

February 27, 2024

## Panipat Elevated Corridor Limited: Continues on Rating Watch with Developing Implications

### Summary of rating action

| Instrument*                               | Previous Rated Amount<br>(Rs. crore) | Current Rated Amount<br>(Rs. crore) | Rating Action                                                                    |
|-------------------------------------------|--------------------------------------|-------------------------------------|----------------------------------------------------------------------------------|
| Non-convertible debenture (NCD) programme | 30.00                                | 30.00                               | [ICRA]BBB-; Continues on Rating Watch with Developing Implications               |
| Non-convertible debenture (NCD) programme | 40.00                                | -                                   | [ICRA]BBB-; Continues on Rating Watch with Developing Implications and withdrawn |
| <b>Total</b>                              | <b>70.00</b>                         | <b>30.00</b>                        |                                                                                  |

\*Instrument details are provided in Annexure I

### Rationale

The rating for Panipat Elevated Corridor Limited (PECL) continues to be on Watch with Developing Implications following Larsen & Toubro Limited's (L&T, rated [ICRA]A1+) announcement of divesting its entire stake in L&T Infrastructure Development Projects Limited (IDPL), which is the parent entity of PECL. The transaction is subject to completion of customary closing conditions including receipt of applicable regulatory and other approvals. The rating factors in the track record of timely operational and financial support provided by IDPL. Given PECL's dependence on the sponsor group to fund cash flow mismatches, any change in support philosophy (both financial as well as operational support) towards its subsidiaries, could have a bearing on PECL's credit profile. ICRA will continue to monitor the developments in this regard and evaluate the impact on an ongoing basis. ICRA notes that the rated NCDs of PECL are currently held by IDPL as a part of their treasury operations.

The rating favourably factors in PECL's improved operational performance with toll collections improving to Rs. 105.75 crore in FY2023 post the resumption of tolling from December 2021. The toll collections are expected to remain at around Rs. 105 crore in FY2024 owing to the adverse impact of farmers' agitation on toll collections starting from February 2024. Since the start of the farmers' agitation, the average daily toll collections declined by around 30%. The extent of the impact on toll collections remains a key rating monitorable. The rating notes in the importance of the project stretch as a part of the National Highway-44 (NH-44; erstwhile NH-1), with the project serving as a bypass to the congested areas in Panipat. The rating considers the track record of more than 15 years of operations and the extensive experience of the sponsor in operating BOT (toll) road projects.

The rating, however, is constrained by risks associated with toll road projects, including traffic growth, inflation-linked toll rate increase, users' willingness to accept toll rate hikes, as well as regulatory risks and timely implementation of rate hikes. Further, the project highway faces risk of traffic diversion through internal roads. In addition, the traffic from Delhi that is destined to Panipat does not have to cross the toll plaza, resulting in a significantly lower than the initial toll collection estimates. The project stretch witnessed YoY degrowth of around 3% in the first five months of FY2024 with commencement of Trans Haryana Expressway (NH-152 D) in August 2022. However, the traffic has stabilised with average toll collections of Rs. 9.32 crore per month over the past six months (August 2023 to January 2024). The rating is constrained by sizeable negative grant payable including interest (Rs. 68 crore as on January 31, 2024) to the authority, National Highway Authority of India (NHAI, rated [ICRA] AAA (Stable)). However, the presence of the provision to clear the outstanding liabilities one year before the concession period mitigates the risk to an extent.

The rating has been withdrawn for the Rs. 40 crore non-convertible debenture (NCD) programme (ISIN - INE558N07100) of PECL as the debenture has been redeemed in full and there are no dues outstanding against the same.

## Key rating drivers and their description

### Credit strengths

**Important stretch of NH-44, serving as bypass to congested areas in Panipat city** – The project stretch lies on the traffic intensive NH-44 connecting Delhi-Sonipat-Panipat-Karnal-Ambala-Jalandhar. Due to the high traffic density and traffic bottleneck in Panipat, the elevated corridor in the project was constructed.

**Established track record of more than 15 years of tolling** – The project achieved commercial operations date (COD) in July 2008 and has a track record of tolling of more than 15 years. The tolling on the project stretch was completely stopped from December 2020 owing to farmers' agitations. The toll collections resumed from December 2021 and witnessed a healthy average monthly collection of Rs. 8.81 crore in FY2023, which improved to around Rs. 9.2 crore in 10M FY2024.

