

September 02, 2022

NKC KK Expressway Private Limited: Rating upgraded

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based – Term loan	200.00	200.00	[ICRA]A- (Stable); Rating upgraded from [ICRA]BBB+ (Stable)
Total	200.00	200.00	

*Instrument details are provided in Annexure-I

Rationale

The rating revision for NKC KK Expressway Private Limited (NKKEPL) favourably factors in the improvement in the 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 by NKKEPL. NPPL, which has healthy financial profile and execution track record, has provided sponsor undertakings towards cost overrun, and any shortfall in operations and maintenance (O&M) expenses. The rating notes in the inherent benefits of the hybrid-annuity (HAM) project including upfront availability of right of way (RoW)¹, de-scoping of pending beyond 180 days from the appointed date, inflation-linked² revisions to bid for project cost during the construction period, and relatively lower equity mobilisation risk with 40% of the bid project cost 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, 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 1.15 times. The rating derives comfort from the stable revenue stream post-commissioning with 60% of the inflation-adjusted bid project cost being paid out as annuity, along with interest at the average of one-year MCLR³ 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, National Highways Authority of India [NHAI, rated [ICRA]AAA(Stable)], which is a strong counterparty.

The rating is, however, constrained by the execution risks involved in the under-construction projects including time and cost overrun risks. The project is in the early stage of execution as it received an appointed date of March 25, 2022 from the NHAI. However, the risk is mitigated, to an extent, by the fixed-price contract and NPPL's strong project execution capabilities. The company's ability to commission the project on time and within the budgeted costs would remain important from the credit perspective. NKKEPL is exposed to equity mobilisation risk as 50% equity (Rs. 30.29 crore as of June 2022) is yet to be infused. However, NPPL's healthy financial risk profile provides comfort. Post-commissioning, 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 and major maintenance (MM) from the budgeted level could impact the company's DSCR. NKKEPL's cash flows are exposed to inflation risk 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.

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.

The Stable outlook on the rating reflects ICRA's opinion that NKKEPL will benefit from the strong execution capabilities and financial profile of the 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 – NKKEPL is a subsidiary of NPPL, which has vast experience in executing road construction projects. NPPL is the EPC contractor for executing the project, which provides comfort, given its track record of project execution within the budgeted time and cost. The total estimated project cost of Rs. 494.22 crore is planned to be funded by the NHAI's grant of Rs. 230.0 crore, external debt of Rs. 200.0 crore and promoter contribution/equity of Rs. 64.2 crore. NKKEPL is exposed to equity mobilisation risk as ~50% equity is yet to be infused as of June 2022. While NPPL's financial profile is adequate to meet its equity commitment in the project, which is required to be infused over the construction period, it has sizeable equity commitments towards other under-implementation HAM projects.

Lower inherent risks in HAM projects from NHAI – The inherent benefits of the HAM project include upfront availability of RoW, de-scoping of RoW pending beyond 180 days from the appointed date, inflation-linked revisions to bid for project cost during the construction period. Moreover, it faces relatively lower equity mobilisation risk with 40% of the bid project cost to be funded by the authority during the construction period through a grant. Stable revenue stream post-commissioning with 60% of the inflation-adjusted bid project cost being paid out as annuity, along with interest at the average of one-year MCLR 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 NHAI, which is a strong counterparty, provide comfort.

Healthy coverage indicators and presence of structural features – The project is scheduled to achieve the commercial operations date (COD) by March 2024 (within two years from the appointed date). If the overall project cost remains within the budgeted level, once operational, NKKEPL is likely to have healthy debt coverage indicators with a cumulative DSCR of over 1.3 times. This provides the special purpose vehicle (SPV) 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 overrun during the construction phase and any shortfall in O&M expenses. Furthermore, the presence of structural features of the debt, including the presence of escrow, cash flow waterfall mechanism, provision for DSR (to be created out of the first two annuities), provision for creation of MMR and restricted payment clause with a minimum DSCR of 1.15 times provides comfort.

Credit challenges

Execution risk related to project under construction – The project has received the appointed date of March 25, 2022 and is in the initial stages of construction. Thus, the company is 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 contract and NPPL's strong project execution capabilities. Its ability to commission the project in a timely manner and within the budgeted costs would remain important from the credit perspective.

Project cash flows and returns exposed to inflation risks – The project's cash flows and returns 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.

Undertaking O&M and MM as per concession requirement – Post-commissioning, 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 and MM expenses from the budgeted level could impact its DSCR.

Liquidity position: Adequate

The liquidity position is supported by an undrawn term loan, grants receivable from the NHAI and equity infusion from NPPL. The total estimated project cost of Rs. 494.2 crore is planned to be funded by the NHAI's grant of Rs. 230.0 crore, external debt of Rs. 200.0 crore and equity of Rs. 64.22 crore.

Rating sensitivities

Positive factors – The rating could be upgraded if the project achieves PCOD/COD within the expected timelines and budgeted costs or if there is an improvement in the sponsor's credit profile .

Negative factors – Negative pressure on the rating could arise if the project progress is delayed, leading to 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

NKKEPL is an SPV formed in April 2021 by NPPL for undertaking a HAM road project awarded by the NHAI. The project involves developing the six-lane Karki Kaliagura section of NH130-CD Road from km 226.500 to km 249.000 under Raipur Visakhapatnam Economic Corridor in Odisha under HAM. The construction and operations period for the project is two years and 15 years, respectively. The Concession Agreement was signed on July 14, 2021 and the appointed date is March 25, 2022. The total estimated project cost of Rs. 494.2 crore is planned to be funded by the NHAI's grant of Rs. 230.0 crore, external debt of Rs. 200.0 crore and equity of Rs. 64.2 crore.

Key financial indicators (audited)

The key financial indicators are not applicable as NKKEPL is a project-stage company.

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Current Rating (FY2023)				Chronology of Rating History for the Past 3 Years		
	Type	Amount Rated (Rs. crore)	Amount Outstanding as on June 30, 2022 (Rs. crore)	Date & Rating	Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020
				Sept 02, 2022	Feb 25, 2022	-	-
1 Term Loan	Long-term	200.00	0.00	[ICRA]A- (Stable)	[ICRA]BBB+(Stable)	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
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: www.icra.in

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term Loan	Oct 2021	-	FY2038	200.00	[ICRA]A- (Stable)

Source: Company *linked with 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

Rajeshwar Burla

+91 40 4067 6527

rajeshwar.burla@icraindia.com

Ashish Modani

+91 20 6606 9912

ashish.modani@icraindia.com

Abhishek Gupta

+91 124 4545 863

abhishek.gupta@icraindia.com

Vaibhav Jain

+91 124 4545 868

Vaibhav.jain@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

About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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



Branches



© Copyright, 2022 ICRA Limited. All Rights Reserved.

Contents may be used freely with due acknowledgement to ICRA.

ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website www.icra.in or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents.