

November 21, 2022

NCR Eastern Peripheral Expressway Private Limited: Provisional rating finalised

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term - Fund-based – Term loan	3,860.00	3,860.00	[ICRA]AAA (Stable); Provisional rating finalised
Total	3,860.00	3,860.00	

*Instrument details are provided in Annexure-1

Rationale

ICRA has confirmed the provisional rating of [ICRA]AAA (Stable) assigned to the Rs. 3,860.00 crore term loan of NCR Eastern Peripheral Expressway Private Limited (NCREPE). NCREPE has shared the executed financing document, which is in line with the initial rating conditions. Further, NCREPE has also paid the concession fee to NHAI and received communication pertaining to the occurrence of Appointed Date. Consequently, the provisional rating has been confirmed as final.

The rating of NCREPE reflects favourable location and operational nature of its road asset with a tolling track record of four years under the Toll, Operate and Transfer (TOT) concession from the National Highways Authority of India (NHAI). Eastern Peripheral Expressway (National Expressway 2) is a six-lane wide expressway passing through Haryana and Uttar Pradesh. Along with the Western Peripheral Expressway, it forms part the largest ring road around Delhi NCR. The expressway helps in easing traffic congestion in the Faridabad – Ghaziabad stretch and prevents commercial vehicles entering Delhi, thereby reducing the pollution concentration. There are nine highways that acts as a feeder for traffic to the Eastern Expressway thereby reducing dependency on limited source for traffic; also, short haul traffic having trip lengths of less than 200 km dominates the project stretch thereby providing sticky nature of traffic. Further, the expressway is also being connected to the Yamuna Expressway, which is expected to be completed by FY2025. Additionally, there are plans to connect the expressway to the Jewar International Airport, that would further add to the traffic in the long term. The Project stretch has a closed loop tolling system in which toll is collected only for the distance travelled, and not for the entire length. Also, toll is collected only on the exit toll plazas, thus protecting toll leakages. The stretch witnessed a healthy CAGR of 21.6% in toll revenues during the last four years, based on the toll revenues from August 2018 (Rs. 15.8 crore) to August 2022 (Rs. 34.5 crore). The toll revenue growth was modest in the initial years of operation. The company witnessed a reduction in traffic in FY2021 on account of the Covid-19 pandemic-led lockdown, as tolling was suspended from March 26, 2020. It registered a toll collection of Rs. 364 crore in FY2022 with average per day toll collection of Rs. 1.0 crore. The same has improved to an average daily collection of Rs. 1.15 crore for Q1 FY2023, driven by toll rate increase of ~8.7% and traffic growth of ~5.5%. Toll collections stood at Rs. 33.4 crore and Rs. 35.58 crore for September 2022 and October 2022, respectively. The rating takes comfort from NCREPE's healthy projected debt service cover with cumulative DSCR of above 1.70 times as per ICRA's base case estimates (includes Rs. 197 crore of top-up for first major maintenance or MM), supported by healthy toll collections and long debt amortisation tenure, along with the flexibility arising out of the three-year tail period. The rating draws support from structural features - debt service reserve account (DSRA) equivalent to three months of debt obligation, escrow mechanism, and cashflow waterfall. Further, the company will maintain a major maintenance reserve account (MMRA) from FY2029 onwards. ICRA notes that NCREPE has paid the consideration to NHAI and subsequently, the appointed date has been received as November 11, 2022.

The rating also draws strength from the strong linkages and strategic importance for Indian Highway Concessions Trust (IHCT, rated [ICRA]AAA (Stable)), an infrastructure investment trust (InvIT) sponsored by Maple Highways Pte Ltd, an affiliate of Caisse de depot et placement du Quebec (CDPQ, rated by Moody's Investors Service at Aaa, Stable), to house operational road assets in India. ICRA notes that NCREPE is the largest asset in IHCT InvIT accounting for 50% of Cash Flow After Debt Servicing (CFADS)

and 68% of enterprise value¹ at the InvIT level. Moreover, IHCT's commitment towards NCREPE is also reflected in the proposed shortfall undertaking given by IHCT to lenders of NCREPE, wherein IHCT shall make adequate funds available three business days prior to the debt due date (subject to the terms mentioned in the financing documents), in NCREPE's Debt Service Payment Account to meet the scheduled debt servicing obligations in case of shortfall

