



Rating Criteria – Rating of BOT (Toll) Road Projects

EXECUTIVE SUMMARY

The strength of an economy is greatly determined by its infrastructure and road infrastructure is of the most important tenets of a country's economic growth. Being an important stimulant of growth, it provides connectivity, helps enable trade and employs a significant proportion of the population.

Road projects in India are undertaken through a public private partnership under the Engineering, Procurement and Construction (EPC), Build-Operate-Transfer (BOT (Toll) or BOT (Annuity)), Toll-Operate-Transfer (TOT) and Hybrid Annuity Model (HAM) modes, where EPC remained the dominant mode of awarding the projects. Projects awarded under EPC mode remained at ~93% of the total projects awarded during 2019-20, whereas BOT mode contributed ~6% of the total project awards and rest was awarded under HAM.

A BOT (Toll) road project is one in which a road developer, usually a private sector entity, enters into a contractual agreement, usually with a government entity and undertakes the operational risks, and is allowed to recover his investment through toll collection. The toll collected therefore, forms a major part of the revenues earned by the project specific Special Purpose Vehicle (SPV). The onus of funding for these projects falls on the SPV and in the event of a shortfall in cash flow/toll collection, it may face hurdles towards funding its debt servicing.

Around 559 toll plazas are operational on national highways across the country, including public funded (under NHAI) and projects under build-operate-transfer and toll-operate-transfer models. As per the NHAI, the total toll collected through the 559 toll plazas in FY20 stood at 26, 851 Crore, with average revenues of 73.56 Crore per day, from 24, 396 Crore in FY19, with average revenues of 66.84 Crore per day.

SCOPE

This criteria document covers a brief analysis of the attributes considered by Brickwork Ratings (BWR), while assessing the overall risks towards rating of BOT (Toll) projects. It focuses on the credit risk assessment of the road developer and analyzes various pre- and post-implementation risks in detail. A brief summary of the effect of these attributes on the overall credit rating of SPVs is highlighted which helps ascertain the debt servicing capacity and the ability of these BOT developers to undertake large scale road infrastructure projects.

RISK ASSESSMENT AND RATING CRITERIA AT BRICKWORK RATINGS

CONCLUSION

In the pre-implementation phase, track record of sponsor and construction risks such as approval of clearances, land acquisition or RoW and other statutory clearances significantly affect the rating of the project. In the post implementation, the focus shifts towards financial parameters such as level of DSRA, O&M risks, repayment structure, DSCR etc. A major source of revenue for BOT projects is the proceeds from toll collection and that is reflected in the final rating output as well.

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