October 07, 2021

Andhra Pradesh Expressway Limited: Rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Non-convertible Debenture Programme (Series E to G)	189.23	157.66	[ICRA]AAA(Stable); reaffirmed
Total	**189.23**	**157.66**	

**Instrument details are provided in Annexure-1*

Rationale

The rating reaffirmation takes into account the stable performance of the project with a track record of timely receipt of full annuities except for TDS and one-time minor deduction of Rs. 0.32 crore from the 23rd annuity. The rating continues to draw support from the operational status of the road project, the annuity nature of revenues that mitigates traffic risk, the strong profile of Andhra Pradesh Expressway Limited's (APEL) counterparty and annuity provider—National Highway Authority of India [NHAI; rated at [ICRA]AAA(Stable)]— and its reputed sponsor—Cube Highways and Infrastructure Pte Limited. The project has been operational since September 2009 and has received 25 semi-annual annuities till date in a timely manner. The rating draws comfort from the presence of structural features in the non-convertible debentures (NCDs) like cash flow escrow and waterfall mechanism, presence of debt service reserve (DSR), and major maintenance reserve (MM), etc. ICRA notes that the company has maintained balances for MMR and DSR as per the terms of the structure.

However, APEL's credit profile is sensitive to any significant increase in operations and maintenance (O&M) and major maintenance (MM) expenses. Further, satisfactory maintenance of the road is critical to minimise lane closures, which could otherwise lead to deduction from the annuity receivable. The rating is sensitive to occurrence of force majeure events since termination of payments, as certain force majeure events might not be sufficient to cover the outstanding principal amount and the sponsor would meet the shortfalls if such an event occurs. Additionally, any deterioration in the NHAI's credit profile could adversely impact the credit quality of the bonds.

The Stable outlook on the rating reflects ICRA's opinion that APEL will continue to benefit from the strong counterparty, reputed sponsor and track record of sponsor in maintenance of the project stretch within budgeted costs and timeline.

Key rating drivers and their description

Credit strengths

Operational status of project with established track record of annuities receipts – APEL's project is an annuity road project with an operational track record of over 12 years. It is contractually entitled to receive semi-annuity of Rs. 56.52 crore in March and September each year till the end of the concession. Till date, APEL has received 25 semi-annuities with no deduction from the NHAI, except for TDS and minor deduction of Rs. 0.32 crore from 23rd annuity for delay in certain ancillary work completion for the second major maintenance cycle. However, the company has challenged this deduction and the matter is currently under review with the NHAI.

Strong counterparty and reputed sponsor – APEL's counterparty for annuity is strong in the form of NHAI, a critical Central Government entity entrusted with the responsibility of development and maintenance of India's national highway programme. Further, APEL's sponsor—Cube Highways and Infrastructure Pte Ltd (CHIPL)—is a reputed infrastructure investor with a special focus on highway projects. Cube Highways is backed by I Squared Capital (ISQ), International Finance Corporation (IFC), Abu Dhabi Investment Authority and Japanese Highways International.

Structural features support credit profile of NCDs – APEL has an escrow mechanism, whereby it has opened an escrow account (exclusively charged to the debenture trustee). The NHAI is required to deposit all annuities, termination payments, etc, into the escrow account. These receipts are utilised as per a pre-defined cash flow waterfall. The waterfall, in turn, ensures that adequate provisions are carved out for meeting periodic MM and other expenses, before the excess is transferred to a surplus/distribution account. The NCDs are supported by a debt service reserve of Rs. 60 crore, part of which can be in the form of a bank guarantee. The NCDs have a lock-up mechanism, whereby restricted payments, i.e., any payments to the sponsor, can only be made if the DSCR is more 1.08 times on the surplus distribution date.

