

Ratings

Rating Rationale

January 18, 2019 | Mumbai

Jharkhand Road Projects Implementation Company Limited

Rating downgraded to 'CRISIL BB(SO)'; continues on 'Watch Negative'

Rating Action

Rs.438 Crore Non Convertible Debentures	CRISIL BB(SO) (Downgraded from 'CRISIL AA(SO)'; Continues on 'Rating Watch with Negative Implications')
Rs.42 Crore Non Convertible Debentures	CRISIL AA(SO)/Watch Negative (Withdrawn)

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 BB(SO)'** from 'CRISIL AA(SO)'. The rating continues to be on **'Rating Watch with Negative Implications'**.

CRISIL has also **withdrawn** its ratings (see *Annexure 1*) on NCDs that were redeemed, after obtaining independent confirmation from the trustee.

JRPICL is a subsidiary of IL&FS Transportation Networks Ltd, and a part of the Infrastructure Leasing and Financial Services Ltd (IL&FS) group.

The rating action follows significantly heightened risk of default due to a reversal in the management's earlier stance of maintaining the integrity of JRPICL's ringfenced structure and structured payment waterfall. This has spawned untested legal risks for bankruptcy-remote special purpose vehicles (SPVs) that can impact timely debt servicing in future. Indeed, uncertainty on JRPICL's next repayment has increased sharply in the last few days.

JRPICL is an SPV whose annuities flow into ringfenced, trustee-controlled escrow accounts. The ring fenced nature of the SPV, trustee controlled escrow accounts, and waterfall mechanism protect the SPV's cash flows from stress at the sponsor level. Further, a debt service reserve account (DSRA) is created in JRPICL to ensure timely debt servicing in case of any procedural delay in annuities or any other contingency. Together, these structural features ensure high certainty of timely debt servicing.

JRPICL has a strong track record of smooth operations and receives its annuities in a timely manner. As a result, it can comfortably service the NCDs from its own cash flows, with the additional comfort of a DSRA equivalent to nine months of debt service. As on December 31, 2018, JRPICL had Rs 345 crore of liquidity available for debt servicing (~4.5 times the quarterly debt servicing of Rs 76 crore due in January 2019).

CRISIL had, through its *Credit Bulletin on JRPICL dated January 15, 2019*, informed about the likely impact of management's actions to potentially withhold scheduled debt servicing by invoking Clause 6 of National Company Law Appellate Tribunal's (NCLAT) interim stay order of October 15, 2018, on specific lender actions. The JRPICL management had, on January 4, 2019, written a letter to IDBI Trusteeship Services Ltd, the trustee of its NCDs, to stop further debits from the company's escrow account to service debt obligations.

CRISIL notes that this is contrary to management's earlier stance (*please refer to CRISIL's Rating Release on JRPICL dated November 05, 2018*) that the proposed resolution plan of IL&FS group will **not** compromise on JRPICL's ringfenced structure, structured payment waterfall, or debt servicing. This also indicates JRPICL's lack of willingness to service debt in a timely manner.

Further, JRPICL is recognised as a separate bankruptcy-remote legal entity under the Companies Act, 2013, distinct from its parent and shareholders. The invocation of NCLAT's stay order by JRPICL challenges the legal standing of ring fenced nature and bankruptcy-remoteness of the SPV and its validity will be tested in a court of law. At the same time, this has led to the emergence of legal risk for the ringfenced transactions in bankruptcy-remote entities. Because of this, despite being fully capable of servicing the senior debt on its own, JRPICL faces very high risk of default from the perspective of timely debt servicing.

Given the change in management's willingness to pay and consequent emergence of sharply increasing legal risk, CRISIL believes that the trustee's and escrow bank's role will be crucial to ensure timely debt servicing. CRISIL has also taken note of the trustee's articulation to ensure timely debt servicing as per the debenture trust deed and stand that the interim order of the NCLAT does not impose any restraint on the regular debt servicing. Now, the escrow bank's stance on the payments due on January 20th is a crucial monitorable. Any adverse action by the escrow bank can lead to default in the rated instrument.

CRISIL continues to place the rating on 'Watch Negative' on account of uncertainty over:

- Escrow bank's action towards making the payment in timely manner
- Trustee actions towards making the payment
- NCLAT's final view on bankruptcy-remoteness of the SPV and its ability to undertake regular debt servicing

CRISIL will keep a close watch on the developments and would resolve the watch once clarity emerges on these aspects. Adverse developments on the aforesaid events can result in a breach of the ringfenced payment waterfall mechanism which could precipitate a default on the NCDs issued by the SPV.

The rating continues to reflect the benefits that JRPICL derives from the annuity nature of its ongoing build-operate-transfer project's healthy operational track record and presence of a well-defined cash flow waterfall mechanism. These strengths are partially offset by increased legal risks, exposure to risks relating to operation and maintenance (O&M), and uncertainties regarding management intent to timely service the debt obligations of the company.

