Majority of ICRA rated toll road assets have reserves for debt servicing and are resilient enough to absorb toll suspension consequent to lock down on account of Covid-2019

Impact of Covid-2019 on ICRA rated toll road projects

Image credit: Shutterstock, IHS Markit

Shubham Jain
+91 124 4545 306
shubhamj@icraindia.com

Rajeshwar Burla
+91 40 4067 6527
rajeshwar.burla@icraindia.com

Event: Toll suspension following nationwide lockdown

With nationwide lockdown, the toll collections would witness a 2-3% decline in FY2020, collections for Q1FY2021 also likely to be affected

Following the lockdown as per Ministry of Home Affairs (MHA) guidelines, the Ministry of Road Transportation and Highways (MORTH) has suspended tolling on all national highways for the 21-day period. The constrained vehicular movement in the run up to the lockdown due to Covid-19 followed by suspension of tolling will further push the toll collections into negative territory for FY2020. Already, the performance of toll road projects has remained sub-par during 9MFY2020 owing to the dual impact of revision in axle load norms and the general slowdown in economy which resulted in muted growth in toll collections in the range of 1-2%. Overall, the annual toll collections for FY2020 are expected to witness a decline by around 2-3%. For the month of March 2020, the decline in toll collections is estimated to be more than 40%. Further, now with the constrained vehicular movement likely to persist beyond April, 2020 given the current situation, ICRA expects the Q1 FY2021 toll collections also to get adversely affected.

NHAI to compensate under Force Majeure (Political) which covers 50-55% of revenue loss; however, quantum and timelines for release of compensation is uncertain as on date

According to MORTH circular dated March 25, 2020, the 21-day toll suspension would be treated as force majeure event. Under force majeure (political) event[1], 100% of O&M and interest costs are reimbursed for the affected period. This would cover around 50-55% of loss of revenue incurred by these projects. However, quantum and timelines for release of compensation is uncertain as on date. Nevertheless, around 87% of ICRA rated toll road projects (excluding default category credits) have debt service reserve (liquidity buffer) greater than or equal to one quarter of debt obligation (includes principal and interest) and are resilient enough to absorb the toll suspension.

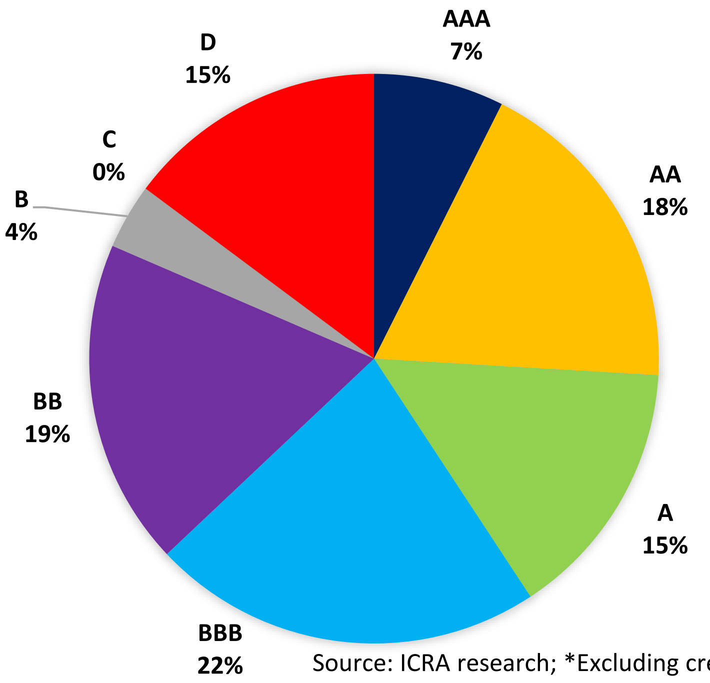
Freight movement has a strong correlation with the health of the economy and thereby the toll collections exhibit good correlation with the movement in GDP. Therefore, the detrimental impact of Covid-2019 on the overall economy would inturn affect the movement of commercial freight on the road stretches thereby, adversely affecting the toll collections. As per ICRA estimates, Indian GDP growth is expected to range from 4.7% to 5.2% in FY2021, depending on intensity, duration and spread of Covid-19 outbreak. About 60-65% of the freight traffic is dependent on mining, manufacturing and construction sectors. Therefore, any contraction in these three sectors has a material adverse impact on the commercial traffic, thereby affecting toll collections.

