

September 23, 2022

## Pune Solapur Expressways Private Limited: Ratings reaffirmed for NCD (Senior Debt), Term loan (Senior Debt) and Term loan (Sub Debt); upgraded for NCD (Sub Debt)

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Non-convertible Debenture Programme (Senior Debt)	358.7	358.7	[ICRA]AA- (Stable); Reaffirmed
Term Loans (Senior Debt)	191.3	191.3	[ICRA]AA- (Stable); Reaffirmed
Non-convertible Debenture Programme (Sub Debt)	197.4	197.4	[ICRA]AA+ (CE) (Stable); Upgraded from [ICRA]AA (CE) (Stable)
Term Loans (Sub Debt)	197.4	197.4	[ICRA]AAA (CE) (Stable); Reaffirmed
<b>Total</b>	<b>944.8</b>	<b>944.8</b>	

Rating Without Explicit Credit Enhancement

[ICRA]A+

\*Instrument details are provided in Annexure-1

Note: The (CE) suffix mentioned alongside the rating symbol indicates that the rated instrument/facility is backed by some form of explicit credit enhancement. This rating is specific to the rated instrument/facility, its terms and its structure and does not represent ICRA's opinion on the general credit quality of the entity concerned. The last row in the table above also captures ICRA's opinion on the rating without factoring in the explicit credit enhancement.

### Rationale

#### For the [ICRA]AA- (Stable) rating

The reaffirmation of the rating of Pune Solapur Expressways Private Limited (PSEPL) factors in the healthy debt coverage metrics for the rated senior debt, with the subordinated debt being unsecured in nature with no recourse to the project cash flows. The projected debt service coverage ratio (DSCR) for the senior debt continues to remain robust. The rating continues to favourably consider the operational status of PSEPL's road project with more than nine years of toll collection track record. The traffic grew at a CAGR of 3.7% during FY2015 to FY2022, with the project stretch witnessing a robust traffic growth of 19.2% in FY2022, primarily on account of the low base for FY2021 due to the Covid-induced lockdown, improved toll compliance due to implementation of FASTag, and improvement in commercial activity in the region. Additionally, the presence of the DSRA equivalent to six months of principal and interest obligation for the senior debt along with other structural features viz. mandatory prepayment, major maintenance reserve (MMR), cash flow waterfall, lock-up DSCR of 1.15x, provide credit support to the senior debt. The rating also favourably factors in the strong profile of the sponsors – TRIL Roads Private Limited (a 100% subsidiary of TRIL) and Atlantia SPA. While TRIL is the Tata Group's arm in the real estate and infrastructure segment, Atlantia SPA is a global motorway management company.

The ratings, however, continue to remain constrained as the project remains exposed to risks inherent in BOT (toll) road projects, including risks arising from political acceptability of rate hikes linked to WPI over the concession period and development/ improvement of alternate routes and likelihood of toll leakages, though the existing alternate routes are either longer or are in poor condition and, therefore, pose low risk of traffic diversion as of now. The rating remains sensitive to movement in interest rates owing to the variable nature of the interest rate<sup>1</sup>. The company has to undertake routine

<sup>1</sup> The spread reset will happen on July 17, 2023 and at the end of every year thereafter

maintenance every year and major maintenance activity in periodic intervals. Its ability to manage routine and periodic maintenance expenses, within the budgeted levels, remains critical from the credit perspective.

ICRA takes note of the pending construction of 3.85 km of median plantation works, for which Right of Way (RoW) is yet to be awarded by the National Highways Authority of India (NHAI, rated [ICRA]AAA (Stable)). As per the company's estimates, the cost to complete the pending works is expected to be ~Rs. 2.0 crore, which will be funded from internal accruals and surplus liquidity.

The Stable outlook on the [ICRA]AA- rating reflects ICRA's opinion that PSEPL will continue to benefit from the low alternate route risk, and the established traffic density, which will continue to support traffic growth.

#### **Salient covenants of the rated facility**

If the rating of senior debt falls below A-, the debenture holders/term loan lenders shall reserve the right to accelerate senior debt along with all other monies/ accrued interest.