Other key rating sensitivities include material delay in annuities, decline in the quality of the road, higher-than-expected maintenance costs, along with any reduction in DSRA and major maintenance reserve (MMR).

Analytical Approach

The 'SO' (structured obligation) suffix to the rating on JRPICL's debt instruments reflects the escrow mechanism through which annuity payments are routed.

Key Rating Drivers & Detailed Description

Strengths

*** Stable revenue profile, given annuity-based model:** The rating reflects the benefits that JRPICL derives from the annuity nature of its ongoing build-operate-transfer project. It has received 52 annuity payments thus far for its five road stretches, following an average processing time of around 10 days. Dependence on any single annuity payment is low as 10 semi-annual annuities for 5 projects are being received by JRPICL at different dates across 8 months.

*** Well-defined structured payment waterfall mechanism:** The waterfall mechanism ensures that annuity is prioritised for NCD investor payouts. The structure also stipulates creation of a DSRA equivalent to peak principal and interest dues for nine months. In addition, there is adequate cushion of at least 29 days between the receipt of the last annuity and debt repayments. Moreover, any excess cash in the transaction after meeting the investor payouts and other expenses is first used to top up the DSRA, if required.

CRISIL believes JRPICL will continue to maintain surplus cash reserves. As per the Debenture Trust Deed (DTD), distribution payments to shareholders will be restricted, and will depend on trustee and investor's approval, given that the sponsor credit rating is below the 'BBB' threshold.

Despite the 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. Given the change in management's stance and matter being sub-judice, CRISIL believes the trustee's and escrow bank's role and ruling by the courts will be crucial to ensuring timely debt servicing. In this regard, the trustee's action will also be a key rating monitorable.

*** Adequate DSRA and longstanding relationship with GoJ mitigate counterparty risk:** Officials from Government of Jharkhand (GoJ) are represented on the board of Jharkhand Accelerated Road Development Company Ltd (JARDCL), a joint venture between the 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. These partly mitigate the moderate counterparty risk profile of GoJ.

Weakness

*** Increased legal risks:** As per the letter sent by JRPICL to the trustee, the company considers that the NCLAT stay order encompasses normal debt servicing as well. Although in the trustee's view, the stay is only against lender action (unauthorised set-offs, etc), there is now heightened legal risk linked to the final interpretation of this. Additionally, there is risk that the NCLAT may not ensure the integrity of the SPV's ringfenced structure given the ongoing resolution at the IL&FS group.

*** Exposure to operations and maintenance risk:** Exposure to O&M risks persists. If JRPICL does not meet the prescribed standards of maintenance, it faces the risk of reduction in the annuity payments from 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.

Liquidity: Adequate

As on December 31, 2018, JRPICL had cash and equivalents 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 MMR of Rs 109 crore as per the DTD. The remaining surplus cash and DSRA balance of Rs 345 crore is equivalent to around 4.5 times the quarterly debt servicing of Rs 76 crore due in January 2019. The company is expected to generate net cash accrual of Rs 147 crore in fiscal 2020 towards principal repayment of Rs 133 crore.

About the company

ITNL and IL&FS have shareholdings of 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). These 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 projects 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. ITNL 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 elevated debt levels. ITNL and many of its SPVs have defaulted in the past 6-9 months.

