

Press Release

Sri Balaji Tollways (Madurai) Private Limited

August 18, 2020

Rating Assigned



Total Bank Facilities Rated*	Rs. 150.00 Cr.
Long Term Rating	ACUITE BBB / Outlook: Stable (Assigned)

* Refer Annexure for details

Rating Rationale

Acuite has assigned the long-term rating of '**ACUITE BBB**' (read as **ACUITE triple B**) on the Rs.150.00 crore bank facilities of Sri Balaji Tollways (Madurai) Private Limited (SBTPL). The outlook is '**Stable**'.

Sri Balaji Tollways (Madurai) Private Limited (SBTPL) was incorporated on 26 February, 2016 and it is a special purpose vehicle (SPV) promoted by SPK And Co (SPK) and Sri Venkatachalapathy Constructions to undertake widening of Madurai Ring Road from Double Lane to Four Lane in the state of Tamil Nadu on Build-Operate-Transfer (BOT) Toll Basis. Project Road starts at Meenakshi Mission Hospital and ends at Kappalur having a design length of 27.20 kilometres (km). The project has been awarded by Tamil Nadu Road Infrastructure Development Corporation TNRIDC for a concession period of 20 years from the Appointed Date including 2 years of the construction period. The project achieved its commercial operations from November 2019.

Analytical Approach

Acuite has considered the standalone business and financial risk profile of SBTPL to arrive at the rating. Further SBTPL is strengthened by the financial and operational support from the parent company, SPK.

Key Rating Drivers

Strengths

- Moderate traffic potential of the project and Strong sponsor and operational track record**

SBTPL was incorporated in 2016, it is a special purpose vehicle (SPV) promoted by S.P.K. & Co to undertake widening of Madurai Ring Road from Double Lane to Four Lane in the state of Tamil Nadu on Build-Operate-Transfer (BOT) Toll Basis. SBTPL is promoted by; Mr. S. Nagarajan holds 67% of the shareholding and he has about two decades of experience in the civil construction industry. Further, he is the Managing Partner for SPK, the sponsoring entity has been in the road construction business for nearly two decades. Good traffic movement between Kappalur - Madurai connectivity support traffic volume, industry-backed traffic, leading to revenue growth over the medium term. The company has reported toll collections about 13 crore form its 5 months of operations in FY2020 (provisional).

- Healthy financial risk profile**

SBTPL's financial risk profile is healthy, is aided by a healthy network, strong capital structure and robust debt protection metrics. SBTPL has healthy net worth at Rs. 129.29 crore as on March 31, 2020 (provisional) as against Rs.108.45 crore in FY2019 due to accretion of reserves during the same period. Healthy net worth couple with moderate debt levels show the strong capital structure marked by strong gearing (debt-to-equity) and total outside liabilities to tangible network (TOL/TNW) levels of 0.95 times and 1.13 times as on March 31 2020 (provisional). Debt protection metrics were also moderate, reflected in debt service coverage ratio (DSCR)) and net cash accrual to total debt ratio (NCA/TD) of 2.29 times and 0.05 times, respectively, in FY2020 (provisional). The SBTPL generated cash accruals of Rs.5.63 crore during the last 2019-20 (provisional), while its maturing debt obligations were in the range of Rs.3.75 crore during the same period. The cash accruals of the company are estimated to remain around Rs.6-15 crore during 2021-23 while their repayment obligations are estimated to be around Rs.5-7 crore during the same period. The average debt service coverage ratio (DSCR) is expected to be over 1.3 times over the tenure of the, backed by good cash flow generating capacity of the project and low annual debt servicing obligation. The debt has a long tenure of 13 years, thereby spreading out principal repayment and reducing annual debt servicing obligation.

Given the healthy cash flow cushion available for meeting debt servicing obligation and the steady toll

revenue, the debt protection metrics should remain comfortable over the tenure of the debt. However, any additional debt, over and above the permitted indebtedness, taken by the company, will remain a rating sensitivity factor.

Acuite believes that the financial risk profile of the company is expected to remain healthy over the medium term on account of no significant capex plans over the medium term.