#### **For the [ICRA]AA+(CE) (Stable) rating**

The above rating on the Rs. 197.40 crore of subordinated NCD of PSEPL is based on the strength of the corporate guarantee provided by Tata Realty & Infrastructure Limited (TRIL, rated [ICRA]AA+ (Stable)/[ICRA]A1+), the ultimate owner of the 50% shareholding in PSEPL, for the rated NCD programme. The Stable outlook on this rating reflects ICRA's outlook on the rating of the guarantor TRIL.

#### **Adequacy of credit enhancement**

The rating of the instrument is based on the credit substitution approach, whereby the rating of the Guarantor has been translated to the rating of the said instrument. The guarantee is legally enforceable, irrevocable, unconditional, covers the entire amount and tenor of the rated instrument and has a well-defined invocation and payment mechanism. Given these attributes, the guarantee provided by TRIL is adequately strong to result in an enhancement in the rating of the said instrument to [ICRA]AA+(CE) against the Unsupported Rating of [ICRA]A+. In case the rating of the Guarantor were to undergo a change in future, the same would reflect in the rating of the aforesaid instrument as well.

#### **Salient covenants of the rated facility**

- Bullet repayment in March 2029 - to be paid after the senior debt has been fully repaid.
- Tata Sons Private Limited, the holding company of the Tata Group, will not dilute shareholding in TRIL below 51% and maintain management control.
- If Rating of TRIL/facility falls below A-, the Debenture Holders shall have the right to accelerate the facility (NCD of Rs. 197.4 crore).
- TRIL agrees unconditionally that it would be the primary obligor for the payment of facility (NCD of Rs. 197.4 crore) and the NCD holders agree to not invoke NCLT against PSEPL and have recourse to TRIL.

#### **For the [ICRA]AAA(CE) (Stable) rating**

The above rating and the outlook on the Rs. 197.40-crore subordinated term loan of PSEPL is based on the strength of the unconditional and irrevocable SBLC provided by BNP Paribas S.A. [BNPP, rated by Moody's at Aa3 (Stable)].

#### **Adequacy of credit enhancement**

The rating of the facility is based on the credit substitution approach, whereby the rating of the SBLC Provider has been translated to the rating of the said instrument. The SBLC is legally enforceable, irrevocable, unconditional, covers the entire amount [with a validity of 18 months (to be renewed 30 days before expiry)] of the rated facility and has a well-defined invocation and payment mechanism. Given these attributes, the SBLC provided by BNPP is adequately strong to result in an enhancement in the rating of the said facility to [ICRA]AAA(CE) against the Unsupported Rating of [ICRA]A+. In case the credit profile of the SBLC Provider was to undergo a change in future, the same would reflect in the rating of the aforesaid facility/instrument as well.

### Salient covenants of the rated facility

- Bullet repayment in March 2029 - to be paid after the senior debt has been fully repaid.
- The SBLC shall be renewed 30 days prior to its expiry, failing which the SBLC shall be invoked and shall be paid within three days of invocation.
- Maximum obligation of the SBLC provider is Rs. 215 crore, which covers entire principal outstanding and interest for one year at the existing interest rate.
- If rating of BNP Paribas S.A. changes below BBB+ (international rating), Facility Lender (term loan of Rs. 197.4 crore) shall reserve the right to ask for replacement of the SBLC from an acceptable bank within 45 days and if not provided then the lender can accelerate the facility along with all other monies/ accrued interest.
- Facility Lender (term loan of Rs. 197.4 crore) agrees that they can invoke the SBLC and not invoke NCLT against PSEPL.

