

November 08, 2024

NKC Alewa Pandwa Expressway Private Limited: Rating reaffirmed; outlook revised to Positive

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Fund-based – Term loan	364.00	364.00	[ICRA]A-; reaffirmed and outlook revised to Positive from Stable
Total	364.00	364.00	

*Instrument details are provided in Annexure-I

Rationale

The revision in outlook for the long-term rating to Positive for NKC Alewa Pandwa Expressway Private Limited (NAPEPL) favourably factors in the alleviation of project execution risks in the backdrop of advanced stages of physical progress (~92% as of June 2024), with achievement of provisional completion certificate (PCOD) w.e.f. September 25, 2024. The rating notes that the company has received all 10 milestone-based construction grant payments from the National Highway Authority of India (NHAI, rated [ICRA]AAA(Stable)). The first semi-annuity is likely to be received within six months of getting the PCOD, i.e., in March/April 2025. The Positive outlook reflects ICRA's expectations that the company's credit profile will improve with finalisation of completion cost and commencement of annuity payments.

The rating continues to factor in the healthy credit profile of its sponsor, NKC Projects Private Limited (NPPL, rated [ICRA]A (Stable)/ [ICRA]A2+), which is also the engineering, procurement, and construction (EPC) contractor for NAPEPL. ICRA notes that the company refinanced the debt at a lower rate of interest in September 2024, with a top-up loan of Rs. 150 crore. Despite the increase in debt, the cumulative debt service coverage ratio (DSCR) is expected to remain above 1.15 times. The rating derives strength from the inflation-adjusted operation and maintenance (O&M) cost, bid over the term of the concession by the project owner and annuity provider, the NHAI, which has a strong track record and credit profile, leading to lower counterparty credit risk. The annuity receipt is expected to start from the sixth month post commercial operation date (COD), whereas debt repayment will commence from the seventh month post COD, providing a buffer of one month in case of delay in annuity receipt. Additionally, the debt service reserve account (DSRA) up to six months of obligation would be created in a phased manner up to receipt of fourth annuity. The creation of major maintenance reserve (MMR) shall commence upon the receipt of first semi-annual annuity.

The rating, however, remains constrained by the exposure of NAPEPL's cash flows to inflation risks, as O&M receipts, though linked to inflation index (70% WPI and 30% CPI), may not be adequate to compensate for the actual increase in O&M/periodic maintenance expenses. While the project remains exposed to limited residual execution risk, pending project cost is expected to be funded by balance equity (Rs. 6 crore) and undrawn debt. Also, any cost overrun risk is mitigated to an extent by the fixed-price, fixed-time contract with NPPL. ICRA also notes the single-asset nature of the project operations, thereby making the debt metrics of the project sensitive to any deductions in annuity and O&M receipts. Hence, the company will have to undertake O&M of the project stretch as per the concession agreement to avoid any deductions from annuities. Any significant deductions from annuities or increase in routine or major maintenance (MM) from the budgeted level could impact the company's DSCR.

Key rating drivers and their description

Credit strengths

Alleviation of execution risk with achievement of PCOD – NAPEPL received PCOD on September 25, 2024, after completing the partial length of the project, ahead of the scheduled completion in October 2024. It has received all the 10 milestone-

based construction grant payments from the NHAI. Achievement of the final COD remains to be seen, as punch list items are yet to be executed. Consequently, the annuities are expected to be received by NAPEPL w.e.f. from March/April 2025. This reduces the uncertainty related to the annuity timelines. The annuities are likely to be sufficient to meet the debt servicing obligations.

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 is expected to 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 – NAPEPL is expected to maintain healthy debt coverage indicators with a cumulative DSCR above 1.15 times during the debt tenure, despite factoring the top-up debt of Rs. 150 crore likely to be drawn by the company. This provides adequate cushion to withstand any adverse movement in the interest on annuity and inflation to a certain extent. The credit profile is supported by NPPL's undertaking towards cost overruns during the construction phase and any shortfall in O&M expenses. Further, the presence of structural features of the debt, including escrow, cash flow waterfall mechanism, provisions for DSRA (to be created out of the first four annuities) and creation of MMR and restricted payment clause with a minimum DSCR of 1.15 times, provides comfort.

Established track record and financial profile of the sponsor and EPC contractor – NAPEPL 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. The equity mobilisation risk stands mitigated with ~95% equity already infused as of August 31, 2024.

Credit challenges

Project's cash flows and returns exposed to interest rate and inflation risks – 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). Further, NAPEPL'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 – NAPEPL's prospective sources of income shall include annuity, interest on outstanding annuities and the annual O&M payments from the NHAI. Hence, regular, and periodic maintenance of the project's stretch as per the concession agreement is important for receiving full annuity receipts. An increase in expenditure towards regular or periodic maintenance will have a bearing on the DSCR and remains a key credit sensitivity. The SPV shall enter a fixed-price O&M and MM contract with its sponsor, NPPL. NPPL has a track record of around half a decade in the EPC segment and has undertaken multiple projects as a contractor. However, any material deterioration in NPPL's credit profile impacting NAPEPL's ability to undertake maintenance activities will remain a monitorable. Moreover, the O&M and MM assumptions are marginally lower than ICRA's benchmarks, owing to the company's expectations of traffic on the stretch. ICRA in its base case scenario has built-in additional cushion against the company's assumptions. Nonetheless, the timely receipt of annuity payments without any material deductions remains crucial.

Liquidity position: Adequate

NAPEPL's liquidity position is expected to be adequate, supported by timely receipt of annuities, without any major deductions. The expected creation of DSRA from the first four annuity payments (equivalent to six months of P+I), shall further support the liquidity.

Rating sensitivities

Positive factors – The rating could be upgraded upon timely receipt of semi-annuity and O&M payments without any material deductions, while maintaining healthy coverage metrics.

Negative factors – Pressure on the rating could arise, if there are major deductions or delays in the receipt of semi-annual annuities or O&M payments or additional indebtedness resulting in deterioration in coverage metrics. Non-adherence/weakening of debt structure, or any deterioration in the sponsor/guarantor’s credit profile could also exert pressure on the rating.

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

NKC Alewa Pandwa Expressway Private Limited (NAPEPL) is a 100% SPV promoted by NPPL. The SPV was formed on April 6, 2021, for the construction of a four-lane greenfield Delhi-Amritsar-Katra Expressway of Jind-Karnal road (NH-709A) near Alewa village with Ambala-Kaithal-Hissar road (NH-152) near Kharak Pandwa village i.e., 91+400 km to 120+250 km (28.85 km) under the Bharatmala Pariyojna in the state of Haryana under a hybrid annuity mode (HAM). The construction and operations period for the project is two and 15 years, respectively. The concession agreement was signed on June 17, 2021, and the appointed date was Dec 14, 2021.

With healthy pace of execution in FY2024 and YTD FY2025, the project has achieved provisional commercial operations date (PCOD) w.e.f. Sep 25, 2024, and expects to achieve the commercial operations date (COD) within 90 days with completion of the specified punch list items.

Key financial indicators

The key financial indicators are not meaningful as NAPEPL 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	364.00	[ICRA]A-(Positive)	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	Sep 2021	-	FY2039*	364.00	[ICRA]A-(Positive)

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

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

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