

**Jorabat Shillong Expressway Limited**

October 05, 2018

**Ratings**

| Facilities                                       | Amount<br>(Rs. crore)  | Rating <sup>6</sup>  | Rating Action                                     |
|--|--|--|---|
| *Senior Non - Convertible Debentures (NCDs)      | 592.42   | CARE AAA(SO)<br>[Triple A (Structured Obligations)]<br>(Credit watch with negative implications) | Placed on credit watch with negative implications |
| *Subordinate Non - Convertible Debentures (NCDs) | 223.73   | CARE AAA(SO)<br>[Triple A (Structured Obligations)]<br>(Credit watch with negative implications) | Placed on credit watch with negative implications |
| <b>Total Facilities</b>                          | <b>816.15</b><br><b>(Rupees eight hundred sixteen crore and fifteen lakh only)</b> |  |   |

*Details of instruments/facilities in Annexure-1*

\*the rating for the NCD Issues are backed by discounting of future annuities receivable from National Highways Authority of India (rated CARE AAA; Stable) apart from the presence of a structured payment mechanism and various credit enhancement features

**Detailed Rationale & Key Rating Drivers**

The ratings of Jorabat Shillong Expressway Limited (JSEL) have been placed on credit watch with negative implications on account of significant deterioration in the credit profile of the sponsor i.e. IL&FS Transportation Networks Limited (ITNL: rated CARE D). The sponsor is also the operations and maintenance (O&M) and Major Maintenance (MM) contractor for the project, weakened credit profile of sponsor translates into risk of delayed or non-timely execution of the O&M and MM contracts which may impact the flow of annuity.

However, the rating derives strength from the credit quality of the underlying annuity provider, National Highways Authority of India (NHAI; rated CARE AAA; Stable) with a track record of receiving timely annuities for more than one year along with structured payment mechanism (SPM) for servicing of the NCDs, the creation of debt service reserve account (DSRA) and major maintenance reserve (MMR), elimination of interest rate risk as the NCDs would have a fixed coupon along with various other credit enhancement features.

Further the Structured Payment Mechanism (SPM) stipulates a Debt Service Coverage Ratio (DSCR) of 1.08x taking into consideration servicing of both tranches of NCDs and cash trapping in case the DSCR falls to 1.05x or below.

JSEL's ability to achieve final completion of the project as envisaged, while continuously ensure satisfactory maintenance of the road within expected cost parameters, in terms of regular as well as periodic maintenance, shall be a key rating sensitivity as this would be critical for minimizing lane closures and thereby ensuring receipt of full annuity. The rating would also be sensitive to any non-adherence to SPM, apart from the occurrence of any force majeure events and any deterioration in the credit profile of NHAI which could have a material adverse impact on the credit quality of the rated NCDs.

**Detailed description of the key rating drivers**
**Key Rating Strengths**
***Operational project for more than two year with receipt of five semi-annuities without any material delay***

JSEL is an annuity project and is not exposed to any traffic risk. Further, as it is already operational project (Provisional COD achieved in January 2016), the construction risk is minimized to a small patch of the stretch of ~5.0 km, of which works on

<sup>1</sup>Complete definition of the ratings assigned are available at [www.careratings.com](http://www.careratings.com) and other CARE publications

~500 meters of the stretch is pending to be completed. JSEL also has a track record of timely receipt of full annuity payments from NHAI and has received five semi-annual payments from the Concession Authority till September 15, 2018. CARE notes that the past semi-annuity receipts have been received without any material delays. The Structure Payment Mechanism (SPM) of the instrument allows a significant cushion of about ~30 days post the due date of the annuities to counter any timing related issues if it may arise.

The last repayment installment is to be serviced from semi-annual annuity since there is a cushion of three business days & annuity receipts have historically been received within two business days. The built-up of DSRA would provide additional comfort.

#### ***Strong financial risk profile of annuity provider, NHAI***

The National Highways Authorities of India (NHAI; rated CARE AAA; Stable) was incorporated under an act of Parliament by the Government of India (GOI). NHAI functions as the nodal agency for development, maintenance and management of National Highways in the country. It is vested with executive powers for developing national highways in the country by the Ministry of Road Transport & Highways (MoRTH). The mission of NHAI is to meet the nation's need for the provision and maintenance of national highway network within the strategic policy framework as set by Government of India (GoI). NHAI's rating factors in high level of support that NHAI receives from GoI due to its strategic importance as the country's nodal agency for implementing road sector projects, including various phases of National Highways Development Programme (NHDP). The outlook on NHAI reflects the outlook on the sovereign, whose direct and indirect support continues to be the key rating driver. By virtue of being a quasi-government body, the risk arising on account of NHAI defaulting on annuity payments is very low. Any adverse change in the credit profile of the counterparty is a key rating sensitivity.

#### ***Upfront creation of Debt Service Reserve Account (DSRA) for six months and funding of Major Maintenance Reserve (MMR)***

JSEL has created Debt Service Reserve Account (DSRA) upfront (equivalent to succeeding six month installment) for meeting its debt servicing requirements (interest + principal repayment) and currently invested in mutual funds. This DSRA could be utilized, in case the receipt of annuity is delayed beyond the due date. Further, the terms of the issue also provide for incremental appropriation and replenishment of the DSRA from the future annuity proceeds in case it is depleted, prior to the funds being available for withdrawal to the sponsor. Additionally, as per the terms of the issue, upfront creation of a Major Maintenance Reserve (MMR) was made.

