

June 18, 2020

## L&T Interstate Road Corridor Limited: Rating reaffirmed

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Non-Convertible Debenture Programme (STRPP 12-18)	112.35	112.35	[ICRA]AAA (Stable); Reaffirmed
Non-Convertible Debenture Programme (STRPP 10,11)	42.75	-	Rating of [ICRA]AAA (Stable) Reaffirmed and Withdrawn
<b>Total</b>	<b>155.10</b>	<b>112.35</b>	

\*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 DSRA). The change in the suffix should not be construed as a change in the rating.

### Rationale

The rating assigned to the Rs. 42.75-crore non-convertible debenture (NCD) programmes (ISIN No. INE827N07109 and INE827N07117) of L&T Interstate Road Corridor Limited (IRCL) have been reaffirmed and withdrawn as these debentures have been redeemed in full and there are no dues outstanding against the same.

The reaffirmation of the rating assigned to the Rs. 112.35-crore NCD programme takes comfort from its stable operational performance with timely receipt of semi-annual annuities without major deductions and strong liquidity position [cash and liquid investments of Rs. 106.80 crore (including NCD interest and redemption due in April 2019, and reserves for debt servicing and major maintenance) as on March 31, 2020]. The rating continues to derive strength from the operational and annuity nature of the project, leading to no construction and traffic risks, along with the company's strong annuity counterparty – National Highways Authority of India (NHAI, rated [ICRA]AAA(Stable)/A1+). The rating also notes the presence of structural features (like presence of escrow, cash waterfall, funded reserve for debt servicing) and legal provisions to provide credit enhancement for the rated NCDs.

IRCL, however, is exposed to operations and maintenance (O&M)-related risks as inadequate maintenance could result in lane closures, leading to potential deductions from the annuity by the NHAI. The rating is exposed to increase in routine and periodic maintenance expenses above the budgeted levels. However, comfort is drawn from the healthy liquidity cushion and the sponsor<sup>1</sup> undertaking to support and fund any shortfall arising out of higher maintenance costs.

ICRA notes that the company will be undertaking its third major maintenance expense in FY2024, before handover. As per the terms of the NCD, IRCL is not required to maintain a third major maintenance reserve. However, based on the discussion with the management, ICRA expects the company to make annual provisions and keep surplus funds in the system to build adequate funds for meeting the last major maintenance due in H2 FY2024. The rating also considers force majeure events as the termination payments in case of certain force majeure events might not be enough to cover the outstanding debt. However, presence of surplus liquidity in the company and strong sponsors provides comfort.

<sup>1</sup> Sponsor L&T Infrastructure Development Projects Limited is rated as [ICRA]AAA(Stable)/A1+

## Key rating drivers and their description

### Credit strengths

**Annuity and operational nature of project** – IRCL's project is an annuity-based build operate transfer (BOT) project with no construction and traffic-related risks. Further, the company has received 22 annuities till date without any major deductions, which establishes its strong track record of timely receipt of annuities.

**Low counterparty risk with strong annuity provider** – The rating derives support from the strong annuity provider or counterparty – NHAI [rated [ICRA]AAA(Stable)/A1+] – which is an authority under Ministry of Road Transport and Highways, Government of India.

**Structural and credit enhancement features for NCDs** – The NCDs have structural features and legal provisions for credit enhancements, including an escrow mechanism and presence of reserves for debt servicing. The escrow account (exclusively charged to the debenture trustee) is maintained with a designated bank, where the receipts from the NHAI are deposited and utilised as per a pre-defined cash flow waterfall. All surplus amounts shall be available to debenture holders in the event of any shortfall in debt servicing obligation. The company is permitted to invest in liquid mutual fund debt schemes/FDs/other debt securities with a minimum rating of AA/A1+, with consent from the majority debenture holders. Further, there is a sponsor undertaking for shortfall arising out of higher O&M costs.

### Credit challenges

**O&M and major maintenance-related risk** – The company is exposed to O&M-related risks as inadequate maintenance could result in lane closures, leading to potential deductions from the annuity by the NHAI. Further, increase in the O&M or major maintenance cost can adversely impact the debt service coverage ratio. The company has completed the second major maintenance expenditure (undertaken in FY2020), though the cost was higher than initially envisaged and was funded by the provision made for major maintenance and surplus accrued over the years. ICRA further notes that IRCL will be undertaking its third major maintenance expense in FY2024, before handover. As per the terms of the NCD, IRCL is not required to maintain a major maintenance reserve. However, based on the discussion with its management, ICRA expects the company to make annual provisions and keep surplus funds in the system to build adequate funds for meeting the last major maintenance due in H2 FY2024. Furthermore, the special purpose vehicle (SPV) has been maintaining liquidity, which provides cushion in case of any increase in cost. IRCL's ability to maintain the same would be crucial and would remain a rating sensitivity.

