

Ratings



Rating Rationale

November 05, 2018 | Mumbai

Jharkhand Road Project Implementation Company Limited

Rating continues on 'Watch Negative'

Rating Action

Rs.480 Crore Non Convertible Debentures	CRISIL AA(SO) (Continues on 'Rating Watch with Negative Implications')
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1 crore = 10 million

Refer to annexure for Details of Instruments & Bank Facilities

Detailed Rationale

CRISIL's rating on the non-convertible debentures (NCDs) of Jharkhand Road Project Implementation Company Limited (JRPICL) continues to be on **'Rating Watch with Negative Implications'**.

JRPICL's ultimate parent, Infrastructure Leasing and Financial Services Ltd (IL&FS) has submitted a report to National Company Law Tribunal (NCLT), seeking continuation of the moratorium on individual creditor actions granted to the group by National Company Law Appellate Tribunal (NCLAT).

Clause 8.1 of IL&FS's 'Report on Progress and Way Forward' presented to NCLT, notes that individual creditors of the group have access to cash trapped in escrow accounts, and may lead to preferential payments (including by way of unauthorised set offs). The new board of IL&FS maintains that continuation of the moratorium is critical to curtail such individual actions, and provide the board with a fair opportunity to propose a final resolution for the group. The proposed resolution plan will apply to all 348 subsidiaries in the IL&FS group, including JRPICL.

JRPICL has met all its debt obligations due till October 20, 2018 on time. The rating centrally factors in JRPICL's ring-fenced nature from its parent companies. Such ring fencing of cash flows and their prioritisation for debt servicing through contracts is a global norm in project finance, and a critical element of project financing in the Indian financial system.

CRISIL has been given to understand from the company that the proposed resolution plan of the IL&FS group will not compromise JRPICL's ring-fenced structure, the structured payment waterfall, or the debt servicing and major maintenance reserves currently being maintained. However, a final view is yet to emerge as the matter is pending with NCLT. Any reduction in reserves, or non-adherence to the structured payment waterfall mechanism, may result in a multi-notch rating action.

CRISIL had placed the rating on 'watch negative' on October 15, 2018, following events that could potentially drive a step-up in coupon rates as per the debenture trust deed (DTD) agreement. The DTD allows for a coupon step-up of 25 basis points for every notch of downgrade of JRPICL by a rating agency.

CRISIL's discussions with JRPICL and the investors, reveal that the interest rate has not been increased, and the last debt

payment on October 20, 2018, was made as per the old coupon rate. Increase, if any, in coupon rate could result in a lower average debt service coverage ratio, and weaker credit risk profile for JRPICL, and will therefore, be closely monitored.

CRISIL will remove the rating from watch and take a final action once clarity emerges on both the resolution plan for the IL&FS group that is approved by NCLT, and the step-up in the coupon rate.

In the wake of continued financial stress at both the sponsor, IL&FS Transportation Network (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.

CRISIL continues to closely monitor developments for any potential impact on JRPICL. JRPICL has received all the annuities due till September 2018. The debenture trustee indicates that adequate cash buffers are being maintained as debt service reserve account (DSRA) and major maintenance reserve (MMR) in line with the transaction structure. The DSRA and MMR were of Rs 225 crore and Rs 110 crore, respectively, as on October 31, 2018.

The rating continues to reflect the benefits that JRPICL derives from the annuity nature of its ongoing build-operate-transfer project; close linkage of the sponsor's parent IL&FS with the Government of Jharkhand (GoJ); and the well-defined, structured payment waterfall mechanism that stipulates creation of a DSRA and adequate legal structure of the transaction. These strengths are partially offset by exposure to risk relating to operation and maintenance (O&M), and major maintenance.

Any delay in annuities, decline in quality of road, higher-than-expected O&M and major maintenance costs along with any reduction in DSRA and MMR will continue to be key rating sensitivity factors.

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 49 annuity payments thus far, on its five projects, following an average processing time of around 9 days. Dependence on any single annuity payment is low as 10 semi-annual annuities are being received by JRPICL at different dates across 8 months.

* **Well-defined structured payment waterfall mechanism:** The waterfall mechanism ensures the 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 receipt of the last annuity and debt repayment. Moreover any excess cash in the transaction after meeting the investor payouts and other expenses (including apportioning for the MMRA/Contingency Reserve) is first used to top up the DSRA, if required.

