

February 03, 2023 (Revised)

Panipat Elevated Corridor Limited: Rating placed on watch with developing implications

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Non-Convertible Debenture (NCD) Programme	70.00	70.00	[ICRA]BBB-; placed on rating watch with developing implications
Total	70.00	70.00	

*Instrument details are provided in Annexure I

Rationale

Larsen & Toubro Limited (L&T, rated [ICRA]AAA (Stable/[ICRA]A1+) has announced divestment of its entire stake in L&T Infrastructure Development Projects Limited (IDPL). The said transaction is subject to completion of customary closing conditions including receipt of applicable regulatory and other approvals. The divestment of IDPL's stake was in line with L&T's earlier guidance of its exit from the build-operate-transfer (BOT) roads segment, following which ICRA has placed the ratings of IDPL on rating watch with developing implication ([link](#)) and subsequently withdrawn ([link](#)). The rating of Panipat Elevated Corridor Limited (PECL) factors in the track record of timely operational and financial support provided by L&T IDPL. ICRA notes that the rated bonds/NCDs of PECL are currently held by IDPL as a part of their treasury operations. Given PECL's dependence on the sponsor group to fund cash flow mismatches, any change in support philosophy (both financial as well as operational support) towards subsidiaries/SPVs, could have a bearing on PECL's credit profile. Consequently, ICRA has placed the rating of PECL on rating watch with developing implications. ICRA will continue to monitor the developments in this regard and evaluate the impact on an ongoing basis.

Owing to farmer agitation, the toll collection on the project stretch was completely stopped from December 2020, which impacted its revenues during FY2021 and FY2022. With resumption in tolling from December 2021 onwards, the toll collection is likely to exceed Rs. 100 crore in FY2023. The average monthly toll collections remained healthy at more than Rs. 8.5 crore per month in 9M FY2023, which is supported by the revision of toll rates effective from July 17, 2022. The rating factors in the importance of the project stretch as a part of the National Highway-44 (NH-44; erstwhile NH-1), with the project serving as a bypass to the congested areas in Panipat. The rating considers the 14-year track record of operations and the extensive experience of the sponsor in operating BOT (toll) road projects.

The rating, however, is constrained by sizeable negative grant payable to the NHAI (Rs. 99.79 crore as on December 31, 2022). The rating is constrained by risks associated with toll road projects, including WPI-linked toll rate revision, which exposes the company to the risk of modest toll rate hikes during periods of low inflation, and the risk of traffic diversion or slowdown in traffic growth.

Key rating drivers and their description

Credit strengths

Wholly-owned subsidiary of L&T IDPL; established track record of financial support from the Group – L&T IDPL is the holding company for road and transmission infrastructure BOT projects of the L&T Group. L&T IDPL Group has substantial technical and management capability and has a healthy financial profile backed by the strong parent, L&T. In addition, Canadian Pension Plan Investment Board (CPPIB) has invested in L&T IDPL and holds 49% as of March 2022. Given PECL's underperformance in the past, L&T IDPL has supported the project by extending inter-corporate deposits (ICD) from L&T IDPL and Group entities. In

the current fiscal, PECL received support of Rs. 40 crore in April 2022, from the sponsor group, to meet shortfall in debt servicing.

Important stretch of NH-44, serving as bypass to congested areas in Panipat city – The project stretch lies on the traffic intensive NH-44 that connects Delhi-Sonipat-Panipat-Karnal-Ambala-Jalandhar. Due to the high traffic density, six laning of the route from Delhi to Panipat was commissioned. The elevated corridor in the project was constructed to remove the traffic bottleneck in Panipat.

Established track record of tolling for 13 years – The project achieved COD in July 2008 and has a track record of tolling for about 13 years. The tolling on the project stretch was completely stopped from December 2020 owing to farmer agitations. The toll collections resumed from December 2021 and are healthy at more than Rs. 8.5 crore per month in 9M FY2023, which is supported by the revision of toll rates effective from July 17, 2022.

Credit challenges

Moderate alternate route risk – The project highway faces some risks of traffic diversion through internal roads. Further, the toll plaza is located at km 94.5 (almost the end of Panipat city), so the traffic from Delhi that is destined to Panipat does not have to cross the toll plaza and only traffic from the Karnal side towards Panipat is tolled. Given this, the toll collections in the project are significantly lower than the initial estimates.

Sizeable negative grant payable to NHAI – As per the terms of the concession agreement (CA), PECL is required to pay a negative grant of Rs. 350.9 crore to the NHAI in annual instalments starting from October 30, 2014 to October 30, 2020. Due to significantly lower-than- estimated toll collection in the project, the company faced shortfall in meeting its committed grant obligations. The shortfall in the past was met by promoter/Group support. Due to farmer's protest and the pandemic, major portion of FY2021 and FY2022 was affected by toll suspension, and the company requested the NHAI for deferment of the negative grant. As on December 31, 2022, the pending negative grant payments to the NHAI stood at Rs. 99.79 crore and expecting a premium payment of Rs. 23 crore for Q4 FY2023. The premium payment is required to be paid off one year prior to the expiry of concession period.

Liquidity position: Stretched

The company has cash and bank balance of Rs. 6.75 crore, which includes a fixed deposit of Rs. 6 crore as on December 31, 2022. The SPV has NCD repayment of Rs. 40 crore on April 15, 2023 and the total debt servicing requirement is around Rs. 47.4 crore including interest. Although the toll collections are healthy at above Rs. 8.5 crore per month, the dependence of the SPV on IDPL will continue in the near term to fund financial exigencies and cash flow mismatches, if any.

Rating sensitivities

Positive factors – The rating watch will be resolved once the transaction gets consummated. However, significant improvement in toll collections resulting in improvement in debt coverage metrics would support the rating upgrade.

Negative factors – The rating watch will be resolved once the transaction gets consummated. Pressure on the rating could arise if there is a material reduction in toll revenues resulting in higher dependence on sponsor and delay in the envisaged funding support or financial support philosophy from the sponsor.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology for BOT (Toll) Roads Rating Approach – Implicit Parent or Group Support
Parent/Group support	Parent/Group Company: L&T IDPL ICRA takes into account the track record of support from L&T IDPL towards PECL and expects continued financial support going forward towards meeting any deficits in servicing of debt obligations as well as the negative grant payable to the NHAI
Consolidation/Standalone	Standalone

About the company

Panipat Elevated Corridor Limited (PECL) is a special purpose vehicle promoted by L&T Infrastructure Development Projects Limited (IDPL). The company was established for strengthening and widening the four-lane road to a six-lane road from km 86 (Delhi side) to km 96 (Karnal side) passing through Panipat city on NH-44 (earlier NH-1) in Haryana, including a six-lane elevated structure of 3.4 km.

The project was awarded by the NHAI to L&T IDPL on BOT basis, with a concession period of 20 years, starting January 2006. It was completed six months in advance and achieved commercial operation date (COD) for the project on July 17, 2008 against the scheduled date of January 22, 2009. The total project cost was Rs. 421.50 crore, which was funded by Rs. 84.30 crore of promoter's equity and Rs. 338.17 crore of senior/subordinate debt in a debt-equity ratio of 4:1. The company subsequently refinanced the debt because of less-than-anticipated toll income and high interest rates. The subordinate bank debt had been replaced by loans from the holding company and the senior bank debt had been replaced by NCDs issued to L&T IDPL.

Key financial indicators

	FY2021	FY2022
Operating income (Rs. crore)	44.7	35.6
PAT (Rs. crore)	-28.2	-42.4
OPBDIT/OI (%)	59.6%	62.0%
PAT/OI (%)	-63.2%	-119.1%
Total outside liabilities/Tangible net worth (times)	-1.5	-1.3
Total debt/OPBDIT (times)	15.1	18.7
Interest coverage (times)	0.8	0.6

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2023)				Chronology of Rating History for the past 3 years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding as on December 31, 2022 (Rs. crore)	Date & Rating in	Date & Rating in FY2023	Date & Rating in FY2022		Date & Rating in FY2021
					February 03, 2023	July 29, 2022	July 30, 2021	January 12, 2021	July 30, 2020
1	NCD	Long-term	70.00	70.00	[ICRA]BBB- &	[ICRA]BBB-(Stable)	[ICRA]BBB-(Stable)	[ICRA]BBB-(Stable)	[ICRA]BBB-(Stable)
2	NCD	Long-term	-	-	-	[ICRA]BBB-(Stable) withdrawn	[ICRA]BBB-(Stable)	[ICRA]BBB-(Stable)	[ICRA]BBB-(Stable)

& - on rating watch with developing implications

Complexity level of the rated instrument

Instrument	Complexity Indicator
NCDs	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 are available on ICRA's website: [Click Here](#)

Annexure I: Instrument details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (RS Crore)	Current Rating and Outlook
INE558N07100	NCD	May-12	10.56%	17-Apr-23	40.00	[ICRA]BBB-; rating watch with developing implications
INE558N07118	NCD	May-12	10.56%	17-Apr-24	30.00	[ICRA]BBB-; rating watch with developing implications

Source: Company

Annexure II: List of entities considered for consolidated analysis

Not applicable

Corrigendum

Document dated February 03, 2023 has been corrected with revisions as detailed below:

The revised version included the link to rating methodology on 'Implicit Parent or Group Support'.

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