### Key rating drivers and their description

#### Credit strengths

**Healthy debt coverage metrics for senior debt; presence of structural features provides credit support** – The senior debt with recourse to the project cash flows stands at Rs. 550 crore (including undrawn OD limit of Rs. 72.8 crore). The balance debt of Rs. 394.8 crore is subordinated and unsecured in nature of which, Rs. 197.4 crore is backed by TRIL's corporate guarantee and Rs. 197.4 crore is backed by SBLC from BNPP. With healthy cash flow generation at operating level, the company's debt coverage indicators for the senior debt are robust. PSEPL has a DSRA equivalent to six months of principal and interest obligation for the senior debt (maintained in form of fixed deposit of Rs.36.0 crore as on March 31, 2022). The presence of the DSRA along with other structural features viz. mandatory prepayment, major maintenance reserve (MMR), cash flow waterfall, lock up DSCR of 1.15x etc, provide credit support to the senior debt.

**Corporate guarantee and SBLC provided by TRIL and BNPP respectively; structured payment mechanism in place to ensure timely payments** – The rating for the Rs. 197.40 crore NCD is based on the strength of the unconditional and irrevocable guarantee provided by TRIL. The rating for the Rs. 197.40 crore term loan facility is based on the strength of the unconditional and irrevocable SBLC provided by BNP Paribas S.A. [BNPP, rated by Moody's at Aa3 (Stable)]. A trustee/lender-monitored payment mechanism is in place to ensure the timely payment of the interest and principal obligations on the Rs. 197.40-crore NCD programme and Rs. 197.40-crore term loan facility. Further, TRIL agrees unconditionally that it would be primary obligor for the payment of facility (NCD of Rs. 197.4 crore) and NCD holders agree to not invoke NCLT against PSEPL and take recourse to TRIL. Similarly, the Facility Lender (term loan of Rs. 197.4 crore) agrees that they can invoke the SBLC and not invoke NCLT against PSEPL.

**Operational nature of project** – PSEPL is an operational road project with more than nine years of toll collection track record. The traffic grew at a CAGR of 3.7% during FY2015 to FY2022, with the project stretch witnessing a robust growth in traffic of 19.2% in FY2022, primarily on account of the low base for FY2021 due to the Covid-induced lockdown, improved toll compliance due to implementation of the FASTag, and improvement in commercial activity in the region.

**Strong profile of the sponsors** – The rating takes into account the strong profile of the sponsors –TRIL and Atlantia SPA. Both the sponsors are prominent players in the infrastructure segment. While TRIL is the Tata Group's arm in the real estate and infrastructure segment, Atlantia SPA is a global motorway management company.

#### Credit challenges

**Project exposed to risks inherent in BOT (Toll) road projects** – PSEPL's cash flows are exposed to volatility in toll collections due to future traffic growth rate. The project remains exposed to risks inherent in BOT (toll) road projects, including risks arising from political acceptability of rate hikes linked to WPI over the concession period and development/improvement of

alternate routes and likelihood of toll leakages, though the existing alternate routes are either longer or are in poor condition and, therefore, pose low risk of traffic diversion.

**Ensuring O&M expense and major maintenance expense within budgeted levels** - The company has to undertake routine maintenance every year and major maintenance activity in periodic intervals. Its ability to manage routine and periodic maintenance expenses, within the budgeted levels, remains critical from the credit perspective.

**Project remains exposed to interest rate risk and asset concentration risk** – PSEPL's cash flows are exposed to interest rate risk owing to variable interest rate. The spread reset will happen on July 17, 2023 and at the end of every year thereafter. The company derives its revenues from a single stretch in Maharashtra. PSEPL being a single-asset SPV, is exposed to high asset concentration risk.

## Liquidity position: Adequate

### For the [ICRA]AA- (Stable) rating: Strong

The company has a strong liquidity position with unencumbered cash balances of Rs.93.9 crore as of March 31, 2022. The company's principal obligation on the senior debt in FY2023 is Rs. 49.7 crore, which can be comfortably met through cash flows from operations. The company also has maintained a DSRA of Rs.36.0 crore as of March 31, 2022 in the form of a term deposit, which is equivalent to six months of interest and principal payment of senior debt. Apart from this, PSEPL also has an undrawn OD facility of Rs. 72.8 crore as on March 31, 2022.

