

February 07, 2025

NKC Alewa Pandwa Expressway Private Limited: Rating reaffirmed and assigned for enhanced amount

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	514.00	[ICRA]A- (Positive); reaffirmed and assigned for enhanced amount
Total	364.00	514.00	

*Instrument details are provided in Annexure-I

Rationale

The rating reaffirmation for NKC Alewa Pandwa Expressway Private Limited (NAPEPL) favourably factors in the alleviation of project execution risks in the backdrop of completion of punch list items, as stipulated, with the declaration of provisional commercial operations date (PCOD) w.e.f. September 25, 2024, and the independent engineer's (IE's) recommendation of achievement of commercial operations date (COD) w.e.f. December 10, 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 the finalisation of completion cost and commencement of annuity payments.

The rating factors 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 NAPEPL. ICRA notes that the company refinanced the debt at a lower rate of interest in September 2024 (drawn in December 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 likely to start from the sixth month post PCOD, whereas debt repayment will commence from the seventh month post PCOD, 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 the receipt of the fourth annuity. The creation of major maintenance reserve (MMR) shall commence upon the receipt of the 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. ICRA notes that the project witnessed cost overruns owing to delay in execution. Nevertheless, these were adequately and timely funded by unsecured loans from NPPL. ICRA notes the single-asset nature of the project operations, thereby making the debt metrics 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 levels 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 (~95% physical completion) of the project, within 90 days of the revised scheduled commercial operations date (SCOD). It has received all the 10-milestone based construction grant payments from the NHAI. Recently, the IE has recommended the achievement of the final COD w.e.f. December 10, 2024, post the completion of punch list items. 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 scheduled commercial banks (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, even after factoring the top-up debt of Rs. 150 crore, drawn by the company in December 2024. 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 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 1.10 times, provides comfort.

Established track record and financial profile of 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 and had infused adequate funds to support the cost overruns. The equity mobilisation risk stands mitigated with 100% equity already infused as on December 17, 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 SCBs 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 special purpose vehicle (SPV) has entered a fixed-price O&M and MM contract with its sponsor, NPPL. NPPL has a track record of around half a decade in the road 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 will remain crucial.

Liquidity position: Adequate

NAPEPL’s liquidity position is likely 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+) 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’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 constructing the 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). It is a HAM project under Bharatmala Pariyojna, in Haryana. The construction and operations period for the project is 2 years and 15 years, respectively. The concession agreement was signed on June 17, 2021, with the appointed date of December 14, 2021.

With healthy pace of execution in FY2024 and YTD FY2025, the project has achieved provisional commercial operations date (PCOD) w.e.f. September 25, 2024, and COD has been recommended by the IE w.e.f. December 10, 2024, i.e., post completion of the specified punch list items within 90 days of PCOD.

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/refinance 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

Instrument	Type	Current (FY2025)			Chronology of rating history for the past 3 years					
		FY2025			FY2024		FY2023		FY2022	
		Amount rated (Rs. crore)	Feb 07, 2025	Nov 08, 2024	Date	Rating	Date	Rating	Date	Rating
Fund-based – Term loan	Long- term	514.00	[ICRA]A- (Positive)	[ICRA]A- (Positive)	Oct-09- 23	[ICRA]A- (Stable)	Sep-02- 22	[ICRA]A- (Stable)	Feb-25- 22	[ICRA]BBB+ (Stable)

Complexity level of the rated instrument

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*	514.00	[ICRA]A- (Positive)

Source: Company, ICRA Research; *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

ANALYST CONTACTS

Ashish Modani

+91 20 6606 9912

ashish.modani@icraindia.com

Suprio Banerjee

+91 22 6114 3443

supriob@icraindia.com

Ritu Goswami

+91 124 4545 826

ritu.goswami@icraindia.com

Mrinal Jain

+91 124 4545 863

mrinal.j@icraindia.com

RELATIONSHIP CONTACT

L. Shivakumar

+91 22 6114 3406

shivakumar@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

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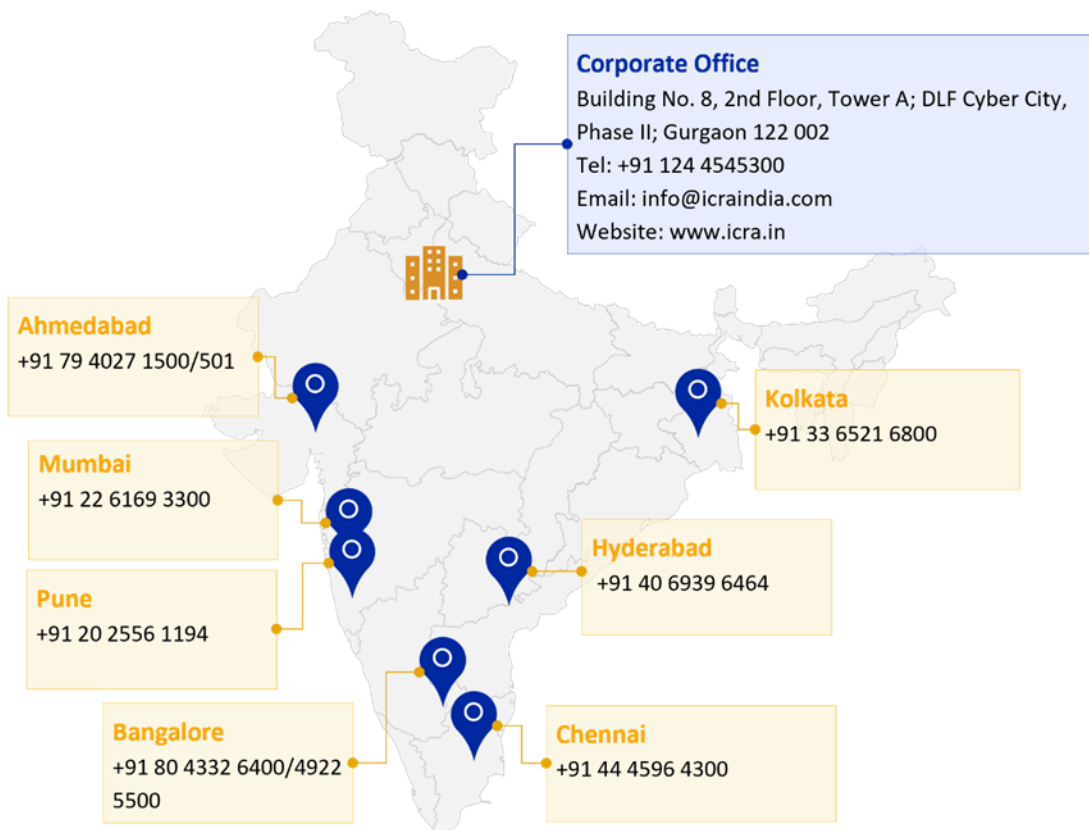
Registered Office

B-710, Statesman House, 148 Barakhamba Road, New Delhi-110001

Tel: +91 11 23357940-45



Branches



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