Despite the importance of the project stretch, low alternative route risk and willingness of the users to pay toll, the project remains exposed to the risks inherent in toll road projects, including risks of development/improvement of alternative routes/modes of transportation (like Eastern DFC, Meerut RRTS and Alwar RRTS), moderation in traffic growth rates, or lower-than-anticipated WPI leading to lower toll collections which could weaken the project's coverage metrics. ICRA, in its base case assumptions, has factored in some shift in traffic due to other modes of transportation. Any higher-than-anticipated level will be a key monitorable. NCREPE's cash flows are also exposed to interest rate risk, considering the floating interest rates of the project loan. NCREPE has appointed Egis India as an operations and maintenance (O&M) contractor. In absence of a pre-defined MM schedule in the Concession Agreement, periodic maintenance is required on need basis, which may result in a volatility in operating expenses. The project stretch is based on rigid pavement which generally do not require a large-scale major maintenance unlike a flexible pavement road. Undertaking routine and periodic maintenance within the budgeted costs would remain important. In this regard, ICRA has taken comfort from the projected strong cash flows and significant cushion built in the cost estimates for undertaking the O&M and MM expenditure.

The Stable outlook on the [ICRA]AAA rating reflects ICRA's opinion that NCREPE will continue to benefit from the importance of the project stretch, robust cash flows and strong linkages and strategic importance for IHCT.

Key rating drivers and their description

Credit strengths

Operational asset with favourable location – The company's project stretch has been operational since the last four years. Eastern Peripheral Expressway (National Expressway 2) is a 6-lane wide expressway passing through Haryana and Uttar Pradesh. Along with the Western Peripheral Expressway, it forms part the largest ring road around Delhi NCR. The expressway helps in easing traffic congestion in the Faridabad – Ghaziabad stretch and further, preventing commercial vehicles entering Delhi, thereby, reducing the pollution concentration. There are nine highways that acts as a feeder for traffic to the Eastern Expressway thereby reducing dependency on limited source for traffic; also, short haul traffic having trip lengths of less than 200 km dominates the project stretch thereby providing sticky nature of traffic. Further, the expressway is also being connected to the Yamuna Expressway, which is expected to be completed by FY2025. Additionally, there are plans to connect the expressway to the Jewar International Airport, among others that would further add to the traffic in the long term. The Project stretch has a closed loop tolling system in which toll is collected only for the distance travelled, and not for the entire length. Also, toll is collected only on the exit toll plazas, thus protecting toll leakages. The stretch witnessed a healthy CAGR of 21.6% in toll revenue during the last four years, based on the toll revenues from August 2018 (Rs.15.8 crore) to August 2022 (Rs.34.5 crore). The toll revenue growth was modest in the initial years of operation. The company witnessed a reduction in traffic in FY2021 on account of the Covid-19 pandemic-led lockdown as tolling was suspended from March 26, 2020. The company registered a toll collection of Rs. 364 crore in FY2022 with the average per day toll collection of Rs. 1.0 crore. The same has improved to an average daily collection of Rs. 1.15 crore for Q1 FY2023, driven by toll rate increase of ~8.7% and traffic growth of ~5.5%.

Strong parentage, healthy debt service cover, presence of tail period and part of InvIT structure provides financial flexibility – The rating factors in NCREPE's healthy projected debt service cover with cumulative DSCR of above 1.70 times as per ICRA's base case estimates (includes Rs. 197 crore of top-up for first MM), supported by healthy toll collections and long debt amortisation tenure, along with the flexibility arising out of the three-year tail period. NCREPE is a wholly-owned subsidiary of IHCT, an InvIT sponsored by Maple Highways Pte Ltd, an affiliate of CDPQ, to house operational road assets in India. Moreover,

¹ As per company's estimates

IHCT’s commitment towards NCREPE is also reflected in its proposed shortfall undertaking to lenders of NCREPE, wherein IHCT shall make adequate funds available three business days prior to the debt due date (subject to the terms mentioned in the financing documents), in NCREPE’s Debt Service Payment Account to meet the scheduled debt servicing obligation in case of shortfall.

Presence of structural features – Structural features such as DSRA equivalent to the ensuing three months of debt obligation and a well-defined escrow mechanism provide credit support to the term loan. Further, the company will maintain an MMRA from FY2029 onwards.

Credit challenges

Project cash flows sensitive to traffic growth and interest rates – Despite the importance of the project stretch, low alternative route risk and willingness of the users to pay toll, the project remains exposed to the risks inherent in BOT (toll) road projects, including risks of development/improvement of alternative routes/modes of transportation (like Eastern DFC, Meerut RRTS and Alwar RRTS). Any moderation in traffic growth rates or WPI from the anticipated levels could weaken the project’s coverage metrics. NCREPE’s cash flows are also exposed to interest rate risk, considering the floating interest rates of the project loan.