[1] As per clause 34 of concession agreement: Upon occurrence of a political FM event, all FM costs will be reimbursed by authority. FM costs may include interest payments on debt, O&M expenses etc. and shall not include loss of revenue or debt repayments

Impact on ICRA rated toll road projects

The total ICRA rated universe in road sector is around 68. Of these, 34 projects (50%) are either annuity or hybrid annuity projects which are devoid of market risk. Of the remaining 34 projects, ratings of seven entities are credit enhanced based on explicit support from strong promoters. The ratings of remaining 27 entities are based on the strength of the standalone cash flows and are exposed to market risk by virtue of being toll road projects.

RATING DISTRIBUTION OF ICRA RATED TOLL ROAD PROJECTS*



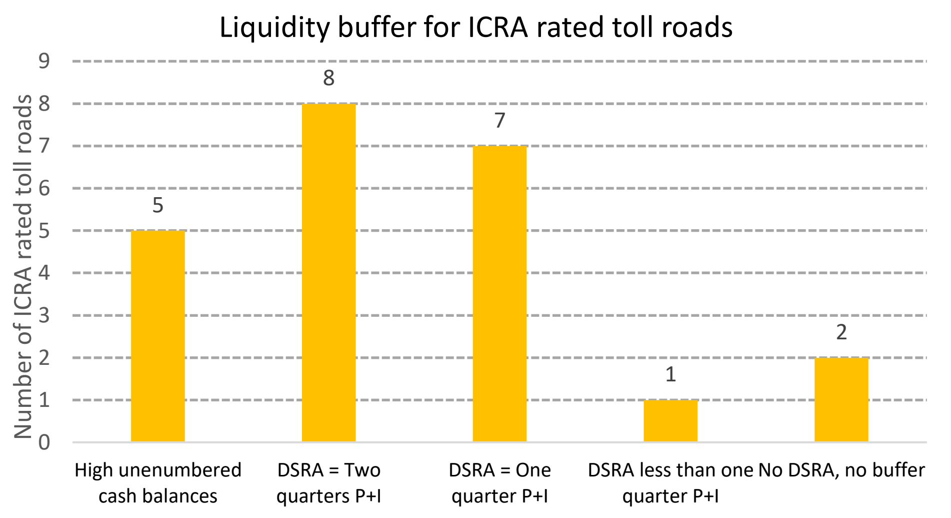
Source: ICRA research; *Excluding credit enhanced ratings

Of the above ratings, 17 are rated in investment grade categories, 6 are rated in non-investment grade categories and remaining 4 are rated in default rating category.

Four out of 23 credits rated in non-default category have high exposure to passenger vehicle (PV) and bus categories (in excess of 40% in terms of passenger car units). These projects are close to large urban agglomerations. Road stretches catering to major pilgrim centres and tourist destinations which are dominated by passenger vehicle (PV) movement have witnessed significant moderation in traffic movement starting second week of March, 2020 even before the imposition of lockdown.

Majority of ICRA rated toll road assets have reserves for debt servicing and are resilient enough to absorb toll suspension consequent to lock down on account of Covid-2019

Around 87% of ICRA rated toll road projects (excluding default category credits) have liquidity buffer greater than or equal to one quarter of debt obligation. Two credits have no liquidity buffer; however, both of these have a demonstrated track record of timely support from their strong promoters. One project has buffer of two months of debt obligation and at the same time has high exposure to PV and therefore remains vulnerable credit (rated in non-investment grade).



Source: ICRA research

Drawing parallels with de-monetisation in November, 2016; after the 24-day period toll suspension post de-monetisation, NHAI offered compensation to the toll road SPVs under force majeure clauses wherein it had reimbursed 90% of O&M and interest costs corresponding to the affected period. While pandemic (Covid-2019) falls under force majeure (non-political); the toll suspension following lockdown would fall under force majeure political event and hence would be compensated. Also, it took more than two quarters post de-monetisation for the traffic to revert to its earlier levels. Similarly, after the containment of Covid-2019; the toll road projects may take at least one quarter to revert to their earlier levels.

