

## Jharkhand Road Projects Implementation Company Limited

January 22, 2019

### Rating

Facilities	Amount (Rs. Crore)	Rating <sup>1</sup>	Rating Action
Non-Convertible Debenture (NCDs) <sup>^</sup>	1545.81 (reduced from 1571.13)	CARE D (CARE Single D)	Revised from CARE BB-(SO); (CARE Double B Minus [Structured Obligation]) (Credit Watch with Negative Implications)
<b>Total Facilities</b>	<b>1545.81</b> <b>(Rs. One thousand five hundred forty five crore and eighty one lakhs only)</b>		

*Details of instruments/facilities in Annexure-1*

<sup>^</sup> NCDs backed by discounting of future annuity receivables of the project

### Detailed Rationale & Key Rating Drivers

The revision in the rating assigned to the Non-Convertible Debentures (NCDs) of Jharkhand Road Projects Implementation Company Limited (JRPICL) is on account of delay in servicing of debt obligation, as confirmed by the debenture trustee (DT). The company has delayed repayment which was due on January 20, 2019 (payment falls due on succeeding day as January 20, 2019 was a non-working day). The company has not made payment despite adequate liquidity available. While JRPICL is part of bankruptcy remote special purpose vehicle which had a ring-fenced structure payment mechanism, management has cited the interim order passed by National Company Law Appellate Tribunal (NCLAT) on October 15, 2018 for not making payment and requesting a reversal of the payment made earlier on October 20, 2018. CARE vide its communication dated Jan 19<sup>th</sup> 2019, had highlighted the increased risk of default in the upcoming debt repayment as a result of impinging the integrity of ring fenced structured payment mechanism. CARE earlier derived its view based on:

- Debenture trustee's response to the management request to reverse the payment by stating that the regular payments cannot be restricted based on the NCLAT order dated October 15, 2018.
- Recent repayment made on timely manner, which was due on January 15, 2019 by one of the group SPVs, namely, North Karnataka Expressway Limited (NKEL), which has similar ring-fenced structure.
- The company having more than adequate reserves in the form of Debt Service Reserve Account, which has Rs.220.85 crore balances, Major Maintenance Reserve account, which has Rs. 109.02 crore; In addition, the company has excess cash of Rs. 126.18 crore in the other stipulated reserves

However, the default in the payments due on January 20, 2019 has put uncertainty regarding the ring-fenced structured payment mechanism, particularly for the group SPVs including JRPICL.

The rating also continues to be tempered on account of IL&FS Transportation Networks Limited (ITNL, rated CARE D) being the operations and maintenance (O&M) contractor. Significant deterioration in credit quality of ITNL, has led to an increased risk of ITNL's ability to perform and execute O&M contract. Moreover ITNL has also issued an 'Expression of Interest' for sale of its ownership stake in various road projects including JRPICL. However, timely receipt of annuity payments from Road Construction Department of Government of Jharkhand (GoJ), cash flow being spread out in eight months and comfortable liquidity had partly mitigated some of these risks.

### Detailed description of the key rating drivers

#### Key Rating Weaknesses

##### *Delay in servicing of debt obligation*

JRPICL has delayed on its in debt servicing obligation repayable on January 20, 2019. The same has been confirmed by the debenture trustee as part of CARE's due diligence exercise.

##### *Impinging the ring-fenced structured payment mechanism*

The management's action seeking to prevent further debits to the SPV's escrow account by citing the NCLAT order leads to creation of unknown legal risks for the stipulated waterfall mechanism of JRPICL. The change in management's stance to protect the integrity of the stipulated waterfall mechanism has led to increased risk of servicing debt obligations in timely manner.

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

Previously, CARE received an email from the debenture trustee (IDBI Trusteeship Services Ltd) that JRPICL'S management had written a letter to the debenture trustee to reverse debt repayment of Rs. 62.50 crore which had been paid towards debt servicing on October 20, 2018. The management also sought to cease and desist from making further debt repayments from JRPICL'S escrow account highlighting the interim order passed by National Company Law Appellate Tribunal's (NCLAT) on October 15, 2018 for ceasing the payments of debt servicing obligations. However, as per trustee's interpretation, interim order does not apply for regular debt servicing. The escrow bank account holder however has put on hold the payments, until the clarity is received on this order. The next hearing of the NCLAT order is on January 28<sup>th</sup>.

#### ***Weak credit profile of sponsor***

The weakening of the credit profile of the sponsor and management's recent actions restrict its ability to support the project in times of need and perform operations & maintenance, as required. ITNL has also been appointed for the O&M of the project at a fixed price contract with an undertaking to fund any shortfall in the major maintenance expenses and routine maintenance expenses. Additionally, as per the sponsor's undertaking, ITNL will have to financially support the project through infusion of funds for meeting the repayment obligations.