Credit challenges

Exposure to operations and maintenance (O&M) risk – APEL's only source of income is the annuity receipt from the NHAI, which in turn is dependent on lane availability in the relevant annuity period. Therefore, it needs to undertake timely O&M activities to ensure sufficient lane availability and receipts of annuities with no or minimum deductions. Further, any major increase in O&M cost can impact its cash flows available for debt servicing and consequently its debt service coverage ratios.

Ensuring major maintenance (MM) expense within budgeted levels – The company is required to undertake scheduled MM activity after a regular interval (~5 years). APEL undertook two such periodic maintenance activities in the past and will be undertaking one more such MM expenditure in the remaining concession period. Given the sizeable cost associated with the MM exercise, its ability to undertake the MM within budgeted limits and time is a key sensitivity. In this regard, creation of MM reserve, as well as sponsor undertaking to fund any cost overrun, provides comfort.

Liquidity position: Strong

APEL's annuity receipts are expected to be sufficient to meet the operational expenses and debt servicing requirements. The company has a DSR of around Rs. 60 crore (Rs. 30 crore in the form of funded reserves and Rs. 30 crore in the form of bank guarantee), which strengthens its liquidity position. It also had funds of Rs. 28.6 crore in MMRA and Rs. 2.5 crore in O&M reserve account as on August 31, 2021. These factors render a **strong** liquidity position for the company.

Rating sensitivities

Positive factors – Not applicable.

Negative factors – The rating could be downgraded if there is any significant delay or deduction in annuity income, or if the expenses are higher than expected, affecting DSCR and liquidity. The rating may also be downgraded if there is non-adherence to debt structure or if there is deterioration in credit profile of the counterparty, i.e. NHAI.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for BOT (Annuity) Roads
Parent/Group Support	Not Applicable
Consolidation/Standalone	Standalone

About the company

APEL is a special purpose vehicle (SPV) incorporated in November 2005 for undertaking the four-laning of NH-7 between Kothakota–Kurnool aggregating 74.65 km on build operate transfer (BOT) annuity basis under a concession agreement (CA) signed with the NHAI. The CA was signed between APEL and NHAI on March 20, 2006 and the concession is valid for 20 years from the appointed date, i.e., till September 2026. APEL received the provisional completion certificate in September 2009. It had completed ~95% of the punch-list items with the remainder pending due to non-availability of right of way. As per the terms of the concession, APEL is entitled to receive a semi-annuity of Rs. 56.52 crore from the NHAI each year on March 15, and September 13, till September 2026. The project has been operational since September 30, 2009 and 25 annuities have been received till date. In March 2017, Cube Highways and Infrastructure Pte. Ltd. acquired 100% ownership interest in APEL.

Key financial indicators (audited)

APEL Standalone	FY2020	FY2021
Operating Income (Rs. crore)	163.9	48.4
PAT (Rs. crore)	65.6	-5.3
OPBDIT/OI (%)	48.1%	72.3%
PAT/OI (%)	40.0%	-11.0%
Total Outside Liabilities/Tangible Net Worth (times)	NM	NM
Total Debt/OPBDIT (times)	4.0	9.3
Interest Coverage (times)	1.6	0.8

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation, NM: Not Meaningful

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2022)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of Sep 1, 2021 (Rs. crore)	Date & Rating	Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019
					Oct 7, 2021	Dec 23, 2020	Nov 8, 2019	Oct 31, 2018
1	NCD	Long Term	157.66	157.66	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)

Complexity level of the rated instrument

Instrument	Complexity Indicator
NCD	Very 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, is available on ICRA's website: www.icra.in

Annexure-1: Instrument details

ISIN No.	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
INE400K07051	NCD	08-Nov-12	Zero coupon*	15-Oct-22	100.96	[ICRA]AAA (Stable)
INE400K07069	NCD	08-Nov-12	Zero coupon*	15-Oct-24	46.10	[ICRA]AAA (Stable)
INE400K07077	NCD	08-Nov-12	Zero coupon*	15-Oct-25	10.60	[ICRA]AAA (Stable)

IRR of 10%;* ***Source:* *APEL*

Annexure-2: List of entities considered for consolidated analysis : Not Applicable

ANALYST CONTACTS

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

Abhishek Gupta
+91 124 4545 863
abhishek.gupta@icraindia.com

Shiffali Garg
+91 124 4545 868
shiffali.garg@icraindia.com

RELATIONSHIP CONTACT

Jayanta Chatterjee
+91 80 4332 6401
jayantac@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

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

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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.