Weaknesses

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

The project remains exposed to risks inherent in BOT (toll) road projects, including risks arising from variation in traffic volumes over the project stretch and its dependence on the economic activity in the surrounding regions, movement in WPI (for a toll rate hike), political acceptability of toll rate hike, development/improvement of alternate routes and the likelihood of toll leakages. Any reduction in either of these will have an adverse impact on toll collections. As commercial vehicles constitute a major portion of traffic on the road stretch, traffic volume will remain vulnerable to an economic slowdown. The cash flows of a toll-based project are dependent on traffic volumes 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 SPK. The toll suspension imposed by the MORTH during the lockdown and the slowdown in the economy due to the COVID-19 pandemic is expected to adversely affect the toll collections in FY2021. However, with the toll collections in the first fortnight of June 2020 and the pick-up in traffic will depend on opening up of industries and the extent and pace in which situation normalises.

• Ensuring regular and periodic maintenance expenditure within budgeted levels

Periodic maintenance for the SBTPS due by FY2024-25 and SBTPS's ability to execute planned major maintenance (MM) expenditures the activity within stipulated timelines and budgeted cost remains critical.

Liquidity Position: Adequate

Liquidity is adequate, with expected average DSCR of well above 1.30 times throughout the debt tenure. Further with an unencumbered cash balance of Rs. 7.07 crore as on March 31, 2020 (provisional). Further, the sponsor company SPK AND CO provided the Fixed deposit Rs.125 Cr as against 125 Cr of its Debt. Toll revenue will remain sufficiently healthy to meet repayment of Rs 3-5 crore per annum over the next three fiscals. Acuite believes that the liquidity of the company is likely to remain adequate over the medium term on account of healthy cash accruals against its repayment obligations.

Rating Sensitivities

- Significant improvement in scale of operations, while maintaining profitability margins
- The company incurs higher-than-anticipated routine O&M and major maintenance expense,
- Any additional debt undertaken.

Material covenants

None

Outlook: Stable

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

About the Rated Entity - Key Financials

	Unit	FY20 (Provisional)	FY19 (Actual)
Operating Income	Rs. Cr.	12.93	14.27
PAT	Rs. Cr.	1.41	0.00
PAT Margin	(%)	10.92	0.02
Total Debt/Tangible Net Worth	Times	0.95	1.11
PBDIT/Interest	Times	2.35	-

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

None

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Infrastructure Sector Entities- <https://www.acuite.in/view-rating-criteria-51.htm>
- Entities In Services Sector - <https://www.acuite.in/view-rating-criteria-50.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.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
Term Loan	07-04-2017	Not Applicable	30-06-2033	125.00	ACUITE BBB/Stable (Assigned)
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	25.00	ACUITE BBB/Stable (Assigned)

Contacts

Analytical	Rating Desk
<p>Aditya Gupta Vice President - Corporate Ratings Tel: 022-4929 4041 aditya.gupta@acuite.in</p> <p>Bhavani Sankar Oruganti Senior Analyst - Rating Operations Tel: 040-4004 2327 bhavanisankar.oruganti@acuite.in</p>	<p>Varsha Bist Senior Manager - Rating Desk Tel: 022-4929 4011 rating.desk@acuite.in</p>

About Acuité Ratings & Research:

Acuité Ratings & Research Limited is a full-service Credit Rating Agency registered with the Securities and Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI), for Bank Loan Ratings under BASEL-II norms in the year 2012. Since then, it has assigned more than 8,000 credit ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Mumbai.

Disclaimer: An Acuité rating does not constitute an audit of the rated entity and should not be treated as a recommendation or opinion that is intended to substitute for a financial adviser's or investor's independent assessment of whether to buy, sell or hold any security. Acuité ratings are based on the data and information provided by the issuer and obtained from other reliable sources. Although reasonable care has been taken to ensure that the data and information is true, Acuité, in particular, makes no representation or warranty, expressed or implied with respect to the adequacy, accuracy or completeness of the information relied upon. Acuité is not responsible for any errors or omissions and especially states that it has no financial liability whatsoever for any direct, indirect or consequential loss of any kind arising from the use of its ratings. Acuité ratings are subject to a process of surveillance which may lead to a revision in ratings as and when the circumstances so warrant. Please visit our website (www.acuite.in) for the latest information on any instrument rated by Acuité.