

Press Release

Ayodhya Gorakhpur Sms Tolls Private Limited

August 21, 2019



Rating Assigned

Total Bank Facilities Rated*	Rs. 188.00 Cr.
Long Term Rating	ACUITE A+ Provisional / Outlook: Stable

* Refer Annexure for details

Rating Rationale

Acuité has assigned long-term rating of '**ACUITE A+ Provisional**' (**read as ACUITE A plus Provisional**) on the Rs. 188.00 crore proposed term loan of AYODHYA GORAKHPUR SMS TOLLS PRIVATE LIMITED (AGPL) with a validity of 90 days. Since the sanction of the term loan is under process, Acuité is yet to receive the final sanction letter. The outlook is '**Stable**'.

The rating on the Rs. 188.00 crore Proposed Term Loan is provisional and is valid for 90 days.

The provisional to final conversion is subject to the finalisation and vetting of the following requirements by Acuité:

1. Receipt of accepted copy of sanction letter from Bank/Financial Institution.

Acuité reserves the right to withdraw/modify/alter the rating prior/after 90 days in case of occurrence of any material credit event. Acuité reserves the right to extend the provisional rating if necessary.

AGPL is a Special Purpose Vehicle (SPV), promoted by SMS Limited (100 per cent stake) to undertake a road development project on Operate Maintain and Transfer (OMT) basis. The scope includes operating and maintaining a 116.10 km four-lane road project (137.970 km to 252.860 km) on NH - 28 in the state of Uttar Pradesh (UP). The project was awarded by National Highways Authority of India (NHAI) on Toll collection basis, with a concession period of 9 years starting from March 2013. The project achieved its Commercial Operation Date in August 2013 and the premium payable to authority was Rs. 79.02 crore in the first year with an annual escalation of 10 per cent.

About the group

SMS Limited (SL), erstwhile known as SMS Infrastructure Limited, was established in the year 1963 by Late Mr. Shaktikumar Sancheti as a proprietary concern. In 1997, the constitution was changed to private limited. The company changed its name to SMS Limited in January 2016. SL, promoted by Mr. Abhay Sancheti, Mr. Ajay Sancheti and Mr. Anand Sancheti, is engaged in undertaking civil construction work via EPC route. The company has diversified its operations into mining, irrigation, road and bridge construction, operating and maintenance of roads, waste management, airports, toll management, electrical works and railways.

Analytical Approach

For arriving at the rating, Acuité has considered the standalone credit profile of AGPL.

Key Rating Drivers

Strengths

- **Established toll project with long operational track record of more than six years with an established traffic density**

AGPL was incorporated to undertake a road development project on Operate Maintain and Transfer (OMT) basis under a 9-year concession from NHAI. The project road is a 116.10 km stretch from Lucknow (Uttar Pradesh) to Barauni (Bihar) and is part of the National Highway 28. The project stretches witnessed traffic from the handloom cotton cloth industry in Ayodhya, and provide connectivity to the industrial town of Barauni in Bihar with the capital city of Uttar Pradesh, Lucknow, via Gorakhpur. Further, the stretch links towards Northeast India where economic activity in and around the region has seen immense growth in the recent past.

- **Significant increase in toll collections in FY2018 and FY2019**

The toll collections increased by ~19 per cent to Rs. 175.25 crore in FY2018 from Rs. 146.97 crore in FY2017 and 16.34 per cent to Rs. 203.89 crore in FY2019 (Provisional). This was due to a toll rate hike and a healthy growth in traffic post-GST implementation with the removal of various checkpoints. The stretch has witnessed healthy growth in traffic at around 15 per cent and 20 per cent (in PCU terms) in FY2018 and FY2019, respectively. This was primarily driven by increasing commercial activity in the region including commercial traffic from North India to North-East India driven by increased construction activity in North-East region.

- **Waterfall mechanism in ESCROW account**

AGPL has escrow mechanism through which cash flows from toll collection is routed and used for payment, as per the defined payment waterfall. Only surplus cash flow after meeting operating expense, debt servicing obligation, and provision for major maintenance expense, can be utilised for payment of the premium during the concession period.