### For the [ICRA]AA+ (CE) (Stable) rating: Adequate

The liquidity position of the guarantor, TRIL remains adequate, with unencumbered cash balance and liquid investments of Rs. 81.0 crore and unutilised overdraft limit of ~Rs. 75 crore as on March 31, 2022. In Q1 FY2023, TRIL had realised proceeds from monetisation, which has been partly used for short-term debt reduction. While TRIL has sizeable NCD repayments due of Rs. 470 crore (Rs.275 crore in September 2022 and Rs.195 crore in November 2022), it plans to refinance the same, supported by its strong financial flexibility by being a part of the Tata Group, which has helped, as has been demonstrated in the past, to raise funds at a short notice.

### For the [ICRA]AAA (CE) (Stable) rating: Superior

The liquidity profile of the SBLC provider, BNP Paribas S.A., is superior as is evident from the high liquidity buffer of €450 billion (as on June 30, 2022) supported by continued deposit growth.

## Rating sensitivities

### For the [ICRA]AA- (Stable) rating

**Positive factors** - In case the company witnesses higher-than-expected traffic growth on a sustained basis, resulting in further strengthening of its financial risk profile with overall cumulative DSCR<sup>2</sup> improving beyond 1.55 times.

**Negative factors** - Negative pressure on the rating could arise if the traffic growth is lower-than-expected on a sustained basis or the company incurs higher-than-anticipated O&M expense on a sustained basis and/or if there is non-adherence to the structure associated with the rated instruments. Additionally, the rating could be downgraded if the company takes on additional debt, resulting in compression of cumulative DSCR.

<sup>2</sup> Overall Cumulative DSCR refers to surplus available before debt servicing (post payment) till the tenure of the loan upon total debt obligation (P+I) during the tenure of the loan.

### For the [ICRA]AA+ (CE) (Stable) rating

**Positive factors:** In case of significant improvement in the credit profile of the guarantor – TRIL, there could be a scenario for rating upgrade.

**Negative factors:** Negative pressure on the rating could arise if there is a deterioration in the credit profile of the guarantor and/or if there is non-adherence to the structure of the rated instruments.

### For the [ICRA]AAA (CE) (Stable) rating

**Positive factors:** Not applicable

**Negative factors:** Negative pressure on the rating could arise if there is a deterioration in credit profile of the SBLC provider and/or if there is non-adherence to the structure of the rated instruments.

### Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	<a href="#">Corporate Credit Ratings: A Note on Methodology</a> <a href="#">Rating Methodology for BOT (Toll) Roads</a> <a href="#">Approach for rating debt instruments backed by third-party explicit support</a> <a href="#">Rating Approach - Structural features (Non-securitised transactions)</a>
Parent/Group support	<p>The assigned rating for the Rs. 197.4-crore NCD is based on the unconditional, irrevocable corporate guarantee extended by TRIL.</p> <p>The assigned rating for the Rs. 197.4-crore term loan is based on the unconditional, irrevocable SBLC extended by BNPP.</p> <p>Being a part of TRIL's road asset portfolio, ICRA expects PSEPL's sponsors to be willing to extend financial support to PSEPL, should there be a need, given the high strategic importance that PSEPL holds for sponsors for meeting their diversification objectives and out of its need to protect their reputation from the consequences of a Group entity's distress.</p>
Consolidation/Standalone	Standalone

### About the company

Incorporated on March 20, 2009, PSEPL is an SPV promoted by TRIL Roads Private Limited (TRPL; 50% stake in PSEPL) and Atlantia SPA (50%) for four-laning of the two-lane Pune-Solapur section of NH-65 (earlier NH-9) from km 40.00 to km 144.40 and construction of Indapur-bypass in Maharashtra (total length: 110 km) on design, build, operate, finance and transfer (DBFOT) toll basis with a concession period of 21 years from the appointment date of November 16, 2009 to November 15, 2030, including a construction period of 910 days. The actual project cost was Rs.1,371 crore. Around 84 km (including 7.2 km bypass) of the stretch was completed by January 28, 2013 and provisional completion certificate was issued. Partial tolling commenced from February 4, 2013. Subsequently, the remaining 26 km stretch was completed by January 28, 2015 and the final completion certification was issued.