#### **Key Rating Strengths**

##### ***Timely annuity receipts from all the five stretches***

JRPICL has achieved COD for all the five stretches; with COD for the last stretch being achieved on November 30, 2014. However, for balance 7.6 kms stretch in Chaibasa Kandra Chowka (CKC) project, COD was achieved on January 31, 2017. All the 5 stretches receive semiannual annuity payments which are spread over 8 months in a year. As on January 2019, JRPICL has received 52 annuities. The last annuity of Rs. 41.13 crore was received without any deductions. Although JRPICL has received annuities in a timely manner, going forward any deduction or delay in annuity is a rating sensitivity.

##### ***Annuity nature of the project, albeit with moderate credit profile of annuity provider***

JRPICL's project stretches are annuity-based, under which the company will get semi-annual annuity payments from GoJ. The company is exposed to counter party credit risk as Dept. of Road Construction, GoJ is the sole counter-party.

**Analytical approach:** Standalone. CARE has analyzed JRPICL's credit profile by considering the structured payment mechanism and adequate built-in liquidity cushions.

#### **Liquidity Analysis:**

JRPICL has adequate liquidity of Rs. 456 Crore which includes DSRA reserve of Rs. 220.85 Crore, Major Maintenance Reserve of Rs. 109.02 Crore and balances in other stipulated reserves of Rs.113.83 Crore. There exists a free cash balance of Rs. 12.35 Crore. The company had to make debt repayment of Rs. 74.67 Crore on January 20, 2019. However, citing the interim NCLAT order, the repayments were not done on its due date, despite adequate liquidity.

#### **Applicable Criteria**

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

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

[Rating Methodology-Infrastructure Sector Ratings](#)

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

#### **About the Company**

The Government of Jharkhand (GoJ) has conceptualized a comprehensive programme titled the Jharkhand Accelerated Road Development Programme (JARDP) to improve road infrastructure in the state through Public Private Partnership framework. IL&FS won the bid and a Programme Development Agreement (PDA) was signed between GoJ and IL&FS Group for the improvement of 1500 km lane of selected project road corridors. At present, certain road stretches have been selected for development under this programme. The programme is being implemented under an SPV named Jharkhand Accelerated Road Development Company Limited (JARDCL), a JV between IL&FS group and GoJ with shareholding pattern in ratio of 74:26 respectively. In terms of the PDA, the GoJ and IL&FS group may take up the financing, construction, operation and maintenance of the roads either through JARDCL or through separate SPV's incorporated by GoJ and/or IL&FS. Accordingly, IL&FS group incorporated JRPICL for undertaking the design, engineering, financing, procurement, construction, operation and maintenance of the programme, on Build, Operate & Transfer (BOT) Annuity Basis. The promoters of JRPICL are ITNL (93.43%) and IL&FS (6.57%). Separate Concession Agreements (CAs) as have been signed between the GoJ (annuity provider), JARDCL (JV partner of GoJ for road development) and JRPICL (as concessionaire) for implementation of the projects in phases. JRPICL is presently implementing five different stretches of roads under JARDP details are provided above. All the projects are implemented in one balance-sheet though have separate escrow arrangement and concession agreement for individual project lenders.

Brief Financials (Rs. crore)	FY17(A)	FY18 (A)
Total operating income	246.91	275.55
PBILDT	194.43	232.30
PAT	(80.74)	(28.69)
Overall gearing (times)	6.42	7.49
Interest coverage (times)	0.71	0.89

A: Audited

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

**Any other information:** Not Applicable

**Rating History for last three years:** Please refer Annexure-2

**Note on complexity levels of the rated instrument:** CARE has classified instruments rated by it on the basis of complexity. This classification is available at [www.careratings.com](http://www.careratings.com). Investors/market intermediaries/regulators or others are welcome to write to [care@careratings.com](mailto:care@careratings.com) for any clarifications.

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## Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Debentures-Non Convertible Debentures	May 05, 2017	9.3119%	January 2029	1545.81	CARE D

## Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Debentures-Non Convertible Debentures	LT	1545.81	CARE D	1)CARE BB- (SO) (Under Credit watch with Negative Implications) (19-Jan-19) 2)CARE A+ (SO) (Under Credit watch with Negative Implications) (18-Jan-19) 3)CARE A+ (SO); Stable (08-Oct-18)	1)CARE AA (SO); Stable (27-Mar-18) 2)CARE AA (SO); Stable (04-Aug-17) 3)Provisional CARE AA (SO); Stable (03-May-17)	-	-

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