndAS accounting is expected to increase tax liability in the medium term, though there remains uncertainty with regards to exact tax liability as clarifications from relevant authorities are awaited. While ICRA has looked at several scenarios with regards to increase in the tax liability due to shift to IndAS accounting, any higher than anticipated increase in tax liability could put the rating under downward pressure and would continue to be a key rating monitorable. However, comfort can be drawn to some extent from the cash reserve of Rs. 15 crore.

Liquidity Position: Strong

The strong liquidity position of the company is marked by presence of adequate earmarked liquid reserves towards major maintenance, debt servicing, contingency and cash reserve. SPJUHI's aggregate funded reserves² stood at Rs. 226.4 crore as on December 31, 2019. Besides this, additional cushion is available in the form of undrawn working capital line of Rs. 11.27 crore as on December 31, 2019. 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 crystallisation of scenarios for outlook change is unlikely over the medium term.

Negative trigger:

Downward pressure on the rating could emerge if there is any further deferral in ongoing major maintenance activity, lower than anticipated reserve creation by SPJUHI vis-a-vis base case plan or non-adherence to the structure / failure on the part of the sponsor to honor the various shortfall undertakings provided. 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. While ICRA has looked at several scenarios with regards to increase in the tax liability due to shift to IndAS accounting, any higher than anticipated increase in tax liability could also put the rating under downward pressure.

² 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)

	FY2018	FY2019
Operating Income (Rs. crore)	325.1	321.9
PAT (Rs. crore)	74.0	76.5
OPBDIT/OI (%)	84.9%	82.9%
RoCE (%)	13.3%	13.2%
Total Outside Liabilities/Tangible Net Worth (times)	(174.4)	(97.9)
Total Debt/OPBDIT (times)	8.54	8.44
Interest Coverage (times)	1.24	1.28
DSCR*	0.91	0.88

(Source: Company, ICRA research)

*As per book income under IndAS which is lower than the actual cash inflow of annuities

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	FY2019	FY2018		FY2017	
					31-Mar-2020	29-Jan-2019	02-Feb-2018	05-Dec-2017	08-Nov-2016	
1	NCD	Long Term	2137	2137	[ICRA]AAA (Negative)	[ICRA]AAA (SO) (Stable)	[ICRA]AAA (SO) (Stable)	[ICRA]AAA (SO) (Stable)	[ICRA]AAA (SO) (Stable)	
2	Working Capital limits	Long Term	40	-	[ICRA]AAA (Negative)	[ICRA]AAA (SO) (Stable)	[ICRA]AAA (SO) (Stable)	[ICRA]AAA (SO) (Stable)	[ICRA]AAA (SO) (Stable)	

Amount in Rs. Crore

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
INE923L07100	NCD	06-Aug-15	7.82%	30-Jun-20	60	[ICRA]AAA(Negative)
INE923L07118	NCD	06-Aug-15	7.82%	31-Dec-20	61	[ICRA]AAA(Negative)
INE923L07126	NCD	06-Aug-15	7.82%	30-Jun-21	70	[ICRA]AAA(Negative)
INE923L07134	NCD	06-Aug-15	7.82%	31-Dec-21	71	[ICRA]AAA(Negative)
INE923L07142	NCD	06-Aug-15	7.82%	30-Jun-22	76	[ICRA]AAA(Negative)
INE923L07159	NCD	06-Aug-15	7.82%	31-Dec-22	77	[ICRA]AAA(Negative)
INE923L07167	NCD	06-Aug-15	9.15%	30-Jun-23	78	[ICRA]AAA(Negative)
INE923L07175	NCD	06-Aug-15	9.15%	31-Dec-23	79	[ICRA]AAA(Negative)
INE923L07183	NCD	06-Aug-15	9.15%	30-Jun-24	85	[ICRA]AAA(Negative)
INE923L07191	NCD	06-Aug-15	9.15%	31-Dec-24	88	[ICRA]AAA(Negative)
INE923L07209	NCD	06-Aug-15	9.15%	30-Jun-25	91	[ICRA]AAA(Negative)
INE923L07217	NCD	06-Aug-15	9.15%	31-Dec-25	93	[ICRA]AAA(Negative)
INE923L07225	NCD	06-Aug-15	9.15%	30-Jun-26	102	[ICRA]AAA(Negative)
INE923L07233	NCD	06-Aug-15	9.15%	31-Dec-26	105	[ICRA]AAA(Negative)
INE923L07241	NCD	06-Aug-15	9.15%	30-Jun-27	110	[ICRA]AAA(Negative)
INE923L07258	NCD	06-Aug-15	9.15%	31-Dec-27	113	[ICRA]AAA(Negative)
INE923L07266	NCD	06-Aug-15	9.15%	30-Jun-28	125	[ICRA]AAA(Negative)
INE923L07274	NCD	06-Aug-15	9.15%	31-Dec-28	129	[ICRA]AAA(Negative)
INE923L07282	NCD	06-Aug-15	9.15%	30-Jun-29	134	[ICRA]AAA(Negative)
INE923L07290	NCD	06-Aug-15	9.15%	31-Dec-29	125	[ICRA]AAA(Negative)
INE923L07308	NCD	06-Aug-15	9.15%	30-Jun-30	140	[ICRA]AAA(Negative)
INE923L07316	NCD	06-Aug-15	9.15%	31-Dec-30	125	[ICRA]AAA(Negative)
NA	OD/STL	-	-	-	40	[ICRA]AAA(Negative)

Source: Company

ANALYST CONTACTS

Shubham Jain

+91 124 4545306

shubhamj@icraindia.com

Rajeshwar Burla

+91 40 4067 6527

rajeshwar.burla@icraindia.com

Mitul Gandhi

+91 22 6169 3345

mitul.gandhi@icraindia.com

RELATIONSHIP CONTACT

L Shivakumar

+91 22 6114 3406

shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani

Tel: +91 124 4545 860

communications@icraindia.com

Helpline for business queries:

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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For more information, visit www.icra.in

ICRA Limited

Corporate Office

Building No. 8, 2nd Floor, Tower A; DLF Cyber City, Phase II; Gurgaon 122 002

Tel: +91 124 4545300

Email: info@icraindia.com

Website: www.icra.in

Registered Office

1105, Kailash Building, 11th Floor; 26 Kasturba Gandhi Marg; New Delhi 110001

Tel: +91 11 23357940-50

Branches

Mumbai + (91 22) 24331046/53/62/74/86/87

Chennai + (91 44) 2434 0043/9659/8080, 2433 0724/ 3293/3294,

Kolkata + (91 33) 2287 8839 /2287 6617/ 2283 1411/ 2280 0008,

Bangalore + (91 80) 2559 7401/4049

Ahmedabad+ (91 79) 2658 4924/5049/2008

Hyderabad + (91 40) 2373 5061/7251

Pune + (91 20) 2556 0194/ 6606 9999

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