Freight movement has a strong correlation with the health of the economy and thereby the toll collections exhibit good correlation with the movement in GDP. Therefore, the detrimental impact of Covid-2019 on the overall economy would in turn affect the movement of commercial freight on the road stretches. Further the slowdown in the economy could also result in benign inflation rate which is a key input for arriving at the toll rates. Therefore, a combination of compression in GDP growth along with benign inflation would adversely impact the toll collections in FY2021. The impact would depend on the intensity, duration and spread of Covid-19 outbreak.

ICRA would closely monitor the dynamic developments which would impact the revenue generation ability of the entities in the sector and keep the investors updated.

ICRA
A MOODY'S INVESTORS SERVICE COMPANY

ABOUT ICRA

ICRA Limited (formerly Investment Information and Credit Rating Agency of India Limited) was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange.

Alliance with Moody's Investors Service

The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder. The participation of Moody's is supported by a Technical Services Agreement, which entails Moody's providing certain high-value technical services to ICRA. Specifically, the agreement is aimed at benefiting ICRA's in-house research capabilities, and providing it with access to Moody's global research base. The agreement also envisages Moody's conducting regular training and business seminars for ICRA analysts on various subjects to help them better understand and manage concepts and issues relating to the development of the capital markets in India. Besides this formal training programme, the agreement provides for Moody's advising ICRA on Rating-products strategy, and the Ratings business in general.

The ICRA Factor

Our services are designed to

- Provide information and guidance to institutional and individual investors/creditors;
- Enhance the ability of borrowers/issuers to access the money market and the capital market for tapping a larger volume of resources from a wider range of the investing public;
- Assist the regulators in promoting transparency in the financial markets;
- Provide intermediaries with a tool to improve efficiency in the funds raising process.

ICRA
A MOODY'S INVESTORS SERVICE COMPANY

Business Contacts

Mr. L. Shivakumar
E-mail: shivakumar@icraindia.com
Tel: +91 22 6114 3406 / +91 98210 86490

Mr. Jayanta Chatterjee
E-mail: jayantac@icraindia.com
Tel: +91 80 4332 6401/ +91 98450 22459

Media and Public Relations

Ms. Naznin Prodhani
E-mail: communications@icraindia.com
Tel: +91 124 4545 860

Registered Office:

1105, Kailash Building, 11th Floor,
26, Kasturba Gandhi Marg,
New Delhi - 110 001
Tel: + 91 11 2335 7940-45

Corporate Office:

Building No.8, 2nd Floor,
Tower A, DLF Cyber City Phase II,
Gurgaon- 122 002
Tel: +91 124 4545300

Ahmedabad

907 & 908, Sakar – II,
Ellisbridge, Opp. Town Hall,
Ahmedabad - 380 006
Tel: +91 79 4027 1500/01

Bengaluru 1

'The Millenia', Tower- B, Unit No. 1004,
10th Floor,1 & 2 Murphy Road,
Bengaluru - 560 008
Tel: +91 80 4332 6400

Bengaluru 2

2nd Floor, Vayudooth Chamber,
15-16, Trinity Circle, M.G. Road,
Bengaluru - 560 001
Tel: +91 80 4922 5500

Chennai

5th Floor, Karumuttu Centre,
634, Anna Salai, Nandanam
Chennai - 600 035
Tel: +91 44 4596 4300

Hyderabad 1

No. 7-1-58, 301, 3rd Floor, 'CONCOURSE',
Above SBI-HPS Branch, Ameerpet,
Hyderabad - 500 016
Tel: +91 40 4920 0200

Hyderabad 2

4A, 4th Floor, SHOBHAN,
6-3-927, A&B Somajiguda,
Raj Bhavan Road,
Hyderabad – 500082
Tel: +91 40 40676500

Kolkata

A-10 & 11, 3rd Floor,
FMC Fortuna 234/3A,
A.J.C. Bose Road,
Kolkata -700 020
Tel: +91 33 7150 1100/01

Mumbai

3rd Floor, Electric Mansion
Appasaheb Marathe Marg,
Prabhadevi,
Mumbai - 400 025
Tel: +91 22 6169 3300

Pune

5A, 5th Floor, Symphony,
S. No. 210 CTS 3202 Range Hills Road,
Shivajinagar,Pune - 411 020
Tel: +91 20 2556 1194

Email: info@icraindia.com
Helpdesk: 124 3341580
Website: www.icra.in/ www.icraresearch.in