While MMR has to be compulsorily maintained in cash form, the DSRA can be kept in non-funded form (bank guarantee) as per the terms of the issue, it also provides for invocation of the bank guarantee by the Debenture Trustee if it is not renewed before 30 days of its expiry and the same would have to be replenished by the sponsor without any recourse to JSEL. These conditions provide for adequate cushion for the debt servicing requirements, as is customary for similar transactions of this nature.

The terms of the instrument require maintenance of Debt Service Coverage Ratio (DSCR) of 1.08x, the decline of the DSCR to 1.05x or lower would trigger all cash-trapping in the system until the DSCR has recovered to 1.08x.

#### ***Fixed rate of interest for the NCD issue eliminates the interest rate risk***

The coupon rate on the NCD is fixed at 8.30% for senior debt and 8.45% for sub debt till the end of the last principal payment. Thus, the interest rate risk is being completely mitigated, providing comfort from the credit perspective.

#### ***Inherent maintenance risk associated with road projects, partly mitigated by a fixed priced O&M contract and creation of MMR in addition to implementation of newer techniques for maintenance of stretch:***

The project's Concession Agreement does not have any provision for undertaking periodic overlay at fixed intervals as part of performance parameter and maintenance of the stretch is performance based requiring that Roughness Index (RI) value exceeding 2500 mm in a stretch of 1 km (measured by a standardized roughmeter/bump integrator machine) needs to be rectified within 180 days. Further, JSEL would enter into a fixed priced contract with agreed escalations with its sponsor, ITNL for the O&M of its project including routine and major maintenance expenditure of the road for the entire tenure of the concession. Substantial cost savings are envisaged in the O&M expenses as the O&M contractor (ITNL) would employ the cost-effective techniques for road maintenance such as 1) Hot-in-Place Recycling and 2) Micro-Surfacing overlay.

### Key Rating Weaknesses

#### ***Pending Construction risk albeit partially offset by maintenance of Construction reserve from the issue's proceeds***

Pending construction of the project is to be completed for the receipt of final completion certificate from authority. Further any construction funding risks are mitigated by the maintenance of a 'Construction Reserve' from proceeds of the issue. A construction reserve is created from the proceeds of the issue for the pending construction of about 4-5 km project stretch. The project status as per July Monthly progress report is 99.75%. The unutilized portion of this reserve could be transferred to the Distribution account only after the completion of the entire project and receipt of Final project completion certificate from NHAI. Expenses for any additional project works (as a result of change of scope) would be brought in by the sponsors. However, the ability to receive sponsor support is limited based on the deterioration of the credit profile of the sponsor.

***Weakened credit profile of Sponsor i.e. ITNL:*** The credit rating of ITNL has been revised to CARE D due to delay in servicing of its debt obligations. The liquidity profile of the group continues to be under stress on account of delay in raising funds from the promoters' and impending debt payments. Further, the company's plans to raise funds from promoters are yet to be finalized.

**Analytical Approach:** Standalone considering various credit enhancement measures and structured payment mechanism for the NCD's repayment.

### Applicable Criteria

[CARE's Policy on Default Recognition](#)

[Criteria on assigning Outlook to Credit Ratings](#)

[Rating Methodology - Factoring Linkages in Ratings](#)

[Rating Methodology - Infrastructure Sector Ratings \(ISR\)](#)

[Financial ratios – Non-Financial Sector](#)

### About the Company

Incorporated in June 2010, Jorabat Shillong Expressway Ltd. (JSEL) is a Special Purpose Vehicle (SPV) which initially was sponsored by IL&FS Transportation Networks Limited (ITNL; rated CARE D) and Ramky Infrastructure Limited in the ratio of 50:50 shareholdings. Later in August 2018, ITNL purchased entire state from Ramky Infrastructure Limited and JSEL become 100% subsidiary of ITNL. JSEL has been awarded a concession by National Highway Authority of India (NHAI) (rated CARE AAA; Stable) for four-laning of the Jorabat Shillong (Barapani) section of National Highway – 40 in the states of Assam and Meghalaya. The Project highway is an existing road from Jorabat to Barapani starting at km 0.00 and ending at km 61.80 (approx. 61.92km about 247.68 lane kms). The project highway traverses through Meghalaya linking some of the most backward regions of the state and connecting Meghalaya to Assam. NH-40 is the main artery connecting Shillong, the capital of Meghalaya and the States of Mizoram and Tripura with Guwahati, the gateway to the North East of India.

The appointed date for the project was January 12, 2011 with a 3 year construction period and 17 years of operations period during which NHAI would pay 34 semi-annuities to JSEL. The scheduled COD for the project was January 12, 2014, however there was 2-year delay in project implementation due to delay in handing over the land of around 8 km for the project and bypass land of around 5 km by the Authority to the Concessionaire. LIE has stated in its report that, there has been delay in project implementation largely on account of Authority (NHAI) & Govt of Meghalaya. Company has represented with NHAI for recognition of delay and payment of compensation, the matter is currently under arbitration. The project achieved provisional COD on January 28, 2016 and has received five full semi-annuities on regular basis.

| Brief Financials (Rs. crore) | FY17 (A) | FY18 (A) |
|------------------------------|----------|----------|
| Total operating income       | 182.14   | 380.03   |
| PBILDT                       | 122.07   | 156.97   |
| PAT                          | -19.60   | -3.72    |
| Overall gearing (times)      | 8.39     | 9.82     |
| Interest coverage (times)    | 0.86     | 1.00     |

A: Audited

**Status of non-cooperation with previous CRA:** Not Applicable