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. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

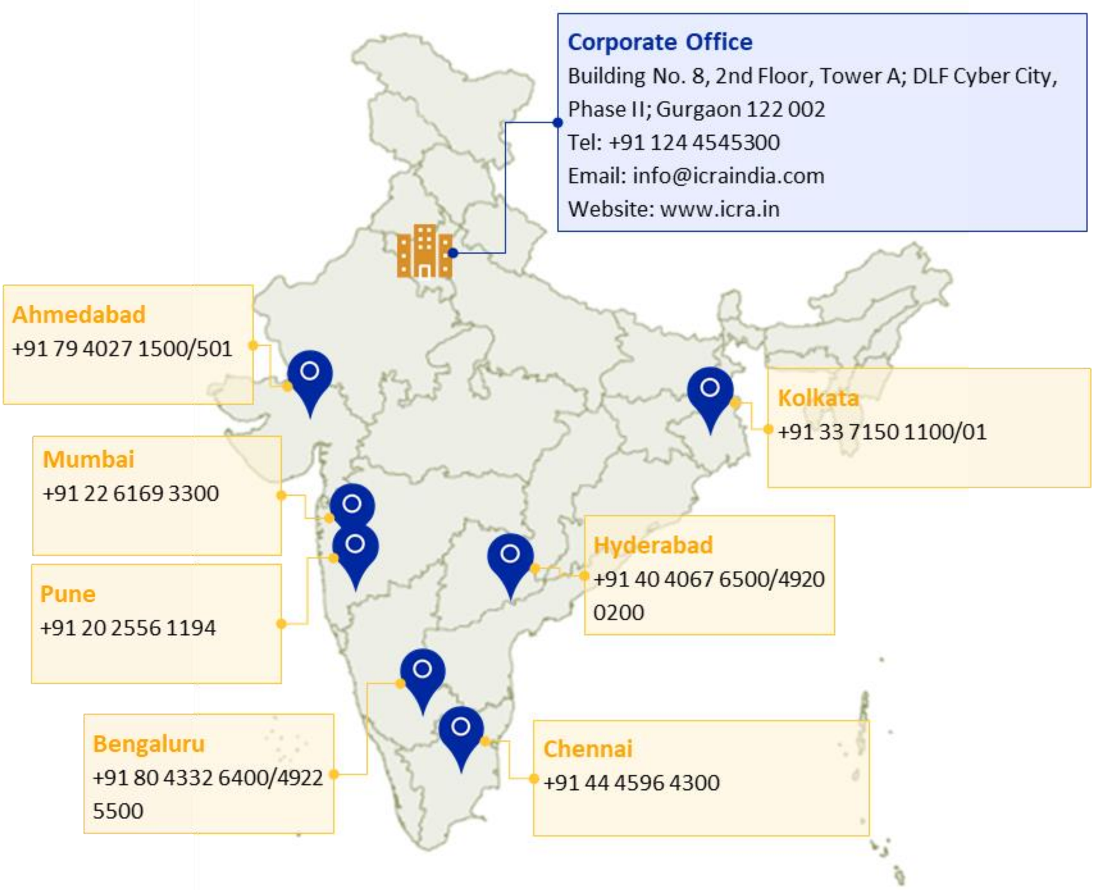
For more information, visit www.icra.in

ICRA Limited

Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45

Branches



© Copyright, 2021 ICRA Limited. All Rights Reserved.

Contents may be used freely with due acknowledgement to ICRA.

ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website www.icra.in or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents.