

September 02, 2022

## NKC JK 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	245.00	245.00	[ICRA]A- (Stable); Rating upgraded from [ICRA]BBB+ (Stable)
<b>Total</b>	<b>245.00</b>	<b>245.00</b>	

\*Instrument details are provided in Annexure-I

### Rationale

The rating revision for NKJ Expressway Private Limited (NJKEPL) favourably factors in the improvement in the credit profile of its sponsor – NKJ Projects Private Limited (NPPL, rated [ICRA]A- (Stable) / [ICA]A2+), which is the engineering, procurement and construction (EPC) contractor for the project being developed by NJKEPL. Furthermore, 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 the inherent benefits of the hybrid-annuity model (HAM) project including upfront availability of right of way<sup>1</sup>, de-scoping of right of way pending beyond 180 days from the appointed date, inflation-linked<sup>2</sup> 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 in the form of 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 1.25 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 MCLR<sup>3</sup> 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 overruns risks. The project is in the early stage of execution as it received an appointed date of March 31, 2022 from the NHAI. However, the risk is mitigated, to an extent, by the fixed-price, fixed-time 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. NJKEPL is exposed to equity mobilisation risk as 50% equity (Rs. 40.67 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. NJKEPL'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.

<sup>1</sup> At least 80% prior to the appointed date.

<sup>2</sup> 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.

<sup>3</sup> The authority shall declare the list of top five SCBs on 1<sup>st</sup> 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 NJKEPL 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** – NJKEPL is a subsidiary of NPPL, which has vast experience in executing road construction projects. NPPL is also appointed as 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. 598.8 crore is planned to be funded by the NHAI's grant of Rs. 272.4 crore, external debt of Rs. 245.0 crore and equity of Rs. 81.4 crore. NJKEPL is exposed to equity mobilisation risk as 50% equity is yet to be infused. 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 2.0 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 in the form of 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, NJKEPL 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 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 1.25 times provides comfort.

### Credit challenges

**Execution risk related to project under construction** – The project has received the appointed date of March 31, 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 also mitigated, to an extent, by the fixed-price, fixed-time contract and NPPL's strong project execution capabilities. The company's 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. 598.8 crore is planned to be funded by the NHAI's grant of Rs. 272.4 crore, external debt of Rs. 245.0 crore and equity of Rs. 81.4 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	<a href="#">Corporate Credit Rating Methodology Roads - Hybrid Annuity</a>
Parent/Group support	Not Applicable
Consolidation/Standalone	Standalone

## About the company

NJKEPL is an SPV formed in May 2021 by NPPL for undertaking a HAM road project awarded by the NHAI. The project involves development of six-laning of Jakkuva – Korlam Section of NH-130-CD Road from km 396+800 to km 421+100 (Length 24.30 km) under Raipur-Visakhapatnam Economics Corridor [Package -2 (AP)] in Andhra Pradesh on HAM 2.0 basis. The Concession Agreement was signed on July 14, 2021 and the appointed date is March 31, 2022. The construction period for the project is two years from the appointed date, and the operations period is 15 years from the COD. The total estimated project cost of Rs. 598.8 crore is planned to be funded by the NHAI's grant of Rs. 272.4 crore, external debt of Rs. 245.0 crore and equity of Rs. 81.4 crore.

## Key financial indicators (audited)

The key financial indicators are not applicable as NJKEPL 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	Jan 18, 2022	-	-
1 Term Loan	Long-term	245.00	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](http://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	Sep 2021	-	FY2038	245.00	[ICRA]A- (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**

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