**Wholly-owned subsidiary of IDPL; established track record of financial support from the Group for operational and debt servicing requirements** – IDPL is the holding company for road and transmission infrastructure BOT projects of the L&T Group. The IDPL Group has substantial technical and management capability and has a healthy financial profile, backed by the strong parent, L&T. Given PECL's underperformance in the past, IDPL has supported the project by extending inter-corporate deposits (ICD) from IDPL and its Group entities. PECL received support of Rs. 40 crore in April 2022 and Rs. 45 crore in April 2023 from the sponsor group, to meet the shortfall in debt servicing. ICRA expects the timely funding support to continue going forward as well in case of any financial exigencies.

### Credit challenges

**Moderate alternative route risk** – The project highway faces risk of traffic diversion through internal roads. Further, the toll plaza is located at km 94.5 (almost the end of Panipat city), so the traffic from Delhi that is destined to Panipat does not have to cross the toll plaza and only traffic from the Karnal side towards Panipat is tolled. Given this, the toll collections in the project are significantly lower than the initial estimates. The project stretch witnessed traffic diversion in the recent past with commencement of Trans Haryana Expressway (NH-152 D) in August 2022. However, the traffic has stabilised with average toll collections of Rs. 9.32 crore over the past six months.

**Sizeable negative grant payable to NHAI** – As per the terms of the concession agreement (CA), PECL is required to pay a negative grant of Rs. 350.9 crore to the NHAI in annual instalments starting from October 30, 2014 to October 30, 2020. Due to significantly lower-than-estimated toll collection in the project, the company faced shortfall in meeting its committed grant obligations. The shortfall in the past was met by promoter/Group support. Due to farmers' protest and the pandemic, major portion of FY2021 and FY2022 was affected by toll suspension, and the company requested the NHAI for deferment of the negative grant. The pending negative grant payments to the NHAI stood at Rs. 68 crore (including interest) as on January 31, 2024. The premium payment is required to be paid off one year prior to the expiry of the concession period. Further, extension of concession period for 350 days (received as compensation for the loss of operating days due to farmers' agitation and pandemic) provides comfort and eases the company's liquidity position to an extent.

### Liquidity position: Stretched

The company has cash and bank balances of Rs. 8 crore as on February 19, 2024. The special purpose vehicle (SPV) has NCD repayment of Rs. 30 crore and the total debt servicing requirement is around Rs. 33.2 crore including interest on April 15, 2024. The SPV will remain dependent on IDPL to meet the debt repayment obligations in a timely manner, as its own cash flows from operations are likely to remain inadequate. The support is expected to be received in a timely manner as witnessed in the past.

## Rating sensitivities

**Positive factors** – The rating watch will be resolved once the transaction gets consummated. However, significant improvement in toll collections resulting in improvement in debt coverage metrics would support the rating upgrade.

**Negative factors** – The rating watch will be resolved once the transaction gets consummated. Pressure on the rating could arise if there is a material reduction in toll revenues resulting in higher dependence on sponsor and delay in the envisaged funding support or financial support philosophy from the sponsor.

## Analytical approach

| Analytical Approach             | Comments                                                                                                                                                                                                                                                                                |
|---------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Applicable rating methodologies | <a href="#">Corporate Credit Rating Methodology</a><br><a href="#">Rating Methodology- BOT (Toll) Roads Projects</a><br><a href="#">Policy on withdrawal of Credit Ratings</a>                                                                                                          |
| Parent/Group support            | Parent/Group Company: L&T IDPL<br>ICRA takes into account the track record of support from L&T IDPL towards PECL and expects continued financial support going forward towards meeting any deficits in servicing of debt obligations as well as the negative grant payable to the NHAI. |
| Consolidation/Standalone        | Standalone                                                                                                                                                                                                                                                                              |

## About the company

Panipat Elevated Corridor Limited (PECL) is an SPV promoted by L&T Infrastructure Development Projects Limited (IDPL). The company was established for strengthening and widening the four-lane road to a six-lane road from km 86 (Delhi side) to km 96 (Karnal side) passing through Panipat city on NH-44 (earlier NH-1) in Haryana, including a six-lane elevated structure of 3.4 km.