About IL&FS

IL&FS is one of India's leading infrastructure development and finance companies. IL&FS was promoted by the Central Bank of India (rated CRISIL A+/CRISIL A/Stable), Housing Development Finance Corporation Ltd (rated 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 (rated 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 outstanding 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 payment of interest
- * Quarterly payment of principal payment 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 the 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 BB(SO)/Watch Negative
INE746N07093	Debenture	05-May-2017	NA	20-Jan-2019	4.75	CRISIL BB(SO)/Watch Negative
INE746N07101	Debenture	05-May-2017	NA	20-Apr-2019	4.37	CRISIL BB(SO)/Watch Negative
INE746N07119	Debenture	05-May-2017	NA	20-Jul-2019	5.83	CRISIL BB(SO)/Watch Negative
INE746N07127	Debenture	05-May-2017	NA	20-Oct-2019	5.65	CRISIL BB(SO)/Watch Negative
INE746N07135	Debenture	05-May-2017	NA	20-Jan-2020	6.66	CRISIL BB(SO)/Watch Negative
INE746N07143	Debenture	05-May-2017	NA	20-Apr-2020	6.17	CRISIL BB(SO)/Watch Negative
INE746N07150	Debenture	05-May-2017	NA	20-Jul-2020	6.62	CRISIL BB(SO)/Watch Negative
INE746N07168	Debenture	05-May-2017	NA	20-Oct-2020	6.2	CRISIL BB(SO)/Watch Negative
INE746N07176	Debenture	05-May-2017	NA	20-Jan-2021	6.84	CRISIL BB(SO)/Watch Negative
INE746N07184	Debenture	05-May-2017	NA	20-Apr-2021	6.38	CRISIL BB(SO)/Watch Negative
INE746N07192	Debenture	05-May-2017	NA	20-Jul-2021	7.38	CRISIL BB(SO)/Watch Negative
INE746N07200	Debenture	05-May-2017	NA	20-Oct-2021	7.28	CRISIL BB(SO)/Watch Negative
INE746N07218	Debenture	05-May-2017	NA	20-Jan-2022	7.11	CRISIL BB(SO)/Watch Negative
INE746N07226	Debenture	05-May-2017	NA	20-Apr-2022	6.99	CRISIL BB(SO)/Watch Negative
INE746N07234	Debenture	05-May-2017	NA	20-Jul-2022	7.79	CRISIL BB(SO)/Watch Negative
INE746N07242	Debenture	05-May-2017	NA	20-Oct-2022	8.12	CRISIL BB(SO)/Watch Negative
INE746N07259	Debenture	05-May-2017	NA	20-Jan-2023	8.71	CRISIL BB(SO)/Watch Negative
INE746N07267	Debenture	05-May-2017	NA	20-Apr-2023	8.36	CRISIL BB(SO)/Watch Negative
INE746N07275	Debenture	05-May-2017	NA	20-Jul-2023	8.11	CRISIL BB(SO)/Watch Negative
INE746N07283	Debenture	05-May-2017	NA	20-Oct-2023	7.58	CRISIL BB(SO)/Watch Negative
INE746N07291	Debenture	05-May-2017	NA	20-Jan-2024	7.65	CRISIL BB(SO)/Watch Negative
INE746N07309	Debenture	05-May-2017	NA	20-Apr-2024	7.69	CRISIL BB(SO)/Watch Negative
INE746N07317	Debenture	05-May-2017	NA	20-Jul-2024	6.95	CRISIL BB(SO)/Watch Negative
INE746N07325	Debenture	05-May-2017	NA	20-Oct-2024	6.37	CRISIL BB(SO)/Watch Negative
INE746N07333	Debenture	05-May-2017	NA	20-Jan-2025	7.48	CRISIL BB(SO)/Watch Negative
INE746N07341	Debenture	05-May-2017	NA	20-Apr-2025	7.68	CRISIL BB(SO)/Watch Negative
INE746N07358	Debenture	05-May-2017	NA	20-Jul-2025	8.16	CRISIL BB(SO)/Watch Negative

INE746N07366	Debenture	05-May-2017	NA	20-Oct-2025	7.34	CRISIL BB(SO)/Watch Negative
INE746N07374	Debenture	05-May-2017	NA	20-Jan-2026	7.97	CRISIL BB(SO)/Watch Negative
INE746N07382	Debenture	05-May-2017	NA	20-Apr-2026	5.06	CRISIL BB(SO)/Watch Negative
INE746N07390	Debenture	05-May-2017	NA	20-Jul-2026	9.86	CRISIL BB(SO)/Watch Negative
INE746N07408	Debenture	05-May-2017	NA	20-Oct-2026	9.72	CRISIL BB(SO)/Watch Negative
INE746N07416	Debenture	05-May-2017	NA	20-Jan-2027	9.5	CRISIL BB(SO)/Watch Negative
INE746N07424	Debenture	05-May-2017	NA	20-Jul-2027	10.57	CRISIL BB(SO)/Watch Negative
INE746N07432	Debenture	05-May-2017	NA	20-Jan-2028	11.52	CRISIL BB(SO)/Watch Negative
INE746N07440	Debenture	05-May-2017	NA	20-Jul-2028	11.52	CRISIL BB(SO)/Watch Negative
INE746N07457	Debenture	05-May-2017	NA	20-Jan-2029	6.89	CRISIL BB(SO)/Watch Negative
INE746N07036	Debenture	05-May-2017	NA	20-Jul-2017	21.22	Withdrawn
INE746N07044	Debenture	05-May-2017	NA	20-Oct-2017	3.61	Withdrawn
INE746N07051	Debenture	05-May-2017	NA	20-Jan-2018	4.31	Withdrawn
INE746N07069	Debenture	05-May-2017	NA	20-Apr-2018	3.92	Withdrawn
INE746N07077	Debenture	05-May-2017	NA	20-Jul-2018	4.74	Withdrawn
INE746N07085	Debenture	05-May-2017	NA	20-Oct-2018	4.2	Withdrawn

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 18-01-19	CRISIL BB(SO)/(Watch Negative)	15-01-19	CRISIL AA(SO)/Watch Negative	05-11-18	CRISIL AA(SO)/Watch Negative	03-08-17	CRISIL AA(SO)/Stable		--	--
						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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