February 13, 2025

NKC Kashi Highways Private Limited: Rating assigned

Summary of rating action

Instrument*	Current rated amount (Rs. crore)	Rating action
Long-term – Fund-based – Term loan	478.00	[ICRA]A- (Stable); assigned
Long-term – Non-fund based – Bank guarantee	29.82	[ICRA]A- (Stable); assigned
Total	**507.82**	

**Instrument details are provided in Annexure I*

Rationale

The rating assigned for NKC Kashi Highways Private Limited (NKHPL) factors in the nascent stages of execution of the six-lane greenfield highway construction project being undertaken by the company and 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 the project being developed. NPPL, which has a healthy financial profile and execution track record, has provided sponsor undertakings towards cost overruns and any shortfall in operations and maintenance (O&M) expenses for the project. The rating notes the inherent benefits of the hybrid annuity model (HAM)-based project including upfront availability of right of way[1] (ROW), automatic de-scoping of RoW pending beyond 180 days from the appointed date, inflation-linked[2] revisions to the bid project cost (BPC) during the construction period, and relatively lower equity mobilisation risk vis-à-vis BOT toll road projects, with 40% of the BPC to be funded by the authority during the construction period through a grant. The rating positively considers the structural features of the debt, including the presence of escrow, cash flow waterfall mechanism prioritising debt servicing, provision for debt service reserve (DSR, to be created out of the first two annuities), provision for creation of reserve for major maintenance (MMR), and the restricted payment clause with a minimum debt service coverage ratio (DSCR) of 1.10 times. The rating derives comfort from the stable revenue stream after commissioning with 60% of the inflation-adjusted BPC being paid out as annuity, along with interest at the average of one-year MCLR[3] of the top five scheduled commercial banks (SCBs, to be reset every quarter) plus spread of 1.25%, and the inflation-adjusted maintenance cost over the 15-year operations period by the project owner, the National Highways Authority of India [NHAI, rated [ICRA]AAA(Stable)], which is a strong counterparty.

The rating is, however, constrained by the persisting execution risks involved, given the under-construction status of the project, including the time and cost overrun risks. The concession agreement (CA) was signed in June 2023. However, owing to delays in RoW clearances, the appointed date for project was received with effect from November 2024. The project has scheduled commercial operation date (SCOD) of November 24, 2026 and had achieved ~7% physical completion as of January 2025. Its ability to commission the project within the approved timeline and budgeted costs would remain important from credit perspective. ICRA notes that NKHPL has signed a fixed-price and fixed-time EPC contract with its EPC contractor, which largely mitigates risk of time and cost overruns. NKHPL is exposed to equity mobilisation risk as ~45% equity (Rs. 53.4 crore as on January 15, 2025) is yet to be infused. However, NPPL's healthy financial risk profile provides comfort. Following commissioning, O&M of the project stretch will have to be undertaken as per the concession agreement to avoid any deductions from annuities. Any significant deductions from annuities or increase in routine and major maintenance (MM) from the budgeted level could impact the company's DSCR. MGBPL's cash flows are exposed to inflation risk as O&M receipts,

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[1] *At least 80% prior to the appointed date*

[2] *Based on annual change in price index multiple (PMI) from the base year – PMI is the weighted average of Wholesale Price Index (WPI) and Consumer Price Index (CPI) (IW) in the ratio of 70:30*

[3] *The authority shall declare the list of top five SCBs on 1st of September every calendar year based on the balance sheet size as declared in their annual reports. The one-year MCLR of the top five SCBs shall be taken at the start of every quarter.*

though linked to the inflation index (70% WPI and 30% CPI), may not be adequate to compensate for the actual increase in O&M/periodic maintenance expenses.

The Stable outlook on the rating reflects ICRA's opinion that NKHPL will benefit from the strong execution capabilities and financial profile of its sponsor and EPC contractor – NPPL.