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

* **Adequate DSRA and longstanding relationship with GoJ mitigate counterparty risk:** Officials from Government of Gujarat (GoJ) are represented on the board of Jharkhand Accelerated Road Development Company Ltd (JARDCL), a JV

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 months supports liquidity in the event of delays in annuity payments. These partly mitigate the moderate counterparty risk profile of GoJ.

Weakness

* **Exposure to operations and maintenance risk:** Exposure to operations and maintenance (O&M) risk persists. If JRPICL does not meet the prescribed standards for 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 an ongoing major maintenance work which is expected to be completed by the end of fiscal 2020.

* **Disputed claims:** Three claims from contractors against work done are under arbitration. JRPICL has not recognised these claims as contingent liabilities as on March 31, 2018, based on legal opinion received by it. The ruling on these claims, and their impact on JRPICL will continue to be closely monitored.

About the Company

ITNL and IL&FS have shareholdings of 93.43 and 6.57%, respectively, in JRPICL, their special purpose vehicle set up to develop five stretches of roads under Jharkhand Accelerated Road Development Programme (JARDP) namely, Ranchi Patratu-Dam Road, Patratu Dam-Ramgarh Road, Ranchi Ring Road, Chaibasa Kandra-Chowka Road, and Adityapur Kandra Road. All 5 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 projects in the area of surface transportation infrastructure through the public-private-partnership model. ITNL is primarily engaged in development, operation, and maintenance of national and state highways. ITNL has started to diversify into other transportation segments such as mass rapid transport system, urban transportation infra system, car parking, and border check post.

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/CRISIL A1), 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.

Key features of the NCD

- * Tenure of upto 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 Major maintenance reserve (MMR) of Rs. 70.36 crore
- * Initial construction reserve account of Rs. 10 crore
- * Quarterly appropriation to the reserve for each major maintenance expenditure
- * Debt Service Reserve Account to be maintained by covering peak requirements of the three quarters of obligation (principal and interest) of the rest of the tenure.

Key Financial Indicators

Particulars	Unit	2018	2017
Revenue	Rs.Cr	42	51
Profit After Tax (PAT)	Rs.Cr	(28)	(81)
PAT Margins	%	NM	NM
Adjusted Debt/Adjusted Networkh	Times	7.5	6.4
Interest coverage	Times	1.8	NM

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 Instrument	Date of Allotment	Coupon Rate (%)	Maturity Date	Issue Size (Rs. Crore)	Rating Assigned with Outlook
INE746N07010	Debenture	05-May-2017	NA	20-Jul-2027	159.17	CRISIL AA(SO)/Watch Negative
INE746N07036	Debenture*	05-May-2017	NA	20-Jul-2017	21.22	CRISIL AA(SO)/Watch Negative
INE746N07044	Debenture*	05-May-2017	NA	20-Oct-2017	3.61	CRISIL AA(SO)/Watch Negative
INE746N07051	Debenture*	05-May-2017	NA	20-Jan-2018	4.31	CRISIL AA(SO)/Watch Negative
INE746N07069	Debenture*	05-May-2017	NA	20-Apr-2018	3.92	CRISIL AA(SO)/Watch Negative
INE746N07077	Debenture*	05-May-2017	NA	20-Jul-2018	4.74	CRISIL AA(SO)/Watch Negative
INE746N07085	Debenture*	05-May-2017	NA	20-Oct-2018	4.2	CRISIL AA(SO)/Watch Negative
INE746N07093	Debenture	05-May-2017	NA	20-Jan-2019	4.75	CRISIL AA(SO)/Watch Negative
INE746N07101	Debenture	05-May-2017	NA	20-Apr-2019	4.37	CRISIL AA(SO)/Watch Negative
INE746N07119	Debenture	05-May-2017	NA	20-Jul-2019	5.83	CRISIL AA(SO)/Watch Negative
INE746N07127	Debenture	05-May-2017	NA	20-Oct-2019	5.65	CRISIL AA(SO)/Watch Negative
INE746N07135	Debenture	05-May-2017	NA	20-Jan-2020	6.66	CRISIL AA(SO)/Watch Negative
INE746N07143	Debenture	05-May-2017	NA	20-Apr-2020	6.17	CRISIL AA(SO)/Watch Negative
INE746N07150	Debenture	05-May-2017	NA	20-Jul-2020	6.62	CRISIL AA(SO)/Watch Negative