**Risk from force majeure events** – In case of occurrence of non-political or political force majeure events leading to termination of the concession agreement, IRCL may not be entitled to proceeds that would be enough to cover the outstanding NCD principal amount. Consequently, the occurrence of such force majeure events is a rating sensitivity.

### Liquidity position: Strong

The company's liquidity position is **strong** with cash and liquid investments of Rs. 106.80 crore as on March 31, 2020 (deployed primarily in liquid mutual funds and fixed deposits). This includes NCD interest and redemption payment of Rs. 32.99 crore (paid in April 2020) and reserves maintained for debt servicing and major maintenance activities. Further, ICRA expects the cash flows from operations to be sufficient to meet the debt servicing obligations over the tenure of the debt. Besides, the funded debt service reserve, which provides cushion in case of delay in annuity — a gap of 21 days between scheduled annuity payment date and debt repayment date — also provides comfort.

## Rating sensitivities

**Positive triggers** – Not applicable

**Negative triggers** – Downgrade pressure on the rating could arise if lower than 98% lane availability or increased expenses, or reduction in the liquidity results in deterioration in the cumulative debt coverage ratio. In addition, any significant delays by the NHAI in annuity payment or deterioration in credit profile of the NHAI could exert negative pressure on its rating.

## Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	<a href="#">Corporate Credit Rating Methodology</a> <a href="#">Approach for rating debt instruments supported by structural features (Non-securitized transactions)</a> <a href="#">Rating Methodology for BOT (Annuity) Roads</a>
Parent/Group Support	Not applicable
Consolidation/Standalone	Standalone

## About the company

IRCL is a 100% subsidiary of L&T Infrastructure Development Projects Limited (L&T IDPL). It was incorporated in February 2006 as an SPV. The company has been awarded a contract on BOT annuity basis to widen the existing two-lane 76-km stretch from km 601.000 to 677.000 of National Highway 27 (NH-27; formerly known as Km 340.00 to Km 264.00 on Palanpur–Swaroopgunj section of NH-14) in Gujarat and Rajasthan, and operation and maintenance thereof under the concession agreement dated March 26, 2006 with the NHAI. The concession was granted to IRCL for a period of 17.5 years from the appointed date, which was achieved on September 24, 2006. The project achieved commercial operation date (COD) on July 22, 2009 and started receiving annuity from September 24, 2009.

## Key financial indicators

As per IndAS*	FY2019 (Audited)	FY2020 (Provisional)
Operating Income (Rs. crore)	30.07	27.9
PAT (Rs. crore)	-56.54	1.22
OPBDIT/OI (%)	51.67%	46.70%
RoCE (%)	-12.28%	11.00%
Total Outside Liabilities/Tangible Net Worth (times)	6.02	4.90
Total Debt/OPBDIT (times)	11.45	10.23
Interest Coverage (times)	0.67	0.67
DSCR	0.26	0.19

\*As per book income under IndAS, income 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 (FY2021)			Rating History for the Past 3 Years			
		Type	Amount Rated	Amount Outstanding as of 30-May-20	Rating	FY2020	FY2019	FY2018
					18-Jun-20	29-Jul-2019	22-Jun-2018	09-May-2017
1	NCD	Long Term	112.35	112.35	[ICRA]AAA (Stable)	[ICRA]AAA(SO) (Stable)	[ICRA]AAA(SO) (Stable)	[ICRA]AAA(SO) (Stable)
2	NCD	Long Term	42.75	-	[ICRA]AAA (Stable) Rating withdrawn	[ICRA]AAA(SO) (Stable)	[ICRA]AAA(SO) (Stable)	[ICRA]AAA(SO) (Stable)
3	NCD	Long Term	45.80	-		Rating Withdrawn	[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](http://www.icra.in)

### Annexure-1: Instrument details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
INE827N07109	NCD – STRPP 10	Jan 2015	9.098%	Oct-19	21.85	Rating Withdrawn
INE827N07117	NCD – STRPP 11	Jan 2015	9.098%	Apr-20	20.90	Rating Withdrawn
INE827N07125	NCD – STRPP 12	Jan 2015	9.098%	Oct-20	20.60	[ICRA]AAA (Stable)
INE827N07133	NCD – STRPP 13	Jan 2015	9.098%	Apr-21	18.40	[ICRA]AAA (Stable)
INE827N07141	NCD – STRPP 14	Jan 2015	9.098%	Oct-21	19.80	[ICRA]AAA (Stable)
INE827N07158	NCD – STRPP 15	Jan 2015	9.098%	Apr-22	16.65	[ICRA]AAA (Stable)
INE827N07166	NCD – STRPP 16	Jan 2015	9.098%	Oct-22	14.30	[ICRA]AAA (Stable)
INE827N07174	NCD – STRPP 17	Jan 2015	9.098%	Apr-23	12.20	[ICRA]AAA (Stable)
INE827N07182	NCD – STRPP 18	Jan 2015	9.098%	Oct-23	10.40	[ICRA]AAA (Stable)

Source: IRCL

### Annexure-2: List of entities considered for consolidated analysis: Not applicable

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