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Cube Highways in talks for India's longest road tunnel

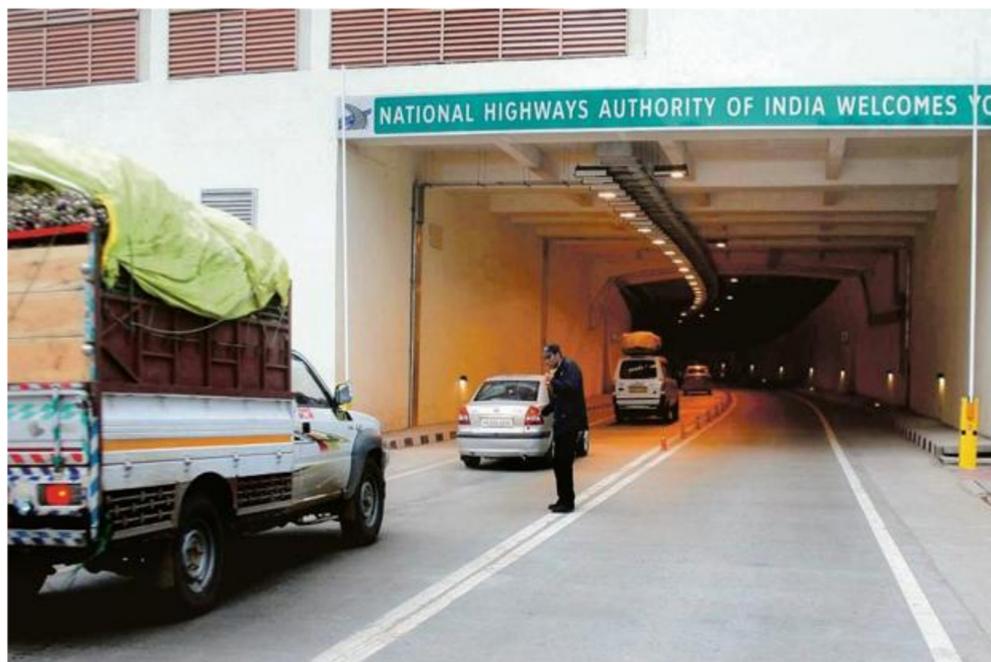
Chenani-Nashri road tunnel's current owner ITNL is exploring sale of project to bring down debt, boost financials

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At the end of 2017-18, total long-term borrowings of ITNL stood at ₹27,086.8 crore on a consolidated level, up from the previous year's ₹23,694.6 crore. Photo: PTI

Mumbai: Infrastructure company Cube Highways has begun talks with IL&FS Transportation Networks Ltd (ITNL) to acquire the latter's 9.2-km Chenani-Nashri road tunnel project in Jammu & Kashmir, two people aware of the development said. The tunnel on the Jammu-Srinagar highway links Chenani in Udhampur district with Nashri in Ramban district, reducing travel distance from 41km to 10.9km. It is the longest road tunnel in India, which was opened in April 2017.

"ITNL has been looking at selling off the tunnel project for some time. It is an annuity toll road, so one doesn't have to bear traffic risk and that makes the project attractive. It started generating annuity payments from last year. Cube Highways has shown an interest in the asset and they are currently engaged in talks with ITNL," said one of the people cited above, requesting anonymity as the talks are private. According to the second person cited above, ITNL is exploring sale of the project to bring down its debt burden and improve its financials. He too requested anonymity.

"The tunnel project has a debt of around ₹6,000 crore. A sale of the asset will help bring down overall debt position of the company," he said.

Cube Highways is backed by global infrastructure investor I Squared Capital.

Construction on the National Highways Authority of India (NHAI) annuity project was started by ITNL, the roads arm of the Infrastructure Leasing & Financial Services (IL&FS) group in 2011, and completed in early 2017.

At the end of 2017-18, total long-term borrowings of ITNL stood at ₹27,086.8 crore on a consolidated level, up from the previous year's ₹23,694.6 crore. The road developer's interest outgo also increased in 2017-18 to ₹3,748.9 crore, from previous year's ₹3,086.3 crore, company's filings with the stock exchanges show.

This week, several rating agencies such as Icria, Brickwork Ratings and India Ratings & Research downgraded the debt of ITNL. "Icria had earlier placed the rating on watch with developing implications with key monitorable being a) equity infusion, b) asset monetisation and c) realization of claims pending with authorities. The downgrade in ratings is on account of the company's failure to achieve any meaningful progress on all three monitorable, thereby resulting in stretched liquidity position," Icria said in its report.

ITNL managing director Ramchand Karunakaran declined to comment on the development. Emails sent to Gautam Bhandari, partner at I Squared Capital, and Harsh Agrawal, managing director and India head at I Squared Capital, did not elicit any response.

Founded in 2012 by former Morgan Stanley executives, I Squared Capital is an independent global infrastructure investment manager which is focused on energy, utilities and transport in North America, Europe and some high-growth economies. It has offices in New York, Houston, London, New Delhi, Hong Kong and Singapore.

Cube Highways was set up by I Squared Capital along with International Finance Corp. (IFC). The platform currently owns and operates over 1,700 lane-km of highways in India across a diverse portfolio of toll and annuity-based roads, as in December 2017.

The platform has attracted the attention of several investors keen to invest in the Indian infrastructure sector.

Last December, Mitsubishi Corp., which leads a Japanese consortium comprising East Nippon Expressway Co. Ltd and Japan Overseas Infrastructure Investment Corp. for transport and urban development, had said that it had agreed to acquire a 20% stake in Cube Highways. In November 2017, Cube Highways had sold a minority stake to sovereign wealth fund Abu Dhabi Investment Authority.

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