Key rating drivers and their description

Credit strengths

Established track record and financial profile of the sponsor and EPC contractor – NKHPL is a wholly-owned 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. Despite nascent stages of project development, NPPL had infused ~55% of total equity requirement up to January 15, 2025.

Inherent benefits of HAM projects from NHAI – The inherent benefits in the NHAI's HAM projects include upfront availability of majority (minimum 80-90%) RoW, de-scoping of RoW pending beyond 180 days from the appointed date, inflation-linked revisions to the BPC during the construction period and relatively low equity mobilisation risk with 40% of the BPC to be funded by the authority during the construction period through a grant. The project will have a stable revenue stream after 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 MCLRs 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.

Comfortable coverage indicators and presence of structural features – The project is scheduled to achieve the COD by November 2026 (within two years from the appointed date). If the overall project cost remains within the budgeted level, once operational, NKHPL is likely to have comfortable debt coverage indicators with a cumulative DSCR of over 1.2 times. This provides adequate cushion to withstand any adverse movement in the interest on annuity and inflation to a major 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 the presence of escrow, cash flow waterfall mechanism, provisions for DSR (to be created out of the first two annuities) and for creation of MMR along with restricted payment clause with a minimum DSCR of 1.10 times, provides comfort.

Credit challenges

Execution risk related to under-construction nature of the project – The project achieved the appointed date of November 25, 2024 and had achieved a physical progress of ~7% as of January 2025. Given the nascent stages of development, the company continues to be exposed to project execution risks including risks of delays and cost overruns. However, the risk is mitigated, to an extent, by the fixed-price, fixed-time EPC contract with NPPL and the latter's strong project execution capabilities. Its ability to commission the project in a timely manner and within the budgeted costs would remain important from a credit perspective.

Project's cash flows and returns exposed to inflation risks – The project's cash flows are exposed to inflation risk as O&M receipts, though linked to inflation (70% WPI and 30% CPI), may not be adequate to compensate for the increase in O&M/periodic maintenance expenses. Further, NKHPL'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 MCLRs 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).

Undertaking O&M as per concession requirement and risk of deductions from annuity – After commissioning, O&M of the project stretch will have to be undertaken as per the concession agreement to avoid any deductions from annuities. Any significant deductions from annuities or an increase in routine and MM expenses from the budgeted level could impact its debt servicing capabilities.

Liquidity position: Adequate

As the project is under construction, the company does not maintain any significant liquidity on its books. However, its liquidity position is supported by undrawn sanctioned term loan, grants receivable from the NHAI and the balance equity infusion from NPPL. The total estimated project cost of Rs. 1,066.7 crore (comprises EPC cost inclusive of GST) is planned to be funded by the NHAI's grant of Rs. 469.2 crore (including GST), external debt of Rs. 478.0 crore and promoter's contribution/equity of Rs. 119.5 crore.

Rating sensitivities

Positive factors – The rating could be upgraded, if the project achieves PCOD/COD within the expected timelines and budgeted costs.

Negative factors – Pressure on the rating could arise, if project progress is delayed, resulting in significant time and cost overruns, or if there is a deterioration in the sponsor's credit profile, or if delayed receipt of grant or equity infusion results in increased funding risks for the project.

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 Kashi Highways Private Limited (NKHPL) is a special purpose vehicle (SPV) promoted and wholly owned by NPPL. The SPV was formed in April 2023 for construction of package-1 of six-lane greenfield Varanasi-Ranchi-Kolkata highway from junction with NH-19 & Varanasi Ring Road near Rewasa village to junction with Chandauli-Cainpur road near Khainti village (from 0.00 km to 27.00 km) under Bharatmala Pariyojana in Uttar Pradesh and Bihar on hybrid annuity mode (HAM), for the National Highways Authority of India (NHAI). The concession agreement (CA) was signed on June 30, 2023, and the appointed date of November 25, 2024, was declared by the NHAI.

