

## Rating Rationale

January 22, 2019 | Mumbai

# Jharkhand Road Projects Implementation Company Limited

Rating downgraded to 'CRISIL D'

### Rating Action

**Rs.438 Crore Non Convertible Debentures**

**CRISIL D (Downgraded from 'CRISIL BB(SO)/Watch Negative')**

1 crore = 10 million

Refer to annexure for Details of Instruments & Bank Facilities

### Detailed Rationale

CRISIL has downgraded its rating on the non-convertible debentures (NCDs) of Jharkhand Road Projects Implementation Company Limited (JRPICL) to '**CRISIL D**' from 'CRISIL BB(SO)/Watch Negative'. JRPICL is a subsidiary of IL&FS Transportation Networks Ltd (ITNL), and a part of the Infrastructure Leasing and Financial Services Ltd (IL&FS) group.

The downgrade reflects non-payment of interest and principal obligations on CRISIL-rated NCDs that were due on January 21, 2019, as confirmed by the trustee (IDBI Trusteeships Ltd) and investors. This is on account of non-adherence to the structured payment mechanism, despite adequate funds in JRPICL's escrow account.

CRISIL had earlier highlighted heightened risk of default due to reversal in the IL&FS management's earlier stance of maintaining the integrity of JRPICL's ring-fenced structure and structured payment waterfall. This had spawned untested legal risks for bankruptcy-remote special purpose vehicles (SPVs) such as JRPICL (*Refer CRISIL's rating rationale on JRPICL dated January 18, 2019*).

With its strong track record of smooth operations, JRPICL has enough wherewithal to comfortably service the NCDs from its own cash flow. As on December 31, 2018, the company had Rs 345 crore of liquid funds available for debt servicing (*around 4.5 times the quarterly debt obligation of Rs 76 crore due in January 2019*). The default is a manifestation of change in the management's willingness to pay and the emergence of sharply increasing legal risks over the interpretation of National Company Law Appellate Tribunal's (NCLAT) interim stay order of October 15, 2018.

The IL&FS management had earlier confirmed that their proposed resolution plan for the group will not compromise JRPICL's ring-fenced structure and the structured payment waterfall (*refer to CRISIL's rating rationale on JRPICL dated November 05, 2018*).

Invocation of NCLAT's stay order by JRPICL to withhold regular debt payment is not only a reversal of the management's previous stance, but also challenges the legal standing of the ring-fenced nature and bankruptcy-remoteness of the SPV. Because of this, despite having adequate cash surplus, JRPICL has defaulted on its debt obligation.

The rating factors in non-payment of debt obligations, heightened legal risks and exposure to risks relating to operation and maintenance (O&M). These weaknesses are partly offset by the benefits that JRPICL derives from the annuity nature of its cash flows and its healthy operational track record.

### Key Rating Drivers & Detailed Description

**\* Non-payment of interest and principal on due date:** JRPICL has not paid the interest and principal obligations of Rs 76 crore due on January 21, 2019 (while actual due date was January 20, 2019, it being a Sunday, the payment was due on the next working day). Despite adequate funds in the escrow account of the SPV and timely instruction sent by the trustee to make the payment to investors, the escrow bank did not process the payment.

### Weakness

**\* Increased legal risks to ring fenced bankruptcy remote structure:** Despite presence of robust payment waterfall mechanism, the recent letter sent by JRPICL to the trustee and the investors (dated January 4, 2019) highlights change in management's earlier stance of protecting the integrity of the ringfenced payment structure and ensuring timely debt servicing to NCD holders from project cash flows.

As per the letter sent by JRPICL to the trustee, the company believes that the NCLAT stay order encompasses normal debt servicing as well. In the trustee's view, the stay is only against lender action (unauthorised set-offs, etc). However, escrow bank has taken a view that payment should be put on hold till clarity emerges on NCLAT's stay order. Consequently, the escrow bank did not transfer the funds on the scheduled payment date despite sufficient availability of funds.

**\* Exposure to O&M risk:** If JRPICL does not meet the prescribed standards of maintenance, it faces the risk of reduction in the annuity payments from the government of Jharkhand (GoJ). Frequent material breaches in the O&M requirement may also result in the contract being terminated by GoJ. However, these risks are mitigated by the routine, low-cost nature of O&M expenses, and the fixed-rate O&M contract with pre-determined escalation percentages. JRPICL has ongoing major maintenance work, which is expected to be completed by the end of fiscal 2020.

**Strengths**

\* **Stable revenue profile, given annuity-based model:** The rating reflects the benefits that JRPICL derives from the annuity nature of its cash flows. It has received 52 annuity payments thus far for its five road stretches, following an average processing time of 10 days. Dependence on any single annuity payment is low as the company receives 10 semi-annual annuities for the five road stretches on different dates across 8 months.

\* **Adequate debt service reserve account (DSRA) and longstanding relationship with GoJ mitigate counterparty risk:** Officials from GoJ are represented on the board of Jharkhand Accelerated Road Development Company Ltd (JARDCCL), a joint venture between GoJ and IL&FS, overseeing the monitoring of the project and recommending annuity payment. GoJ assures annuity payment through its own budgetary provisions.

Additionally, a DSRA of nine months supports liquidity in the event of delays in annuity payments, mitigating the counterparty risk profile of GoJ.

**Liquidity**

As on December 31, 2018, JRPICL had cash and equivalent of Rs 456 crore maintained in permitted investments such as mutual funds and fixed deposits as well as bank accounts of the five road assets. Of these, the company is maintaining an major maintenance reserve (MMR) of Rs 109 crore as per the Debenture Trust Deed. The remaining surplus cash and DSRA balance of Rs 345 crore is equivalent to around 4.5 times the quarterly debt obligation of Rs 76 crore due in January 2019. The company is likely to generate net cash accrual of Rs 147 crore in fiscal 2020 against principal obligation of Rs 133 crore. However, CRISIL would like to highlight that the management has chosen not to service debt repayments in this SPV despite adequate liquidity.

**About the Company**

ITNL and IL&FS hold 93.43% and 6.57%, respectively, in JRPICL, the SPV set up to develop five stretches of roads under Jharkhand Accelerated Road Development Programme (JARDP). The five road stretches are: the Ranchi Patratu-Dam Road, the Patratu Dam-Ramgarh Road, the Ranchi Ring Road, the Chaibasa Kandra-Chowka Road, and the Adityapur Kandra Road. All these stretches have begun commercial operations, and have been receiving annuity payments.

**About ITNL**

ITNL was incorporated in 2000 by IL&FS to consolidate its road infrastructure projects and to pursue new ones in surface transportation infrastructure through public-private partnership. ITNL is primarily engaged in the development, operation, and maintenance of national and state highways. It has diversified into other transportation segments such as mass rapid transport system, urban transportation infra system, car parking, and border check-post.

ITNL's credit profile deteriorated on account of increased debt. ITNL and many of its SPVs have defaulted on their debt servicing in the past 6-9 months.

**About IL&FS**

IL&FS is one of India's leading infrastructure development and finance companies. The company was promoted by the Central Bank of India ('CRISIL A+/CRISIL A/Stable'), Housing Development Finance Corporation Ltd ('CRISIL AAA/FAAA/Stable/CRISIL A1+') and Unit Trust of India. Over the years, IL&FS has broad-based its shareholding and inducted Institutional shareholders including State Bank of India ('CRISIL AAA/CRISIL AA+/FAAA/Stable/CRISIL A1+'), Life Insurance Corporation of India, ORIX Corporation - Japan, and Abu Dhabi Investment Authority.

IL&FS and its group companies (including ITNL) are going through severe financial stress. IL&FS has been defaulting on some of its debt since August 2018. In the wake of continued financial stress at both the sponsor, ITNL, and the ultimate parent IL&FS, the Government of India had, on October 1, 2018, replaced the board of directors at IL&FS. The move was an effort to turn around the group and restore the confidence of financial markets after the spate of recent defaults by IL&FS and its group companies.

**Key features of the NCD**

- \* Tenure of up to 12 years
- \* Quarterly interest obligation
- \* Quarterly principal obligation till January 2027 and then semi-annual
- \* Backed by an escrow mechanism with payment waterfall clearly defining priority
- \* Backed by an upfront MMR of Rs 70.36 crore
- \* Initial construction reserve account of Rs 10 crore
- \* Quarterly appropriation to the reserve for each major maintenance expenditure
- \* DSRA to be maintained by covering peak requirements of three quarters of obligation (principal and interest).

**Key Financial Indicators\***

Particulars	Unit	2018	2017
Revenue	Rs cr	42	51
Profit after tax	Rs cr	(28)	(81)
PAT margin	%	NM	NM
Adjusted debt/Adjusted networkth	Times	7.5	6.4
Interest coverage	Times	1.8	NM

\*Reported numbers ' IndAS

**Any other information:** Not applicable

**Note on complexity levels of the rated instrument:**

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**Annexure - Details of Instrument(s)**