INE746N07168	Debenture	05-May-2017	NA	20-Oct-2020	6.2	CRISIL AA(SO)/Watch Negative
INE746N07176	Debenture	05-May-2017	NA	20-Jan-2021	6.84	CRISIL AA(SO)/Watch Negative
INE746N07184	Debenture	05-May-2017	NA	20-Apr-2021	6.38	CRISIL AA(SO)/Watch Negative
INE746N07192	Debenture	05-May-2017	NA	20-Jul-2021	7.38	CRISIL AA(SO)/Watch Negative
INE746N07200	Debenture	05-May-2017	NA	20-Oct-2021	7.28	CRISIL AA(SO)/Watch Negative
INE746N07218	Debenture	05-May-2017	NA	20-Jan-2022	7.11	CRISIL AA(SO)/Watch Negative
INE746N07226	Debenture	05-May-2017	NA	20-Apr-2022	6.99	CRISIL AA(SO)/Watch Negative
INE746N07234	Debenture	05-May-2017	NA	20-Jul-2022	7.79	CRISIL AA(SO)/Watch Negative
INE746N07242	Debenture	05-May-2017	NA	20-Oct-2022	8.12	CRISIL AA(SO)/Watch Negative
INE746N07259	Debenture	05-May-2017	NA	20-Jan-2023	8.71	CRISIL AA(SO)/Watch Negative
INE746N07267	Debenture	05-May-2017	NA	20-Apr-2023	8.36	CRISIL AA(SO)/Watch Negative
INE746N07275	Debenture	05-May-2017	NA	20-Jul-2023	8.11	CRISIL AA(SO)/Watch Negative
INE746N07283	Debenture	05-May-2017	NA	20-Oct-2023	7.58	CRISIL AA(SO)/Watch Negative
INE746N07291	Debenture	05-May-2017	NA	20-Jan-2024	7.65	CRISIL AA(SO)/Watch Negative
INE746N07309	Debenture	05-May-2017	NA	20-Apr-2024	7.69	CRISIL AA(SO)/Watch Negative
INE746N07317	Debenture	05-May-2017	NA	20-Jul-2024	6.95	CRISIL AA(SO)/Watch Negative
INE746N07325	Debenture	05-May-2017	NA	20-Oct-2024	6.37	CRISIL AA(SO)/Watch Negative
INE746N07333	Debenture	05-May-2017	NA	20-Jan-2025	7.48	CRISIL AA(SO)/Watch Negative
INE746N07341	Debenture	05-May-2017	NA	20-Apr-2025	7.68	CRISIL AA(SO)/Watch Negative
INE746N07358	Debenture	05-May-2017	NA	20-Jul-2025	8.16	CRISIL AA(SO)/Watch Negative
INE746N07366	Debenture	05-May-2017	NA	20-Oct-2025	7.34	CRISIL AA(SO)/Watch Negative
INE746N07374	Debenture	05-May-2017	NA	20-Jan-2026	7.97	CRISIL AA(SO)/Watch Negative

INE746N07382	Debenture	05-May-2017	NA	20-Apr-2026	5.06	CRISIL AA(SO)/Watch Negative
INE746N07390	Debenture	05-May-2017	NA	20-Jul-2026	9.86	CRISIL AA(SO)/Watch Negative
INE746N07408	Debenture	05-May-2017	NA	20-Oct-2026	9.72	CRISIL AA(SO)/Watch Negative
INE746N07416	Debenture	05-May-2017	NA	20-Jan-2027	9.5	CRISIL AA(SO)/Watch Negative
INE746N07424	Debenture	05-May-2017	NA	20-Jul-2027	10.57	CRISIL AA(SO)/Watch Negative
INE746N07432	Debenture	05-May-2017	NA	20-Jan-2028	11.52	CRISIL AA(SO)/Watch Negative
INE746N07440	Debenture	05-May-2017	NA	20-Jul-2028	11.52	CRISIL AA(SO)/Watch Negative
INE746N07457	Debenture	05-May-2017	NA	20-Jan-2029	6.89	CRISIL AA(SO)/Watch Negative

*CRISIL is awaiting independent confirmation of redemption before withdrawing ratings on these instruments

Annexure - Rating History for last 3 Years

Instrument	Type	Current		2018 (History)		2017		2016		2015		Start of 2015
		Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Non Convertible Debentures	LT	438.00 05-11-18	CRISIL AA(SO)/(Watch) Negative	15-10-18	CRISIL AA(SO)/Watch Negative	03-08-17	CRISIL AA(SO)/Stable		--		--	--
				30-07-18	CRISIL AA(SO)/Stable	24-04-17	Provisional 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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