

Press Release

Sri Balaji Tollways (Madurai) Private Limited

January 11, 2023



Rating Upgraded

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	150.00	ACUITE BBB+ Stable Upgraded	-
Total Outstanding Quantum (Rs. Cr)	150.00	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

Acuite has upgraded its long-term rating to '**ACUITE BBB+**' (read as **ACUITE triple B plus**) from '**ACUITE BBB**' (read as **ACUITE triple B**) to the Rs.150.00 Cr bank facilities of Sri Balaji Tollways (Madurai) Private Limited (SBTPL). The outlook is '**Stable**'.

Rationale for the rating

The rating upgrade takes into account the improvement in revenue in FY 2022 and till November 2022 to Rs 33.06 Cr and Rs 28.13 Cr respectively from Rs 24.84 Cr in FY 2021 backed by good traffic volume. Further, the rating takes into account SBTPL's experienced promoters, established track record healthy financial risk profile. These strengths are, however, partially constrained by susceptibility of toll revenue to volatility in traffic volume and maintaining expenditure within budgeted levels

About the Company

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 BuildOperateTransfer (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 profiles of the SBTPL to arrive at this 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

Strong sponsor support 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 50 percent of the shareholding and he has about two decades of experience in the civil construction industry. Further, he is the Managing Partner of SPK&Co, 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 33.06 Cr in FY2022 and Rs.28.13 Cr upto November 2022.

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. 129.08 Cr as on March 31, 2022 as against Rs.128.52 Cr as on previous year ending due to accretion of reserves during the same period. Healthy net worth couple with moderate debt levels show the healthy capital structure marked by gearing (debt-to equity) and total outside liabilities to tangible network (TOL/TNW) levels of 0.90 times and 0.96 times as on March 31, 2022. Debt protection metrics were also moderate, reflected in debt service coverage ratio (DSCR) and net cash accrual to total debt ratio (NCA/TD) of 3.39 times and 0.12 times, respectively, in FY2022. SBTPL generated cash accruals of Rs.13.94 Cr in FY2022, while its maturing debt obligations were in the range of Rs.5.00 Cr during the same period. The cash accruals of the company are estimated to remain around Rs.17-20 Cr during 2023-25 while their repayment obligations are estimated to be around Rs.5-6 Cr during the same period. The average debt service coverage ratio (DSCR) is expected to be over 2 times over the tenure of the term loan, backed by prudent 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. Acuité 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.

Ensuring regular and periodic maintenance expenditure within budgeted levels

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

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

Liquidity: Adequate

Liquidity is adequate, with expected average DSCR above 2 times throughout the debt tenure. Further, with an unencumbered cash balance of Rs.28.57 Cr as on March 31, 2022. Further, the sponsor company SPK and Co provided the lien marked Fixed deposit Rs.125 Cr against SBTPL's entire debt. Toll revenue will remain sufficiently healthy to meet repayment of Rs. 5-6 Cr per annum over the next three fiscals. Acuité 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.

Outlook: Stable

Acuité believes that the outlook on SBTPL'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.

Other Factors affecting Rating

None

Key Financials

Particulars	Unit	FY 22 (Actual)	FY 21 (Actual)
Operating Income	Rs. Cr.	33.06	24.84
PAT	Rs. Cr.	0.56	1.93
PAT Margin	(%)	1.71	7.76
Total Debt/Tangible Net Worth	Times	0.90	0.94
PBDIT/Interest	Times	3.47	2.74

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>
- Rating Process and Timeline: <https://www.acuite.in/view-rating-criteria-67.htm>
- Infrastructure Sector: <https://www.acuite.in/view-rating-criteria-51.htm>
- Application Of Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>

Note on complexity levels of the rated instrument

In order to inform the investors about complexity of instruments, Acuité has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuite's categorisation of the instruments across the three categories is based on factors like variability of the returns to

the investors, uncertainty in cash flow patterns, number of counterparties and general understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels of risk. For more details, please refer Rating Criteria "Complexity Level Of Financial Instruments" on www.acuite.in

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
14 Oct 2021	Proposed Bank Facility	Long Term	25.00	ACUITE BBB Stable (Reaffirmed)
	Term Loan	Long Term	125.00	ACUITE BBB Stable (Reaffirmed)
18 Aug 2020	Proposed Bank Facility	Long Term	25.00	ACUITE BBB Stable (Assigned)
	Term Loan	Long Term	125.00	ACUITE BBB Stable (Assigned)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	Simple	25.00	ACUITE BBB+ Stable Upgraded
UCO Bank	Not Applicable	Term Loan	07 Apr 2017	6	30 Jun 2033	Simple	125.00	ACUITE BBB+ Stable Upgraded

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About Acuité Ratings & Research

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