ISIN	Name of the instrument	Date of allotment	Coupon rate (%)	Maturity date	Issue size (Rs cr)	Rating assigned with outlook
INE746N07010	Debenture	05-May-2017	NA	20-Jul-2027	159.17	CRISIL D
INE746N07093	Debenture	05-May-2017	NA	20-Jan-2019	4.75	CRISIL D
INE746N07101	Debenture	05-May-2017	NA	20-Apr-2019	4.37	CRISIL D
INE746N07119	Debenture	05-May-2017	NA	20-Jul-2019	5.83	CRISIL D
INE746N07127	Debenture	05-May-2017	NA	20-Oct-2019	5.65	CRISIL D
INE746N07135	Debenture	05-May-2017	NA	20-Jan-2020	6.66	CRISIL D
INE746N07143	Debenture	05-May-2017	NA	20-Apr-2020	6.17	CRISIL D
INE746N07150	Debenture	05-May-2017	NA	20-Jul-2020	6.62	CRISIL D
INE746N07168	Debenture	05-May-2017	NA	20-Oct-2020	6.2	CRISIL D
INE746N07176	Debenture	05-May-2017	NA	20-Jan-2021	6.84	CRISIL D
INE746N07184	Debenture	05-May-2017	NA	20-Apr-2021	6.38	CRISIL D
INE746N07192	Debenture	05-May-2017	NA	20-Jul-2021	7.38	CRISIL D
INE746N07200	Debenture	05-May-2017	NA	20-Oct-2021	7.28	CRISIL D
INE746N07218	Debenture	05-May-2017	NA	20-Jan-2022	7.11	CRISIL D
INE746N07226	Debenture	05-May-2017	NA	20-Apr-2022	6.99	CRISIL D
INE746N07234	Debenture	05-May-2017	NA	20-Jul-2022	7.79	CRISIL D
INE746N07242	Debenture	05-May-2017	NA	20-Oct-2022	8.12	CRISIL D
INE746N07259	Debenture	05-May-2017	NA	20-Jan-2023	8.71	CRISIL D
INE746N07267	Debenture	05-May-2017	NA	20-Apr-2023	8.36	CRISIL D
INE746N07275	Debenture	05-May-2017	NA	20-Jul-2023	8.11	CRISIL D
INE746N07283	Debenture	05-May-2017	NA	20-Oct-2023	7.58	CRISIL D
INE746N07291	Debenture	05-May-2017	NA	20-Jan-2024	7.65	CRISIL D
INE746N07309	Debenture	05-May-2017	NA	20-Apr-2024	7.69	CRISIL D
INE746N07317	Debenture	05-May-2017	NA	20-Jul-2024	6.95	CRISIL D
INE746N07325	Debenture	05-May-2017	NA	20-Oct-2024	6.37	CRISIL D
INE746N07333	Debenture	05-May-2017	NA	20-Jan-2025	7.48	CRISIL D
INE746N07341	Debenture	05-May-2017	NA	20-Apr-2025	7.68	CRISIL D
INE746N07358	Debenture	05-May-2017	NA	20-Jul-2025	8.16	CRISIL D
INE746N07366	Debenture	05-May-2017	NA	20-Oct-2025	7.34	CRISIL D
INE746N07374	Debenture	05-May-2017	NA	20-Jan-2026	7.97	CRISIL D
INE746N07382	Debenture	05-May-2017	NA	20-Apr-2026	5.06	CRISIL D
INE746N07390	Debenture	05-May-2017	NA	20-Jul-2026	9.86	CRISIL D
INE746N07408	Debenture	05-May-2017	NA	20-Oct-2026	9.72	CRISIL D
INE746N07416	Debenture	05-May-2017	NA	20-Jan-2027	9.5	CRISIL D
INE746N07424	Debenture	05-May-2017	NA	20-Jul-2027	10.57	CRISIL D
INE746N07432	Debenture	05-May-2017	NA	20-Jan-2028	11.52	CRISIL D
INE746N07440	Debenture	05-May-2017	NA	20-Jul-2028	11.52	CRISIL D
INE746N07457	Debenture	05-May-2017	NA	20-Jan-2029	6.89	CRISIL D

**Annexure - Rating History for last 3 Years**

Instrument	Current			2019 (History)		2018		2017		2016		Start of 2016
	Type	Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	
Non Convertible Debentures	LT	438.00 22-01-19	CRISIL D	18-01-19	CRISIL BB(SO)/Watch Negative	05-11-18	CRISIL AA(SO)/Watch Negative	03-08-17	CRISIL AA(SO)/Stable		--	--
				15-01-19	CRISIL AA(SO)/Watch Negative	15-10-18	CRISIL AA(SO)/Watch Negative	24-04-17	Provisional CRISIL AA(SO)/Stable			
						30-07-18	CRISIL AA(SO)/Stable					

All amounts are in Rs.Cr.

**Links to related criteria**

[Rating Criteria for State Governments](#)

[CRISILs criteria for rating annuity roads](#)

[The Rating Process](#)

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