Ensuring routine and periodic maintenance expenses within budgeted levels – NEPEL has appointed Egis India as an O&M contractor. In the absence of a pre-defined major maintenance schedule in the Concession Agreement, periodic maintenance is required on need basis, which may result in a volatility in operating expenses. The project stretch is based on rigid pavement which generally do not require a large-scale major maintenance unlike a flexible pavement road. Undertaking routine and periodic maintenance within the budgeted costs would remain important. In this regard, ICRA has taken comfort from the strong estimated cash flow and significant cushion built in the cost estimates for undertaking the O&M and MM expenditure.

Liquidity position: Adequate

The liquidity position is expected to be adequate with sufficient toll collections to meet the operational expenses and debt servicing requirement. The company is anticipated to have a funded debt service reserve (equivalent to three months of principal + interest obligations). The annual principal debt repayment is estimated at Rs. 3.9 crore, Rs. 19.3 crore and Rs. 38.6 crore for FY2023, FY2024, FY2025, respectively, which is expected to be comfortably serviced from the operational cash flows.

Rating sensitivities

Positive factors – Not Applicable.

Negative factors – Downward pressure on the rating could emerge if there is a significant decline in traffic, leading to reduction in the toll collections and impacting the coverage indicators. The rating may also be revised downwards if the regular O&M and major maintenance expenditure is significantly above the budgeted costs. The specific metrics for the rating downgrade would be cumulative DSCR falling below 1.6 times.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology for BOT (Toll) Roads Impact of Parent or Group Support on an Issuer’s Credit Rating
Parent/Group support	Parent: Indian Highway Concessions Trust (IHCT) ICRA expects NCREPE’s parent, IHCT (rated [ICRA]AAA (Stable)), to be willing to extend financial support to NCREPE given the strategic importance that NCREPE holds for IHCT. ICRA

Analytical Approach	Comments
	also expects IHCT to be willing to extend financial support to NCREPE out of its need to protect its reputation from the consequences of a group entity's distress.
Consolidation/Standalone	Standalone

About the company

NCR Eastern Peripheral Expressway Private Limited (NEPEPE), a special purpose vehicle (SPV) incorporated by Indian Highways Concession Trust (IHCT, an InvIT sponsored by Maple Highways Pte Ltd, an affiliate of CDPQ (rated by Moody's Investors Service at Aaa, Stable)) has been set up for operating the 135 km six-lane expressway spread across Haryana and Uttar Pradesh. The project has been awarded by the NHAI under TOT Bundle 7 project. The construction of the stretch got completed in June 2018 and the stretch has been operational since then. NCREPE will have a concession period for 20 years for tolling and O&M of the Eastern Peripheral Expressway from the appointed date of November 11, 2022. NCREPE has paid the requisite upfront concession fees to the NHAI for acquiring the toll collection rights.

Key financial indicators (audited)

NCR Eastern Peripheral Expressway Private Limited is a newly incorporate entity hence not applicable.

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Type	Amount rated (Rs. crore)	Amount outstanding as of Nov 11, 2022 (Rs. crore)	Current rating (FY2023)			Chronology of rating history for the past 3 years		
				Date & rating in FY2023			Date & rating in FY2022	Date & rating in FY2021	Date & rating in FY2020
				Nov 21, 2022	Nov 03, 2022	Sep 30, 2022	-	-	-
1	Term loan	3,860.00	3,860.00	[ICRA]AAA (Stable)	Provisional [ICRA]AAA (Stable)	Provisional [ICRA]AAA (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	NA	NA	NA	3,860.00	[ICRA]AAA (Stable)

Source: Company

[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

Rajeshwar Burla
+91 40 4067 6527
rajeshwar.burla@icraindia.com

Abhishek Gupta
+91 12 4454 5863
abhishek.guptai@icraindia.com

Mrinal Jain
+91 124 4545845
mrinal.jain@icraindia.com

Ashish Modani
+91 22 6114 3414
ashish.modani@icraindia.com

Rohit Agarwal
+91 22 6169 3329
rohit.agarwal@icraindia.com

RELATIONSHIP CONTACT

Jayanta Chatterjee
+91 80 4332 6401
jayantac@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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For more information, visit www.icra.in

ICRA Limited



Registered Office

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

Tel: +91 11 23357940-45



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