December 28, 2022

Ahmedabad Maliya Tollway Limited: Rating continues to be on 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 (NCD)	175.00	175.00	[ICRA]AA (CE); on rating watch with developing implications
Total	**175.00**	**175.00**	

Rating Without Explicit Credit Enhancement	[ICRA]A-

**Instrument details are provided in Annexure I*

Note: The (CE) suffix mentioned alongside the rating symbol indicates that the rated instrument/facility is backed by some form of explicit credit enhancement. This rating is specific to the rated instrument/facility, its terms and its structure and does not represent ICRA's opinion on the general credit quality of the entity concerned. The last row in the table above also captures ICRA's opinion on the rating without factoring in the explicit credit enhancement.

Rationale

The rating of Ahmedabad Maliya Tollway limited (AMTL) continues to be on watch with developing implications, given the recent announcement by Larsen & Toubro Limited (L&T, rated [ICRA]AAA (Stable)/A1+) regarding divesting its entire stake in L&T Infrastructure Development Projects Limited (IDPL). The rating of AMTL is based on the strength of the unconditional and irrevocable sponsor support undertaking (SSU) and put option provided by IDPL, the parent of AMTL, for the rated non-convertible debentures (NCD) programme.

ICRA follows a credit substitution approach, whereby the rating of the undertaking provider, IDPL, has been translated to the rating of the said instrument. IDPL's credit profile has factored in the implicit support provided by its primary sponsor i.e., L&T and its strategic importance for the L&T Group as one of the primary infrastructure assets holding entity.

L&T is divesting its entire stake in IDPL as per the press release dated December 19, 2022. The said transaction is subject to completion of customary closing conditions including receipt of applicable regulatory and other approvals. ICRA will continue to monitor the developments in this regard and evaluate the impact on an ongoing basis.

Adequacy of credit enhancement

The rating of the instrument is based on the credit substitution approach, whereby the rating of the undertaking provider has been translated to the rating of the said instrument. The SSU and the put option provided are irrevocable and unconditional, covers the entire amount and tenor of the rated instrument and has a well-defined invocation and payment mechanism. Given these attributes, the undertaking and put option provided by IDPL are adequately strong for an enhancement in the rating of the said instrument to **[ICRA]AA(CE)** against the rating of [ICRA]A- without explicit credit enhancement.

ICRA also notes that the toll collections improved by 24% to Rs. 273.3 crore in FY2022 and further improved to Rs. 157.6 crore in H1 FY2023. The growth in FY2022 collections is driven by the relaxation of traffic restrictions post September 2021 and pent-up demand from tiles industry, leading to higher movement of raw material to the tile industries located near Morbi region. As a result, the traffic increased by 20% in H2 FY2022 against H1 FY2022 and the growth continued in FY2023. The toll collection growth in the current year is supported by healthy revision in toll rates from April 2022. The gross toll collections are expected to cross Rs. 300 crore for FY2023. The company's liquidity position remains adequate with free cash balance of around Rs. 90 crore including ~Rs. 32 crore in debt service reserve account as on September 30, 2022, which are being maintained by the company in the form of FDRs.

Salient covenants related to credit enhancement, as specified in guaranteed documents

» *The payment mechanism is designed to ensure that all payments under the NCDs are covered by sponsor undertaking (for coupon payment) or put option (for NCD redemption) from the Sponsor (IDPL).*

» *Proceeds from the sponsor (if the Issuer does not pay and recourse on the sponsor is required) would be available before the due date of payment on the NCDs.*

» *NCD would be deemed to be extinguished pursuant to the settlement of the put option by the sponsor.*

» *IDPL will not reduce its shareholding in AMTL below 51% and would also retain management control.*

» *The NCD has a scheduled tenor of 13 years from the deemed date of allotment. The principal amount on the NCD is payable in one bullet instalment at the maturity date. The coupon amount is payable on an annual basis. The NCD also carries issuer put option at the end of 5 years and 10 years from the deemed date of allotment, and call option at the end of 3 years, 4 years, 5 years and 10 years.*

Key rating drivers and their description

Credit strengths

SSU and put option provided by sponsor - The rated NCDs are covered by option agreements from IDPL that cover the principal repayment commitments and the SSU through which the company has undertaken to fund any shortfalls in coupon payments to the NCD holders. The transaction structure incorporates payment timelines to ensure timely servicing of obligations under the agreement.