### Key financial indicators (audited)

LTHL Consolidated	FY2021	FY2022
Operating income (Rs. crore)	149.7	186.6
PAT (Rs. crore)	-10.8	25.9
OPBDIT/OI (%)	76.2%	80.0%
PAT/OI (%)	-7.2%	13.9%
Total outside liabilities/Tangible net worth (times)	26.1	14.4

Total debt/OPBDIT (times)	7.4	5.4
Interest coverage (times)	1.4	2.0

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation

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

**Any other information: None**

**Rating history for past three years**

Instrument	Current Rating (FY2023)				Chronology of Rating History for the past 3 years				
	Type	Amount Rated (Rs. crore)	Amount Outstanding as of Mar 31, 2022 (Rs. crore)	Date & Rating in	Date & Rating in FY2022	Date & Rating in FY2021			Date & Rating in FY2020
				Sep 23, 2022	Sep 24, 2021	Jan 29, 2021	Sep 28, 2020	Sep 10, 2020	Nov 29, 2019
1 NCD (Senior Debt)	Long-term	358.7	323.8	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	[ICRA]AA- (Stable) Outstanding	[ICRA]AA- (Stable)	Provisional [ICRA]AA- (Stable)	-
2 TL (Senior Debt)	Long-term	191.3	107.0	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	[ICRA]AA- (Stable) Outstanding	[ICRA]AA- (Stable)	Provisional [ICRA]AA- (Stable)	-
3 NCD (Sub Debt)	Long-term	197.4	195.4	[ICRA]AA+ (CE) (Stable)	[ICRA]AA (CE) (Stable)	[ICRA]AA (CE) (Stable) Outstanding	[ICRA]AA (CE) (Stable)	Provisional [ICRA]AA (CE) (Stable)	-
4 TL (Sub Debt)	Long-term	197.4	195.4	[ICRA]AAA (CE) (Stable)	[ICRA]AAA (CE) (Stable)	[ICRA]AAA (CE) (Stable); Provisional rating confirmed as final	Provisional [ICRA]AAA (CE) (Stable)	Provisional [ICRA]AAA (CE) (Stable)	-
5 NCD	Long-term	-	-	-	-	-	[ICRA]A (Stable). Reaffirmed and withdrawn	[ICRA]A (Stable)	[ICRA]A (Stable)
6 TL	Long-term	-	-	-	-	-	[ICRA]A (Stable) Reaffirmed and withdrawn	[ICRA]A (Stable)	[ICRA]A (Stable)

**Complexity level of the rated instrument**

Instrument	Complexity Indicator
Non-convertible Debenture Programme (Senior Debt)	Very Simple
Term Loan (Senior Debt)	Simple
Non-convertible Debenture Programme (Sub Debt)	Very Simple

**Term Loan (Sub Debt)**

Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analyzing an entity's financial, business, industry risks or complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments, is available on ICRA's website: [www.icra.in](http://www.icra.in)

## Annexure I: Instrument details

ISIN No.	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (RS Crore)	Current Rating and Outlook
<b>INE598K07037</b>	NCD (Senior Debt)	14-Sep-2020	8.80%	31-Mar-29	358.7	[ICRA]AA- (Stable)
<b>NA</b>	TL (Senior Debt)	14-Sep-2020	7.55%	31-Mar-29	191.3	[ICRA]AA- (Stable)
<b>INE598K08019</b>	NCD (Sub Debt)	9-Sep-2020	8.41%	31-Mar-29	197.4	[ICRA]AA+ (CE) (Stable)
<b>NA</b>	TL (Sub Debt)	9-Sep-2020	7.50%	31-Mar-29	197.4	[ICRA]AAA (CE) (Stable)

Source: Company

[Please click here to view details of lender-wise facilities rated by ICRA](#)

## Annexure II: List of entities considered for consolidated analysis – Not Applicable



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