November 03, 2022

NCR Eastern Peripheral Expressway Private Limited: Provisional Ratings reaffirmed; Rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term - Fund-based – Term loan	1,000.00	3,860.00	Provisional [ICRA]AAA (Stable); reaffirmed and assigned for the enhanced limits
Total	**1,000.00**	**3,860.00**	

Rating in the absence of pending actions/documents	Not Applicable, No rating would have been assigned as it would not be meaningful

**Instrument details are provided in Annexure-1*

Rationale

The assigned rating to the proposed term loan of NCR Eastern Peripheral Expressway Private Limited (NEPEPL) reflects its favourable location and operational nature of the road asset with a tolling track record of four years under the Toll, Operate and Transfer (TOT) concession from the National Highways Authority of India (NHAI). Eastern Peripheral Expressway (National Expressway 2) is a six-lane wide expressway passing through Haryana and Uttar Pradesh. Along with the Western Peripheral Expressway, it forms part the largest ring road around Delhi NCR. The expressway helps in easing traffic congestion in the Faridabad – Ghaziabad stretch and prevents commercial vehicles entering Delhi, thereby reducing the pollution concentration. There are nine highways that acts as a feeder for traffic to the Eastern Expressway thereby reducing dependency on limited source for traffic; also, short haul traffic having trip lengths of less than 200 km dominates the project stretch thereby providing sticky nature of traffic. Further, the expressway is also being connected to the Yamuna Expressway, which is expected to be completed by FY2025. Additionally, there are plans to connect the expressway to the Jewar International Airport, that would further add to the traffic in the long term. The Project stretch has a closed loop tolling system in which toll is collected only for the distance travelled, and not for the entire length. Also, toll is collected only on the exit toll plazas, thus protecting toll leakages. The stretch witnessed a healthy CAGR of 21.6% in toll revenues during the last four years, based on the toll revenues from August 2018 (Rs. 15.8 crore) to August 2022 (Rs. 34.5 crore). The toll revenue growth was modest in the initial years of operation. The company witnessed a reduction in traffic in FY2021 on account of the Covid-19 pandemic-led lockdown, as tolling was suspended from March 26, 2020. It registered a toll collection of Rs. 364 crore in FY2022 with average per day toll collection of Rs. 1.0 crore. The same has improved to an average daily collection of Rs. 1.15 crore for Q1 FY2023, driven by toll rate increase of ~8.7% and traffic growth of ~5.5%. The rating takes comfort from NEPEPL's healthy projected debt service cover with cumulative DSCR of above 1.70 times as per ICRA's base case estimates (includes Rs. 197 crore of top-up for first major maintenance or MM), supported by healthy toll collections and long debt amortisation tenure, along with the flexibility arising out of the three-year tail period. The rating draws support from structural features - debt service reserve account (DSRA) equivalent to three months of debt obligation, escrow mechanism, and cashflow waterfall. Further, the company will maintain a major maintenance reserve account (MMRA) from FY2029 onwards.

The rating also draws strength from the strong linkages and strategic importance for Indian Highway Concessions Trust (IHCT, rated [ICRA]AAA (Stable)), an infrastructure investment trust (InvIT) sponsored by Maple Highways Pte Ltd, an affiliate of Caisse de depot et placement du Quebec (CDPQ, rated by Moody's Investors Service at Aaa, Stable), to house operational road assets in India. ICRA notes that NEPEPL is the largest asset in IHCT InvIT accounting for 50% of Cash Flow After Debt Servicing (CFADS) and 68% of enterprise value[1] at the InvIT level. Moreover, IHCT's commitment towards NEPEPL is also reflected in the proposed shortfall undertaking given by IHCT to lenders of NEPEPL, wherein IHCT shall make adequate funds available three business days prior to the debt due date (subject to the terms mentioned in the financing documents), in NEPEPL's Debt Service Payment Account to meet the scheduled debt servicing obligations in case of shortfall

Despite the importance of the project stretch, low alternative route risk and willingness of the users to pay toll, the project remains exposed to the risks inherent in toll road projects, including risks of development/improvement of alternative routes/modes of transportation (like Eastern DFC, Meerut RRTS and Alwar RRTS), moderation in traffic growth rates, or lower-than-anticipated WPI leading to lower toll collections which could weaken the project's coverage metrics. ICRA, in its base case assumptions, has factored in some shift in traffic due to other modes of transportation. Any higher-than-anticipated level will be a key monitorable. NEPEPL's cash flows are also exposed to interest rate risk, considering the floating interest rates of the project loan. NEPEPL has appointed Egis India as an operations and maintenance (O&M) contractor. In absence of a pre-defined MM schedule in the Concession Agreement, periodic maintenance is required on need basis, which may result in a volatility in operating expenses. The project stretch is based on rigid pavement which generally do not require a large-scale major maintenance unlike a flexible pavement road. Undertaking routine and periodic maintenance within the budgeted costs would remain important. In this regard, ICRA has taken comfort from the projected strong cash flows and significant cushion built in the cost estimates for undertaking the O&M and MM expenditure.