The project was awarded by the NHAI to L&T IDPL on BOT basis, with a concession period of 20 years, starting January 2006. It was completed six months in advance and achieved commercial operation date (COD) on July 17, 2008 against the scheduled date of January 22, 2009. The total project cost was Rs. 421.50 crore, which was funded by Rs. 84.30 crore of promoter's equity and Rs. 338.17 crore of senior/subordinate debt in a debt-equity ratio of 4:1. The company subsequently refinanced the debt because of less-than-anticipated toll income and high interest rates. The subordinate bank debt had been replaced by loans from the holding company and the senior bank debt had been replaced by NCDs issued to L&T IDPL.

## Key financial indicators

|                                                      | FY2022  | FY2023 |
|------------------------------------------------------|---------|--------|
| Operating income (Rs. crore)                         | 35.6    | 105.4  |
| PAT (Rs. crore)                                      | -40.8   | 40.3   |
| OPBDITA/OI (%)                                       | 62.0%   | 86.9%  |
| PAT/OI (%)                                           | -114.6% | 38.3%  |
| Total outside liabilities/Tangible net worth (times) | -1.3    | -1.3   |
| Total debt/OPBDIT (times)                            | 18.7    | 3.7    |
| Interest coverage (times)                            | 0.6     | 4.0    |

Source: Annual Report, ICRA Research; PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation

## Status of non-cooperation with previous CRA: Not applicable

## Any other information:

The company faces prepayment risk, given the possibility of debt acceleration upon the exercise of put option by the lenders.

The rating would face pressure if the company is unable to arrange for alternative funding to pay off the accelerated loans in adequate time.

### Rating history for past three years

|   | Instrument | Current Rating (FY2024) |                          |                                                       |                        | Chronology of Rating History for the Past 3 Years |                              |                              |                         |                              |
|---|------------|-------------------------|--------------------------|-------------------------------------------------------|------------------------|---------------------------------------------------|------------------------------|------------------------------|-------------------------|------------------------------|
|   |            | Type                    | Amount Rated (Rs. crore) | Amount Outstanding as on January 31, 2024 (Rs. crore) | Date & Rating in       | Date & Rating in FY2023                           |                              | Date & Rating in FY2022      | Date & Rating in FY2021 |                              |
|   |            |                         |                          |                                                       | February 27, 2024      | February 03, 2023                                 | July 29, 2022                | July 30, 2021                | January 12, 2021        | July 30, 2020                |
| 1 | NCD        | Long-term               | 30.00                    | 30.00                                                 | [ICRA]BBB- &           | [ICRA]BBB- &                                      | [ICRA]BBB-(Stable)           | [ICRA]BBB-(Stable)           | [ICRA]BBB-(Stable)      | [ICRA]BBB-(Stable)           |
| 2 | NCD        | Long-term               | 40.00                    | 0.00                                                  | [ICRA]BBB- & withdrawn | [ICRA]BBB- &                                      | [ICRA]BBB-(Stable)           | [ICRA]BBB-(Stable)           | [ICRA]BBB-(Stable)      | [ICRA]BBB-(Stable)           |
| 3 | NCD        | Long-term               | -                        | -                                                     | -                      | -                                                 | [ICRA]BBB-(Stable) withdrawn | [ICRA]BBB-(Stable)           | [ICRA]BBB-(Stable)      | [ICRA]BBB-(Stable)           |
| 4 | NCD        | Long-term               | -                        | -                                                     | -                      | -                                                 | -                            | [ICRA]BBB-(Stable) withdrawn | [ICRA]BBB-(Stable)      | [ICRA]BBB-(Stable)           |
| 5 | NCD        | Long-term               | -                        | -                                                     | -                      | -                                                 | -                            | -                            | -                       | [ICRA]BBB-(Stable) withdrawn |

& - on Rating Watch with Developing Implications

### Complexity level of the rated instrument

| Instrument | Complexity Indicator |
|------------|----------------------|
| NCDs       | 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 / Sanction | Coupon Rate | Maturity Date | Amount Rated (Rs. crore) | Current Rating and Outlook                                          |
|--------------|-----------------|-----------------------------|-------------|---------------|--------------------------|---------------------------------------------------------------------|
| INE558N07100 | NCD             | May-12                      | 10.56%      | 17-Apr-23     | 40.00                    | [ICRA]BBB-; Rating Watch with Developing Implications and withdrawn |
| INE558N07118 | NCD             | May-12                      | 10.56%      | 17-Apr-24     | 30.00                    | [ICRA]BBB-; Rating Watch with Developing Implications               |

Source: Company

#### Annexure II: List of entities considered for consolidated analysis

Not applicable

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