- **Moderate capital structure with strong liquidity position**

The capital structure of the company has been strong with steady increase in accruals as well as repayment of debt. The debt to equity ratio of the company stood at 3.21 times as of March 31, 2019 (Provisional). It has unencumbered cash balance and liquid investments of Rs. 127.67 crore against outstanding debt of Rs. 188.08 crore as on March 31, 2019 (Provisional). Presence of debt servicing reserve account (DSRA) equivalent to three months of principal and interest obligations provides additional comfort.

Weaknesses

- **Susceptibility of toll revenue to volatility in traffic volume - inherent traffic volume risk**

Toll collection, the single source of revenue, is exposed to volatility because of toll leakages, competing routes, lack of timely increase in toll rates, fluctuation in WPI-linked inflation, seasonal variations in vehicular traffic which in turn are largely influenced by the level of economic activity in and around the area of operation. In the event of a project's cash flows being insufficient to meet its debt servicing commitments/maintenance commitments, the support would be required to be extended from SL. Additionally, lower than expected traffic volumes due to prolonged slowdown in the economic activity may also impact cash flows, causing cash flow mismatches.

Liquidity Position:

AGPL has adequate liquidity marked by healthy net cash accruals to its maturing debt obligations. The company generated cash accruals of ~Rs.122.00 to Rs.155.00 crore during the last three years through 2017-19, while its maturing debt obligations were in the range of ~Rs. 14.00 crore to Rs. 37.00 crore over the same period. The cash accruals of the company are estimated to remain around ~Rs.180.00 – 230.00 crore during 2020-22, while its repayment obligation are estimated to be in the range of ~Rs.70.00 to Rs.75.00 crore. Further, the company's loan repayments will end by March 2022. AGPL has outstanding loan repayment of Rs. 37.00 crore as on March 31, 2019 (Provisional). AGPL is refinancing its outstanding debt of ~Rs. 188.00 crore in order to save on the interest cost. The company's cash flows are expected to remain enough to fund the debt payments in FY2020. Nevertheless, the company's strong liquidity position will be supporting it in case of any cash flow mismatches. Acuité believes that the liquidity of the company is likely to improve over the medium term on account of healthy cash accrual backed by significant improvement in traffic. Any further advances to or investments in weaker Group companies may also result in deterioration of liquidity position.

Outlook: Stable

Acuité believes that the outlook on AGPL's rated facilities will remain 'Stable' over the medium term on account of steady flow of toll revenues from the project coupled with strong support of sponsors. The outlook may be revised to 'Positive' in case of significant improvement in toll revenues and improvement in cash flows from operations. Conversely, the outlook may be revised to 'Negative' in case of sharp decline in toll revenues or cash flow and/or lack of timely support from the sponsor.

About the Rated Entity - Key Financials

	Unit	FY19 (Provisional)	FY18 (Actual)	FY17 (Actual)
Operating Income	Rs. Cr.	203.89	175.25	146.97
EBITDA	Rs. Cr.	182.04	156.51	124.96
PAT	Rs. Cr.	22.79	21.70	5.41
EBITDA Margin	(%)	89.28	89.31	85.03
PAT Margin	(%)	11.18	12.38	3.68
ROCE	(%)	30.59	46.85	24.89
Total Debt/Tangible Net Worth	Times	3.21	1.11	3.31
PBDIT/Interest	Times	9.02	25.37	62.87
Total Debt/PBDIT	Times	1.03	0.25	0.42
Gross Current Assets (Days)	Days	216	140	131

Status of non-cooperation with previous CRA (if applicable)

Not applicable

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-17.htm>
- Infrastructure Entities - <https://www.acuite.in/view-rating-criteria-14.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/criteria-complexity-levels.htm>

Rating History (Upto last three years)

Not Applicable

*Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Proposed Long Term Loan	Not Applicable	Not Applicable	Not Applicable	188.00	ACUITE A+ Provisional/Stable

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About Acuité Ratings & Research:

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