The Stable outlook on the [ICRA]AAA rating reflects ICRA's opinion that NEPEPL will continue to benefit from the importance of the project stretch, robust cash flows and strong linkages and strategic importance for IHCT.

Key rating drivers and their description

Credit strengths

Operational asset with favourable location – The company's project stretch has been operational since the last four years. Eastern Peripheral Expressway (National Expressway 2) is a 6-lane wide expressway passing through Haryana and Uttar Pradesh. Along with the Western Peripheral Expressway, it forms part the largest ring road around Delhi NCR. The expressway helps in easing traffic congestion in the Faridabad – Ghaziabad stretch and further, preventing commercial vehicles entering Delhi, thereby, reducing the pollution concentration. There are nine highways that acts as a feeder for traffic to the Eastern Expressway thereby reducing dependency on limited source for traffic; also, short haul traffic having trip lengths of less than 200 km dominates the project stretch thereby providing sticky nature of traffic. Further, the expressway is also being connected to the Yamuna Expressway, which is expected to be completed by FY2025. Additionally, there are plans to connect the expressway to the Jewar International Airport, among others that would further add to the traffic in the long term. The Project stretch has a closed loop tolling system in which toll is collected only for the distance travelled, and not for the entire length. Also, toll is collected only on the exit toll plazas, thus protecting toll leakages. The stretch witnessed a healthy CAGR of 21.6% in toll revenue during the last four years, based on the toll revenues from August 2018 (Rs.15.8 crore) to August 2022 (Rs.34.5 crore). The toll revenue growth was modest in the initial years of operation. The company witnessed a reduction in traffic in FY2021 on account of the Covid-19 pandemic-led lockdown as tolling was suspended from March 26, 2020. The company registered a toll collection of Rs. 364 crore in FY2022 with the average per day toll collection of Rs. 1.0 crore. The same has improved to an average daily collection of Rs. 1.15 crore for Q1 FY2023, driven by toll rate increase of ~8.7% and traffic growth of ~5.5%.

Strong parentage, healthy debt service cover, presence of tail period and part of InvIT structure provides financial flexibility – The rating factors in NEPEPL's healthy projected debt service cover with cumulative DSCR of above 1.70 times as per ICRA's base case estimates (includes Rs. 197 crore of top-up for first MM), supported by healthy toll collections and long debt amortisation tenure, along with the flexibility arising out of the three-year tail period. NEPEPL is a wholly-owned subsidiary of IHCT, an InvIT sponsored by Maple Highways Pte Ltd, an affiliate of CDPQ, to house operational road assets in India. Moreover,

[1] *As per company's estimates*

IHCT's commitment towards NEPEPL is also reflected in its proposed shortfall undertaking to lenders of NEPEPL, wherein IHCT shall make adequate funds available three business days prior to the debt due date (subject to the terms mentioned in the financing documents), in NEPEPL's Debt Service Payment Account to meet the scheduled debt servicing obligation in case of shortfall.

Presence of structural features – Structural features such as DSRA equivalent to the ensuing three months of debt obligation and a well-defined escrow mechanism provide credit support to the term loan. Further, the company will maintain an MMRA from FY2029 onwards.

Credit challenges

Project cash flows sensitive to traffic growth and interest rates – Despite the importance of the project stretch, low alternative route risk and willingness of the users to pay toll, the project remains exposed to the risks inherent in BOT (toll) road projects, including risks of development/improvement of alternative routes/modes of transportation (like Eastern DFC, Meerut RRTS and Alwar RRTS). Any moderation in traffic growth rates or WPI from the anticipated levels could weaken the project's coverage metrics. NEPEPL's cash flows are also exposed to interest rate risk, considering the floating interest rates of the project loan.

Ensuring routine and periodic maintenance expenses within budgeted levels – NEPEL has appointed Egis India as an O&M contractor. In the absence of a pre-defined major maintenance schedule in the Concession Agreement, periodic maintenance is required on need basis, which may result in a volatility in operating expenses. The project stretch is based on rigid pavement which generally do not require a large-scale major maintenance unlike a flexible pavement road. Undertaking routine and periodic maintenance within the budgeted costs would remain important. In this regard, ICRA has taken comfort from the strong estimated cash flow and significant cushion built in the cost estimates for undertaking the O&M and MM expenditure.

Liquidity position: Adequate

The liquidity position is expected to be adequate with sufficient toll collections to meet the operational expenses and debt servicing requirement. The company is anticipated to have a funded debt service reserve (equivalent to three months of principal + interest obligations). The annual principal debt repayment is estimated at Rs. 3.9 crore, Rs. 19.3 crore and Rs. 38.6 crore for FY2023, FY2024, FY2025, respectively, which is expected to be comfortably serviced from the operational cash flows.

