

November 08, 2024

NKC KS Expressway Private Limited: Rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Fund-based – Term loan	237.00	237.00	[ICRA]A- (Stable); reaffirmed
Total	237.00	237.00	

*Instrument details are provided in Annexure-I

Rationale

The rating reaffirmation for NKCS Expressway Private Limited (NKSEPL) continues to factor in the healthy credit profile of its sponsor – NKCS Projects Private Limited (NPPL, rated [ICRA]A (Stable)/[ICRA]A2+), which is the engineering, procurement and construction (EPC) contractor for the project developed by NKSEPL. NPPL, which has a healthy financial profile and execution track record, has provided sponsor undertakings towards cost overrun and any shortfall in operations and maintenance (O&M) expenses for the project. The rating notes the inherent benefits of the hybrid annuity model (HAM) based project, including upfront availability of right of way¹ (RoW), de-scoping of RoW pending beyond 180 days from the appointed date, inflation-linked² revisions to the bid project cost (BPC) during the construction period, and the relatively lower equity mobilisation risk with 40% of the BPC to be funded by the authority during the construction period through a grant.

The rating positively considers the structural features of the debt, including the presence of escrow, cash flow waterfall mechanism, provision for debt service reserve (DSR, to be created out of the first two annuities) and the creation of a reserve for major maintenance (MMR), as well as the restricted payment clause with a minimum debt service coverage ratio (DSCR) of 1.35 times. Comfort is also derived from the project's stable revenue stream after commissioning, with 60% of the inflation-adjusted BPC being paid out as annuity, along with interest at the average of one-year MCLR³ of the top five scheduled commercial banks (SCBs, to be reset every quarter) plus a spread of 1.25%. Additionally, the inflation-adjusted O&M cost bid over the 15-year operations period by the project owner, the National Highways Authority of India [NHAI, rated [ICRA]AAA(Stable)], which is a strong counterparty, also provide comfort.

The rating is, however, constrained by the execution risks involved in the under-construction projects, including time and cost overrun risks. The project had scheduled commercial operation date (SCOD) for October 05, 2024, and it achieved 68% physical completion as of September 2024. The project has been delayed for reasons beyond the control of the concessionaire i.e., NKSEPL, and requisite extension of timelines (EOT) are likely to be granted by the authority, which is further substantiated by absence of damages/ penalties and timely receipt of payment milestones. The company's ability to commission the project within the approved timeline and budgeted costs would remain important from a credit perspective.

NKSEPL is exposed to some equity mobilisation risk as ~22% equity (Rs. 17.6 crore as on August 31, 2024) is yet to be infused. However, NPPL's healthy financial risk profile provides comfort. Following commissioning, O&M of the project stretch will have to be undertaken as per the concession agreement to avoid any deductions from annuities. Any significant deductions from annuities or increase in routine and major maintenance (MM) from the budgeted level could impact the company's DSCR. NKSEPL's cash flows are exposed to inflation risk as O&M receipts, though linked to the inflation index (70% WPI and 30% CPI), may not be adequate to compensate for the actual increase in O&M/periodic maintenance expenses.

¹ At least 80% prior to the appointed date

² Based on annual change in price index multiple (PMI) from the base year – PMI is the weighted average of Wholesale Price Index (WPI) and Consumer Price Index (CPI) (IW) in the ratio of 70:30

³ The authority shall declare the list of top five SCBs on 1st of September every calendar year based on the balance sheet size as declared in their annual reports. The one-year MCLR of the top five SCBs shall be taken at the start of every quarter.

The Stable outlook on the rating reflects ICRA's opinion that NKSEPL will benefit from the strong execution capabilities and financial profile of the sponsor and EPC contractor—NPPL.

Key rating drivers and their description

Credit strengths

Established track record and financial profile of the sponsor and EPC contractor – NKSEPL is a 100% subsidiary of NPPL, which has vast experience in executing road construction projects. NPPL is the EPC contractor for this project and the contract is on a fixed-price, fixed-time basis, which provides comfort, given its track record of project execution within the budgeted time and cost. NPPL has provided an undertaking for cost overruns during construction and for any shortfall in O&M expenses. NKSEPL is exposed to marginal equity mobilisation risk with ~78% (or Rs. 60.8 crore) of required project equity already infused as on August 31, 2024.

Inherent benefits of hybrid annuity model (HAM) – The inherent benefits of the HAM project include upfront availability of right of way (RoW), inflation-linked revisions to the bid project cost during the construction period and relatively lower equity mobilisation risk with 40% of the project cost to be funded by the authority during the construction period in the form of a grant. The project will have a stable revenue stream post-commissioning as 60% of the remaining project cost will be paid out as annuity (adjusted for inflation), along with interest at the average of one-year MCLR of the top five SCBs (to be reset every quarter) plus spread of 1.25%, and the inflation-adjusted O&M cost bid over the 15-year operations period by the project owner and annuity provider, the NHAI, a key Central Government entity that develops and maintains India's national highways.

Healthy coverage indicators and presence of structural features – The project is likely to achieve the PCOD by January 2025 (two years from the appointed date plus cure period of 90 days). If the overall project cost remains within the budgeted level, once operational, NKSEPL is likely to have healthy debt coverage indicators with a cumulative DSCR of ~1.3 times. This provides adequate cushion to withstand any adverse movement in the interest on annuity and inflation to a major extent. The credit profile is supported by NPPL's undertaking towards cost overrun during the construction phase and any shortfall in O&M expenses. Further, the presence of structural features of the debt, including the presence of escrow, cash flow waterfall mechanism, provision for DSR (to be created out of the first two annuities) and the creation of MMR as well as the restricted payment clause with a minimum DSCR of 1.35 times provides comfort.

Credit challenges

Execution risk related to under construction nature of project – The project achieved the appointed date of October 06, 2022, and achieved ~68% physical progress of as of September 2024. Thus, the company continues to be exposed to project execution risks, including risks of delays and cost overruns. However, the risk is mitigated, to an extent, by the fixed-price, fixed-time contract and NPPL's strong project execution capabilities. ICRA notes that NKSEPL has sought extension for achievement of milestone-II (80 days) and milestone-III and IV (123 days) and the NHAI's approval is yet to be received. The company's ability to commission the project in a timely manner and within the budgeted costs would remain important from the credit perspective.

Project's cash flows and returns exposed to inflation risks – NKSEPL's cash flows are exposed to inflation risks as O&M receipts, though linked to inflation (70% WPI and 30% CPI), may not be adequate to compensate for any increase in O&M/periodic maintenance expenses. Further, the project's cash flows and returns are sensitive to the spread between the interest to be paid by the NHAI on the outstanding annuities linked to the average of one-year MCLR of top five scheduled commercial banks and the interest rate payable on the outstanding debt, linked to lender's marginal cost of fund-based lending rate (MCLR).

Undertaking O&M as per concession requirement and risk of deductions from annuity – After commissioning, O&M of the project will have to be undertaken stretch as per the concession agreement to avoid any deductions from annuities. Any significant deductions from annuities or increase in routine and MM expenses from the budgeted level could impact its DSCR.

Liquidity position: Adequate

As the project is under construction, the company does not maintain any significant liquidity on its books. However, its liquidity position is supported by undrawn sanctioned term loans, grants receivable from the NHAI and the balance equity infusion from NPPL. The total estimated project cost of Rs. 570.6 crore is planned to be funded by the NHAI's grant of Rs. 255.2 crore, external debt of Rs. 237.0 crore and promoter's contribution/equity of Rs. 78.4 crore. As of June 2024, the residual project cost was Rs. 195.4 crore, and it shall be funded through equity of Rs. 24.9 crore, pending debt drawdown of Rs. 95.9 crore and the NHAI grant of Rs. 74.6 crore.

Rating sensitivities

Positive factors – The rating could be upgraded if the project achieves PCOD/COD within the expected timelines and budgeted costs, or if there is an improvement in the sponsor's credit profile.

Negative factors – Pressure on the rating could arise if the project progress is delayed, leading to significant time and cost overruns, or if there is a deterioration in the sponsor's credit profile, or if delayed receipt of grant or equity infusion results in increased funding risks for the project.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Roads – Hybrid Annuity
Parent/Group support	Not applicable
Consolidation/Standalone	Standalone

About the company

NKSEPL is a special purpose vehicle (SPV) promoted by NPPL. The SPV was formed in October 2021 for the six-lane Kantakapalle - Sabbavaram Section of NH -130-CD road from Km 445+100 to km 464 + 662 under Raipur – Visakhapatnam Economic Corridor in Andra Pradesh under HAM. The construction and operations period for the project is 2 years and 15 years, respectively. The concession agreement was signed on November 23, 2021, and the appointed date was achieved on October 06, 2022.

As on June 30, 2024, ~90% of the RoW had been made available by the NHAI and from the total project cost of Rs. 570.63 crore, ~70% (Rs. 399.35 crore) cost had been incurred. As per the management, physical execution progressed to 68% as of September 2024 (from ~61% in June 2024).

Key financial indicators

The key financial indicators are not meaningful as NKSEPL is a project-stage company.

Status of non-cooperation with previous CRA: Not applicable

Any other information: The company faces prepayment risk in case of debt acceleration upon the breach of covenants, including financial covenants, operating covenants, and rating-linked covenants. Upon failure to meet the covenants, if the company is unable to get waivers from the lender or the lender does not provide it with adequate time to arrange for alternative funding to pay off the accelerated loans, the rating would face pressure.

Rating history for past three years

Current (FY2025)				Chronology of rating history for the past 3 years					
				FY2024		FY2023		FY2022	
Instrument	Type	Amount Rated (Rs. crore)	08-Nov-24	Date	Rating	Date	Rating	Date	Rating
Fund-based – Term loan	Long-term	237.00	[ICRA]A-(Stable)	09-Oct-23	[ICRA]A-(Stable)	02-Sep-22	[ICRA]A-(Stable)	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term – Fund-based – Term loan	Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: [Click Here](#)

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term loan	Mar 2022	-	FY2038*	237.00	[ICRA]A-(Stable)

Source: Company; *linked to PCOD/ COD of the project

[Please click here to view details of lender-wise facilities rated by ICRA](#)

Annexure II: List of entities considered for consolidated analysis – Not Applicable

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