October 25, 2017

Panipat Elevated Corridor Limited

Summary of rated instruments

Instrument	Amount	Rating Action
	Rs Crore	
Non Convertible Debentures	190.0 (reduced from 235.0)	[ICRA]BBB- (Stable); reaffirmed

* Instrument Details are provided in Annexure I

Rating Action

ICRA has reaffirmed the long term rating on the Rs. 190.0 crore NCD programme of Panipat Elevated Corridor Limited (PECL / erstwhile L&T Panipat Elevated Corridor Limited / "the company")[1] at [ICRA]BBB- (pronounced ICRA triple B minus). The outlook on the rating is Stable.

Rationale

The rating reaffirmation reflects the longstanding experience of the promoter group in operating BOT toll road projects; and, the importance of the route as it is part of NH-1. The rating continues to be supported by ICRA's expectations of continued financial support from the L&T IDPL (rated [ICRA]AA / [ICRA]AA+(S) / [ICRA]A1+) group going forward towards meeting any deficits in servicing of its debt obligations as well as the substantial negative grant (~Rs. 350 crore) payable to National Highway Authority of India (NHAI). The promoter group has demonstrated such support in the past through the refinancing of its bank debt at lower interest rates with replacement of bank loans by non convertible debentures (subscribed by L&T IDPL) and subordinate debt from L&T IDPL. The rating is, however, constrained by the significant negative variation in the actual traffic levels as compared to the company's initial estimates, owing to the general economic slowdown and the diversion of traffic through alternate routes.

Key Rating Drivers

Credit Strengths

- **Wholly owned subsidiary of the L&T IDPL Group:** L&T Infrastructure Development Projects Limited is the holding company for long gestation infrastructure BOT projects of the L&T group and currently manages 15 road projects and a transmission line project. The group has substantial technical and management capability and currently has a healthy financial profile backed by fund infusions from the shareholders: L&T (rated [ICRA]AAA (Stable) /[ICRA]A1+) and Canadian Pension Plan Investment Board (CPPIB)
  Given the underperformance, L&T IDPL has continuously supported the project by refinancing bank debt with cheaper funds in the form of unsecured loans, and secured NCDs. ICRA expects future shortfalls also to be supported by the group in a timely manner.
- **Important stretch of National Highway-1, serving as a bypass to the congested areas in Panipat city:** The project stretch lies on traffic intensive NH-1 connecting Delhi-Sonipat-Panipat-Karnal-Ambala-Jalandhar-Amritsar. Due to high traffic density, six laning of the route from Delhi to Panipat has already been completed. The elevated corridor developed in this project has been constructed to remove the bottleneck for the through traffic owing to high traffic within Panipat city.

[1] For complete rating scale and definitions, please refer to ICRA's Website, www.icra.in, or any of the ICRA Rating Publications

- **Established track record of smooth operations for close to ten years:** The project declared COD in the year 2008 and has been tolling for more than nine years currently. The O&M costs have been within budgeted levels due to the experience of L&T IDPL in operating such stretches.

Credit Weakness

- **Continuing negative deviation between initially forecasted and actual traffic volume:** The project highway faces some risks of traffic diversion through internal roads as well as through Gohana road for traffic plying between Karnal and Rohtak. Further, the toll plaza is located at km 94.5 (almost the end of Panipat city) so the traffic coming from Delhi and destined to Panipat will not have to cross the toll plaza whereas the entire pass-through traffic and traffic coming from Karnal side towards Panipat is being tolled. The underperformance was also been higher due to the non-completion of the construction in the adjacent stretch from Panipat to Jalandhar; however, this stretch is now complete and hence the volumes are expected to increase going forward.
- **Significant negative grant of Rs. 350.9 crores to be paid to NHAI:** The project was won by L&T IDPL group quoting a negative grant of Rs 351 crore to be paid starting from FY2016. This is a heavy burden on the projects financials; the project will require refinancing in the years FY19-FY21 with significant negative grants payable in these years.
- **Lower toll rate hikes due to low inflation scenario:** Increase in toll rates is linked to increases in WPI; hence the toll rate hikes in the past two years have been lower than projected. in case of a continued low inflation scenario, PECL would face higher shortfalls due to modest hike in toll rates

Analytical approach:

Links to applicable criteria

[ICRA's Approach to Rating BOT Toll Road projects in India]

About the Company

Panipat Elevated Corridor Limited (PECL) is a Special Purpose Vehicle promoted by L&T Infrastructure Development Projects Limited (IDPL) for the strengthening and widening of existing 4 lane to 6 lane road from km 86 (Delhi side) to 96 (Karnal side) passing through Panipat city on National Highway Number - 1 (NH-1) in Haryana including 6 lane elevated structure. IDPL, a subsidiary company of Larsen & Toubro Limited (86.49% stake in IDPL), is the holding company of PECL and various other infrastructure projects being developed by L&T under public private partnership (PPP) model.

The project was awarded by National Highway Authority of India (NHAI) to L&T IDPL on Build-Operate-Transfer (BOT) basis, with a concession period of 20 years starting January 2006. The project was completed six months in advance and it achieved the Commercial Operation Date (COD) for the project on 17th July 2008 as against the scheduled date of 22nd January 2009. The total project cost was Rs. 421.50 crore, which was funded by equity of Rs. 84.30 crore of promoter's equity, Rs. 338.17 crore of senior/subordinate debt – i.e., a debt-equity ratio of 4:1. The company subsequently refinanced the debt owing to less than anticipated toll income coupled with high interest rates. The senior bank debt has been replaced by NCDs issued to L&T IDPL.

Key Financial Indicators (Audited)

	FY2016	FY2017
Operating Income (Rs. crore)	62.2	59.6
PAT (Rs. crore)	-39.6	-37.8
OPBDIT/ OI (%)	72.6%	71.7%
RoCE (%)	31.4%	104.2%
Total Debt/ TNW (times)	-2.05	-1.90
Total Debt/ OPBDIT (times)	11.24	10.63
Interest coverage (times)	0.82	0.83

Source: Audited IndAs financials of the company. OI: Operating Income; PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; ROCE: PBIT/Avg (Total Debt + Tangible Net-Worth + Deferred Tax Liability - Capital Work - in Progress);

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating History for last three years:
Table: Rating History

S.No	Name of Instrument	Current Rating			Chronology of Rating History for the past 3 years		
		Type	Rated amount (Rs. Crores)	Month-year & Rating	Month- year & Rating in FY2017	Month- year & Rating in FY2016	Month- year & Rating in FY2015
				October 2017	-	January 2016	August 2014
1	Non Convertible Debentures	Long Term	190.0	[ICRA] BBB- (Stable)	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)

Complexity level of the rated instrument:
ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1

Details of Instrument

ISIN	Name of the instrument	Date of issuance	Coupon rate	Maturity Date	Size of the issue (Rs. Cr)	Current Rating and Outlook
INE558N07050	NCDs	Jun 2012	10.56%	Apr 2024	190.0	[ICRA]BBB- (Stable)

Source:Company

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