November 08, 2024

# NKC DH 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 | 189.00 | 189.00 | [ICRA]A- (Stable); reaffirmed |
| **Total** | **189.00** | **189.00** | |

**Instrument details are provided in Annexure-I*

## Rationale

The rating reaffirmation for NKC DH Expressway Private Limited (NDHEPL) continues to factor in the healthy credit profile of its sponsor – NKC Projects Private Limited (NPPL, rated [ICRA]A(Stable)/[ICRA]A2+), which is the engineering, procurement and construction (EPC) contractor for the project developed by NDHEPL. 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 way[1] (RoW), de-scoping of pending beyond 180 days from the appointed date, inflation-linked[2] 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 1.20 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 MCLR[3] of the top five scheduled commercial banks (SCBs, to be reset every quarter) plus spread of 1.25%. Additionally, the inflation-adjusted operation and maintenance (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 overruns risks. The project had scheduled commercial operation date (SCOD) for Sep 14, 2024 (revised from March 23, 2024, and is likely to be revised to January 06, 2025) and it achieved ~66% physical completion as of August 2024. The project has been delayed for reasons beyond the control of the concessionaire i.e., NDHEPL, and requisite extension of timelines (EOT) are being granted by the authority. EOT of 114 days has been recently recommended by the independent engineer (IE) and is likely to be approved by the authority. The company's ability to commission the project within the approved timeline and budgeted costs would remain important from a credit perspective.

NDHEPL is exposed to equity mobilisation risk as ~29% equity (Rs. 18.6 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. NDHEPL'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 NDHEPL 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 –** NDHEPL 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. NDHEPL is exposed to marginal equity mobilisation risk with ~71% 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 low 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 MCLRs 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 (around three years from the appointed date, with EOTs granted/ recommended). If the overall project cost remains within the budgeted level, once operational, NDHEPL is likely to have healthy debt coverage indicators with a cumulative DSCR of over 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), provision for creation of MMR and restricted payment clause with a minimum DSCR of 1.20 times provides comfort.

### Credit challenges

**Execution risk related to under construction nature of project –** The project achieved the appointed date of March 25, 2022, and achieved ~66% physical progress of as of August 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 the initial EOT of 175 days was duly approved by the authority and another EOT of 114 days has been recommended by the IE to the authority. The company's ability to commission the project in a timely manner and within the budgeted costs would remain important from a credit perspective.

**Project's cash flows and returns exposed to inflation risks –** The project's cash flows and returns are sensitive to the spread between the interest to be paid by NHAI on the outstanding annuities linked to the average of one-year MCLRs 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). Further, NDHEPL'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.

**Undertaking O&M as per concession requirement and risk of deductions from annuity –** After 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 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. 472.1 crore is planned to be funded by the NHAI's grant of Rs. 220.0 crore, external debt of Rs. 189.0 crore and equity of Rs. 63.1 crore. As of June 2024, the residual project cost was Rs. 186.0, to be funded through equity of Rs. 20.5 crore, pending debt drawdown of Rs. 77.5 crore and the NHAI grant of Rs. 88.0 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<br>Roads – Hybrid Annuity |
| **Parent/Group support** | Not applicable |
| **Consolidation/Standalone** | Standalone |

## About the company

NDHEPL is a special purpose vehicle (SPV) promoted by NPPL. The SPV was formed in May 2021 for the development of the six-lane Dhanara (Odisha-Chhattisgarh Border) Hatibena section of NH 130CD road from Km 124+611 to 146+500 under Raipur Visakhapatnam Economics corridor in Odisha under HAM (Package-OD 1). The construction and operations period for the project is 2 years and 15 years, respectively. The concession agreement was signed on July 14, 2021, and the appointed date was achieved on March 25, 2022.

The highway project is a greenfield alignment, commencing from Chhattisgarh/Odisha Border at km 124.661 in Nabrangpur District and ends near Hatibena village of section NH-130-CD in the State of Odisha at km 146.500. The project envisages the construction of the fully access-controlled highway with six-lane divided carriageway.

As on June 30, 2024, 99.5% of the RoW was available and of the total project cost of 472.1 crore, ~61% (Rs. 286.1 crore) cost had already been incurred. As per the management guidance, physical execution had progressed to 66% as of August 2024.

### Key financial indicators

The key financial indicators are not meaningful as NDHEPL 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 | 189.00 | [ICRA]A- (Stable) | 09-Oct-23 | [ICRA]A- (Stable) | 02-Sep-22 | [ICRA]A- (Stable) | 25-Feb-22 | [ICRA]BBB+ (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** | Nov 2021 | - | FY2039* | 189.00 | [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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## About ICRA Limited:

ICRA 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.

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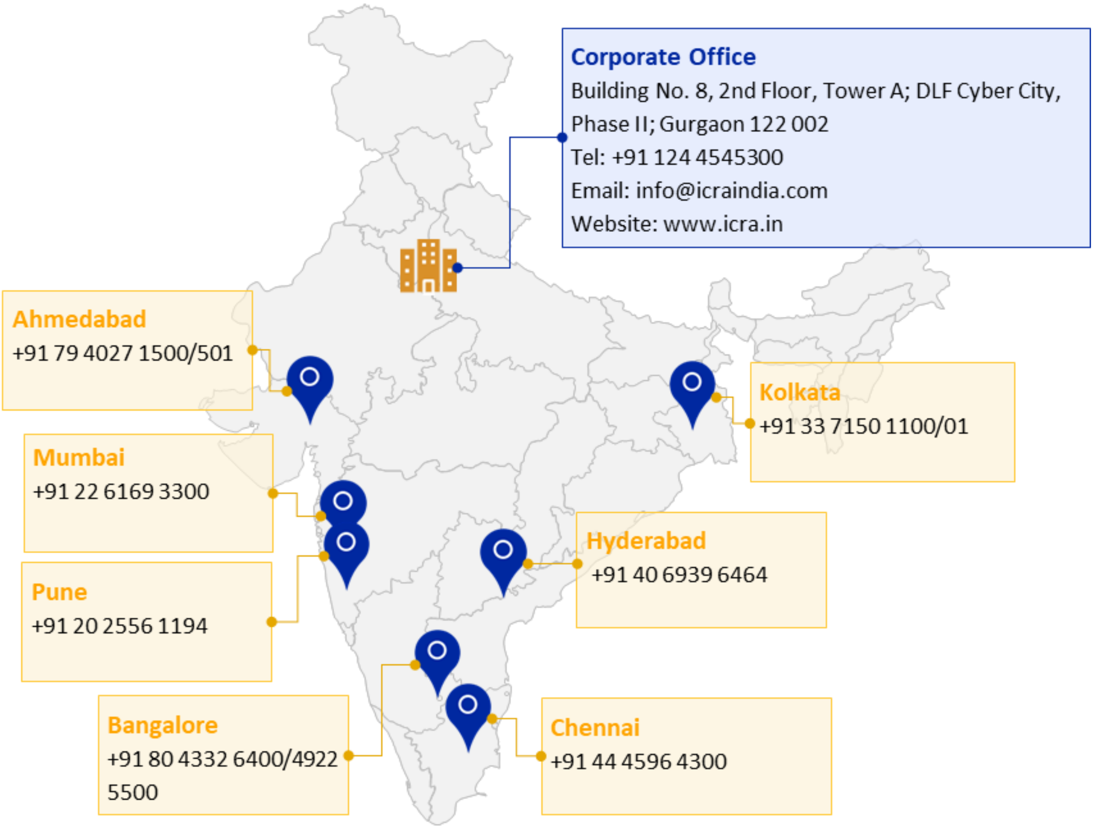




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