Rating sensitivities

Positive factors – Not Applicable.

Negative factors – Downward pressure on the rating could emerge if there is a significant decline in traffic, leading to reduction in the toll collections and impacting the coverage indicators. The rating may also be revised downwards if the regular O&M and major maintenance expenditure is significantly above the budgeted costs. The specific metrics for the rating downgrade would be cumulative DSCR falling below 1.6 times.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology for BOT (Toll) Roads ICRA's Policy on Assigning Provisional Ratings Impact of Parent or Group Support on an Issuer's Credit Rating

Parent/Group support	Parent: Indian Highway Concessions Trust (IHCT) ICRA expects NEPEPL's parent, IHCT (rated [ICRA]AAA (Stable)), to be willing to extend financial support to NEPEPL given the strategic importance that NEPEPL holds for IHCT. ICRA also expects IHCT to be willing to extend financial support to NEPEPL out of its need to protect its reputation from the consequences of a group entity's distress.
Consolidation/Standalone	Standalone

Pending actions/documents required to be completed for conversion of provisional rating into final

The assigned rating is provisional and would be converted into final upon:

1. finalisation of the term sheet.

Validity of the provisional rating

In case the debt instrument/borrowing facility for which a provisional rating has been assigned is subsequently issued, the provisional rating would have to be converted into a final rating within 90 days (validity period) from the date of issuance of the debt instrument. If considered appropriate, the validity period may be extended by a further 90 days for converting the provisional rating into final, in circumstances where the rated entity expressly indicates its intention to complete the pending actions/documents over the near term. Under no circumstances shall the validity period be extended beyond 180 days from the date of issuance. For further details, refer to ICRA's Policy on Provisional Ratings available at www.icra.in.

If neither the pending actions/documents nor the issuance is completed after one year of the assignment of the provisional rating, ICRA would withdraw the provisional rating. However, the validity period may be extended beyond one year, subject to the conditions outlined in ICRA's Policy on Provisional Ratings available at www.icra.in.

Risks associated with the provisional rating

In case the issuance is completed, but the pending actions/documents are not completed by the entity within 90 days (validity period) from the date of issuance, the provisional rating will be converted into final upon the review of the required actions/documents to the extent these are completed by the end of the validity period. This implies that the provisional rating may even be revised at the end of the validity period, while being converted into final, to a level commensurate with the rating in the absence of the pending actions/documents (as disclosed earlier in the rationale). ICRA may consider extending the validity period in accordance with its Policy on Provisional Ratings available at www.icra.in.

About the company

NCR Eastern Peripheral Expressway Private Limited (NEPEPL), a special purpose vehicle (SPV) incorporated by Indian Highways Concession Trust (IHCT, an InvIT sponsored by Maple Highways Pte Ltd, an affiliate of CDPQ (rated by Moody's Investors Service at Aaa, Stable)) has been set up for operating the 135 km six-lane expressway spread across Haryana and Uttar Pradesh. The project has been awarded by the NHAI under TOT Bundle 7 project. The construction of the stretch got completed in June 2018 and the stretch has been operational since then. NEPEPL will have a concession period for 20 years for tolling and O&M of the Eastern Peripheral Expressway from the appointed date. NEPEPL is required to pay a consideration of Rs. 6,267.1 crore upfront to the NHAI for acquiring the toll collection rights.

Key financial indicators (audited)

NCR Eastern Peripheral Expressway Private Limited is a newly incorporate entity hence not applicable.

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

<table>
<tr><th rowspan="3">Instrument</th><th colspan="5">Current rating (FY2023)</th><th colspan="3">Chronology of rating history for the past 3 years</th></tr>
<tr><th rowspan="2">Type</th><th rowspan="2">Amount rated (Rs. crore)</th><th rowspan="2">Amount outstanding as of Aug 2022 (Rs. crore)</th><th colspan="2">Date & rating in FY2023</th><th>Date & rating in FY2022</th><th>Date & rating in FY2021</th><th>Date & rating in FY2020</th></tr>
<tr><th>Nov 03, 2022</th><th>Sep 30, 2022</th><th>-</th><th>-</th><th>-</th></tr>
<tr><td>1 Term loan</td><td>Long term</td><td>3,860.00</td><td>-</td><td>Provisional [ICRA]AAA (Stable)</td><td>Provisional [ICRA]AAA (Stable)</td><td>-</td><td>-</td><td>-</td></tr>
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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: www.icra.in

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	**Term loan**	NA	NA	NA	3,860.00	Provisional [ICRA]AAA (Stable)

Source: Company

[*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.

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

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