Key financial indicators (audited)

Key financial indicators are not applicable as NKHPL 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	Current (FY2025)			Chronology of rating history for the past 3 years					
				FY2024		FY2023		FY2022	
	Type	Amount rated (Rs. crore)	Feb 13, 2025	Date	Rating	Date	Rating	Date	Rating
Term loan	Long-term	478.00	[ICRA]A- (Stable)	-	-	-	-	-	-
Bank guarantee	Long-term	29.82	[ICRA]A- (Stable)	-	-	-	-	-	-

Complexity level of the rated instruments

Instrument	Complexity indicator
Long-term – Fund-based – Term loan	Simple
Long-term – Non-fund based – Bank guarantee	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	Instrument name	Date of issuance	Coupon rate	Maturity	Amount rated (Rs. crore)	Current rating and outlook
NA	**Term loan**	FY2025	NA	FY2041*	478.00	[ICRA]A- (Stable)
NA	**Bank Guarantee**	NA	NA	NA	29.82	[ICRA]A- (Stable)

*Source: Company, ICRA Research; *May undergo a change as it will be linked to actual COD/PCOD 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

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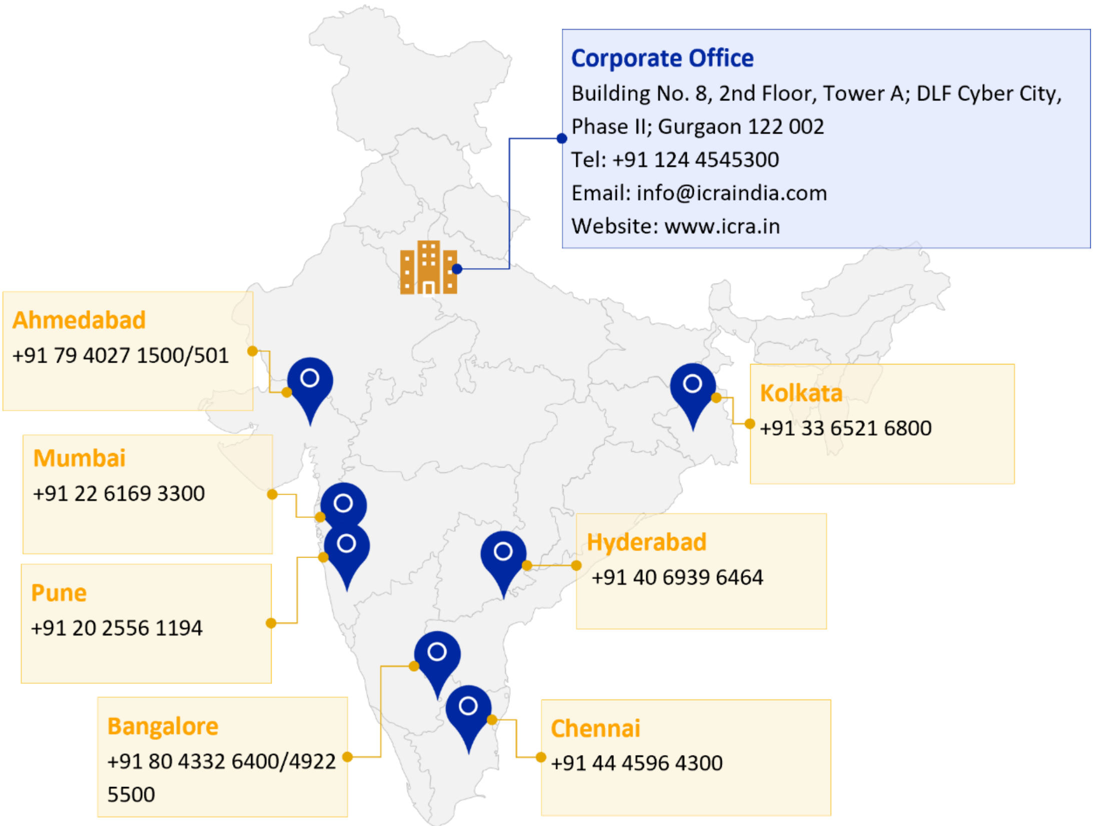

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