October 09, 2023

NKC KK Expressway Private Limited: Ratings reaffirmed

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); reaffirmed
Total	**200.00**	**200.00**	

**Instrument details are provided in Annexure-I*

Rationale

The rating reaffirmation for NKC KK Expressway Private Limited (NKKEPL) continues to factor in the credit profile 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 a healthy financial profile and execution track record, has provided sponsor undertakings towards cost overrun and any shortfall in operations and maintenance (O&M) expenses for the project. The rating notes in the inherent benefits of the hybrid-annuity (HAM) based project including upfront availability of right of way[1] (RoW) , de-scoping of pending beyond 180 days from the appointed date, inflation-linked[2] revisions to the bid project cost (BPC) during the construction period, and relatively lower equity mobilisation risk with 40% of the BPC 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 BPC being paid out as annuity, along with interest at the average of one-year MCLR[3] 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 has scheduled commercial operation date (SCOD) of March 24, 2024 and it achieved 54% physical completion as on August 31, 2023. Its ability to commission the project within the approved timeline and budgeted costs would remain important from the credit perspective. NKKEPL is exposed to equity mobilisation risk as 32% equity (Rs. 20.64 crore as on August 31, 2023) is yet to be infused. However, NPPL's healthy financial risk profile provides comfort. Post-commissioning, it 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.

The Stable outlook on the rating reflects ICRA's opinion that NAPEPL will benefit from the strong execution capabilities and financial profile of the sponsor and EPC contractor—NPPL.

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[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.

Key rating drivers and their description

Credit strengths

Established track record and financial profile of the sponsor and EPC contractor – NKKEPL is a 100% subsidiary of NPPL, which has vast experience in executing road construction projects. NPPL is the EPC contractor for this project and the contract is on a fixed-price, fixed-time basis, which provides comfort, given its track record of project execution within the budgeted time and cost. NPPL has provided an undertaking for cost overruns during construction and for any shortfall in O&M expenses. NKKEPL is exposed to equity mobilisation risk with 68% equity had already been infused as on August 31, 2023.

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 the BPC during the construction period. Moreover, it faces relatively lower equity mobilisation risk with 40% of the BPC to be funded by the authority during the construction period through a grant. Stable revenue stream post-commissioning with 60% of the inflation-adjusted BPC being paid out as annuity, along with interest at the average of one-year MCLRs 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 schedule to achieve the 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 1.35 times. This provides 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. Further, 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 achieved physical progress of ~54% as on August 31, 2023. Thus, the company continues to be 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

NKC KK Expressway Private Limited (NKEPL) is a special purpose vehicle (SPV) with 100% promoted by NPPL. The SPV was formed on April 21st, 2021 for construction of 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 2 years and 15 years, respectively. The concession agreement was signed on July 14, 2021 and the appointed date is received on March 25, 2022.

As on August 31, 2023, 100% of RoW is made available by NHAI and out of the total project cost of Rs. 494.22 crore, ~54.5% cost has already been incurred. The project achieved 54% physical completion.

Key financial indicators (audited)

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

Status of non-cooperation with previous CRA: Not applicable

Any other information:

The company faces prepayment risk, in case of possibility of debt acceleration upon the breach of covenants, including financial covenants, operating covenants, and rating linked covenants. Upon failure to meet the covenants, if the company is unable to get waivers from the lender or the lender does not provide it with adequate time to arrange for alternative funding to pay off the accelerated loans, the rating would face pressure.

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 June 30, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
					Oct 09, 2023	Sept 02, 2022	Feb 25, 2022	-
1	**Term loan**	Long term	200.00	76.70	**[ICRA]A- (Stable)**	**[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: 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**	Oct 2021	-	FY2038*	200.00	[ICRA]A-(Stable)

*Source: Company; *linked to 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

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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.

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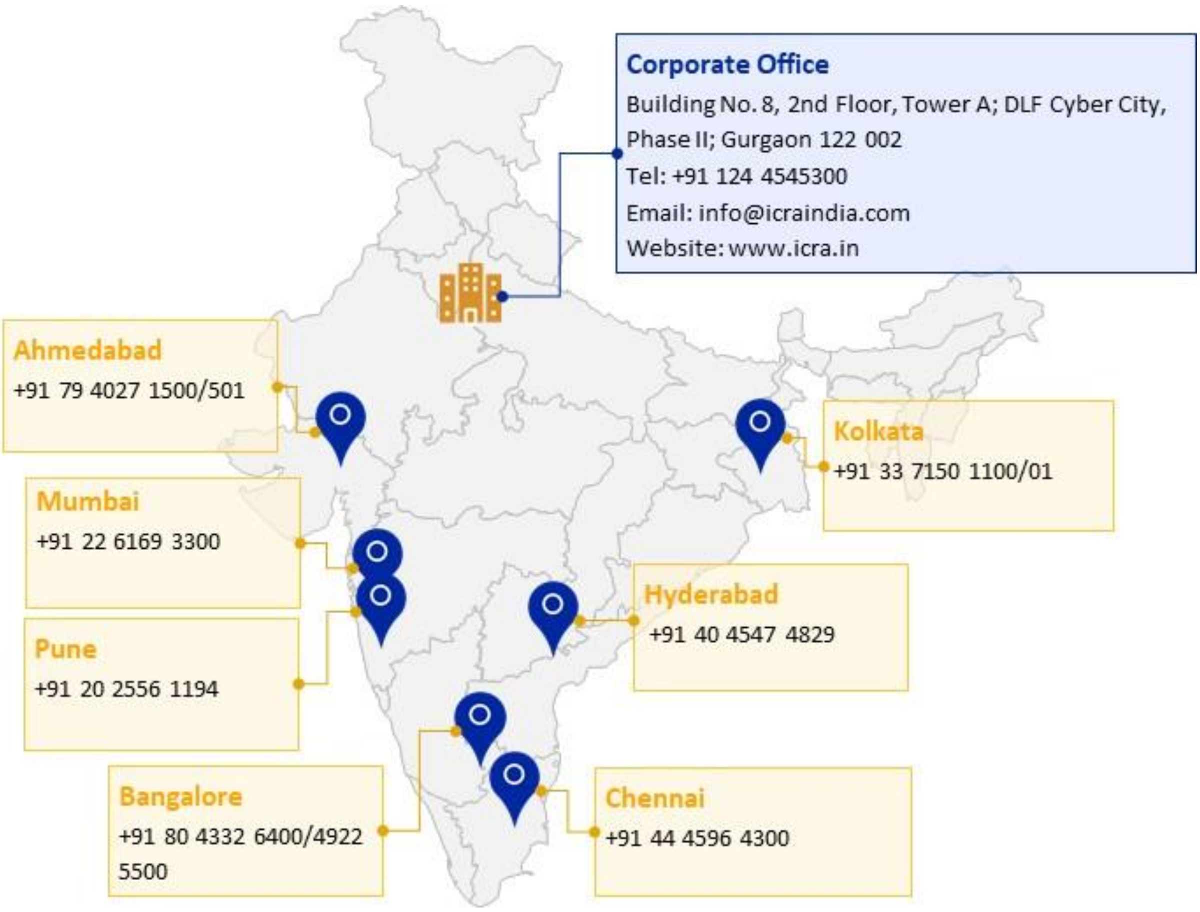

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