Operational toll road project with more than ten years of track record - The company started collecting toll from April 2012 and has a track record of more than ten years of toll collection. The project road stretch passes through many large industrial establishments, connecting some of industrial towns such as Viramgam, Morbi and Kadi, in Gujarat. The project road serves mainly port traffic and traffic originating from Gujarat and Maharashtra destined to Kandla, Mundra, Mandvi and Navalkhi ports (in the Kutch region). It is the shortest road connecting the Kutch region and the nearby ports from Ahmedabad, Maharashtra, and South India.

Comfortable debt coverage metrics and presence of structural features - The company has comfortable debt coverage metrics. ICRA takes comfort from the presence of structural features such as cash flow escrow mechanism, debt service reserve (DSR) in the form of fixed deposit equivalent to around one quarter's debt servicing obligations.

Credit challenges

Inherent risks associated with toll road project - The company is exposed to the inherent risks in toll road project including users' willingness to accept toll rate hikes, volatility of traffic due to factors such as the pandemic-induced challenges and dependence of traffic growth on the economic activities in the region. The increase in toll rates for the project stretch is linked to variation in WPI index of December of the previous financial year, which could negatively impact the overall revenue growth for the special purpose vehicle (SPV) in case of lower inflation.

Sizeable outgo towards revenue share of GSRDC - According to the concession agreement (CA), the concessionaire is required to pay revenue share of 12.13% in the first year of tolling, and which would increase by 1% in every subsequent year of the concession. Therefore, sizeable revenue share outgo towards Gujarat State Road Development Corporation Limited (GSRDC) reduces the cash flow available for debt servicing. However, with the approval for revenue share deferment in May 2017, the company is scheduled to pay a lower revenue share till FY2023, which lessens the cash flow burden to an extent. As the deferment schedule ends in FY2023, the concessionaire will have to pay the entire revenue share from FY2024, as per the agreement, which stood at 23.13% of the toll revenues in FY2024.

Exemption of tolling for passenger traffic - The Government of Gujarat (GoG) has exempted the car/jeep/van category, along with state transport buses, from toll on state highways from August 15, 2016. The loss of toll revenues from these exemptions are being compensated by the state government, exposing the company to higher regulatory and counterparty risks. However, reimbursements are submitted on a monthly basis on the first week of every month and GSRDC will reimburse the claims in around 90 days of time.

Liquidity Position: Not Applicable

Rating Sensitivities:

Positive factors: Not Applicable

Negative factors: Not Applicable

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology BOT Toll Road Projects in India Approach for rating debt instruments backed by third-party explicit support
Parent/Group support	Parent/Group Company: IDPL The rating takes into account the strength of the SSU and put option provided by the sponsor, and the payment mechanism designed to ensure timely payment on the NCD, as per the terms of the transaction
Consolidation/Standalone	Standalone

About the company

AMTL, a subsidiary of IDPL, was incorporated in 2008 as an SPV for strengthening and four-laning of State Highway-7 (SH-7) and SH-17 from Ahmedabad to Maliya in Gujarat. The authority for the project is GSRDC and the total concession period is 22 years with a provision of change in concession period in case of a variation in actual and target traffic.

The project involved four-laning of the existing two-lane Ahmedabad-Viramgam and Viramgam-Maliya section of SH-17 and SH-7, respectively, in Gujarat. The start point of the project corridor is at km 11.500 and the terminal point is at km 195.065, including the bypasses at Sachana, Dhrangadhara and Halvad. The proposed construction period was 30 months and the company was able to achieve commercial operation date (COD) by April 2012 as per the planned schedule. The project has four toll plazas and has been collecting toll over the past seven years. The project cost was Rs. 1,497 crore.

Key financial indicators

	FY2021	FY2022
Operating income (Rs. crore)	180.3	224.0
PAT (Rs. crore)	-7.2	-17.4
OPBDIT/OI (%)	68.7%	67.1%
PAT/OI (%)	-4.0%	-7.8%
Total outside liabilities/Tangible net worth (times)	16.5	21.0
Total debt/OPBDIT (times)	8.2	6.6
Interest coverage (times)	1.3	1.4

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation

Source: Annual report

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2023)				Chronology of Rating History for the Past 3 Years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding as on Nov 30, 2022 (Rs. crore)	Date & Rating in	Date & Rating in FY2022	Date & Rating in FY2021		Date & Rating in FY2020
					Dec 28, 2022	Dec 28, 2021	December 28, 2020	April 30, 2020	August 30, 2019
1	NCD	Long Term	175.0	175.0	[ICRA]AA (CE)&	[ICRA]AA (CE)&	[ICRA]AA (CE)(Stable)	[ICRA]AA (CE)(Stable)	[ICRA]AA (SO) (Positive)

&- Rating watch with developing implications

Complexity level of the rated instrument

Instrument	Complexity Indicator
NCD	Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments are available on ICRA’s website: Click Here

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
INE557L07031	NCD	Aug 28, 2017	8.6%	Aug 28, 2030	175.00	[ICRA]AA(CE) &

Source: Company; & - Rating watch with developing implications

Annexure II: List of entities considered for consolidated analysis

Not applicable

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About ICRA Limited:

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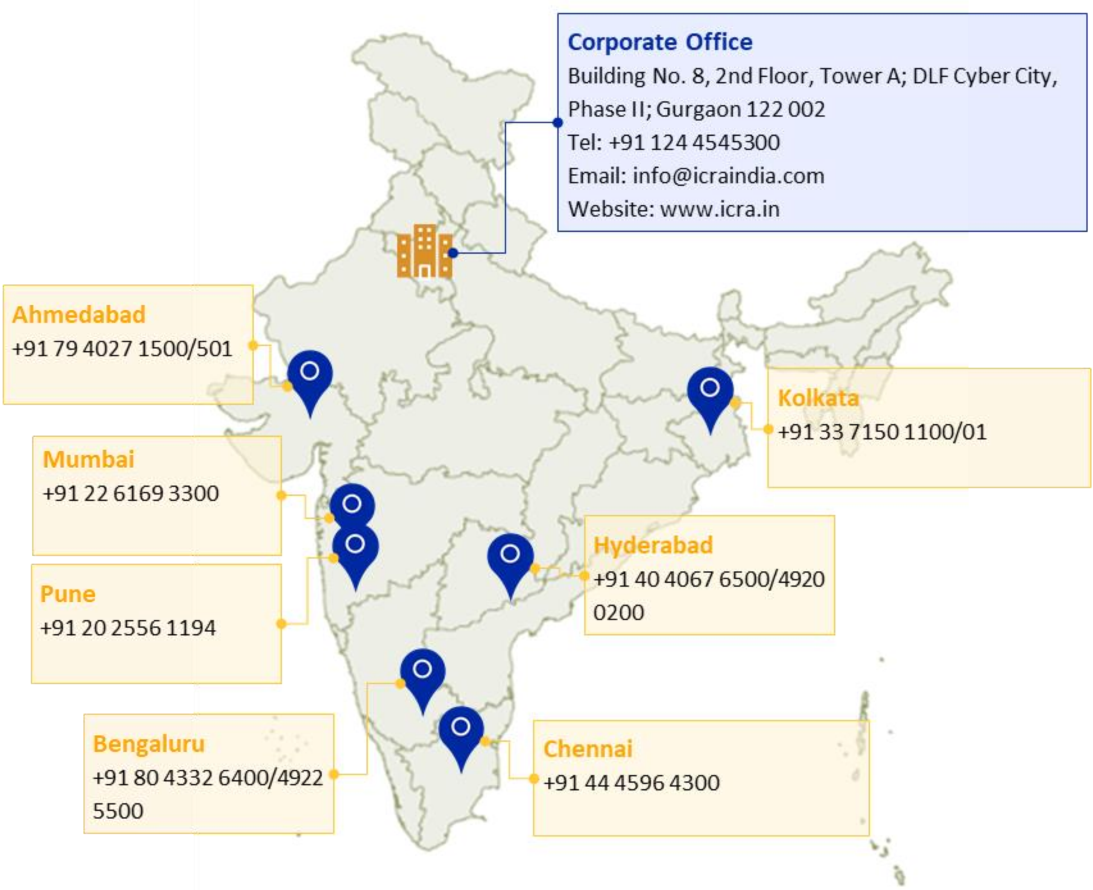

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