October 09, 2023

NKC JK 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	245.00	245.00	[ICRA]A-(Stable); reaffirmed
Total	**245.00**	**245.00**	

**Instrument details are provided in Annexure-I*

Rationale

The rating reaffirmation for NKC JK Expressway Private Limited (NJKEPL) continues to factor 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 NJKEPL. Furthermore, 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 the inherent benefits of the hybrid-annuity model (HAM) based project including upfront availability of right of way[1] , de-scoping of right of way 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 mobilization risk with 40% of the BPC 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 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 overruns risks. The project has scheduled commercial operation date (SCOD) of March 28, 2024 and it achieved 47% 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. NJKEPL is exposed to equity mobilization risk as 39% equity (Rs. 31.63 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. 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.

[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 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 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. NJKEPL is exposed to marginal equity mobilisation risk with 61% equity having 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 in the form of 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 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 1.35 times. This provides 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. 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 1.25 times provides comfort.

Credit challenges

Execution risk related to project under construction – The project has received the appointed date of March 29,2022 and achieved physical progress of ~47% 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 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	Corporate Credit Rating Methodology Roads – Hybrid Annuity
Parent/Group support	Not Applicable
Consolidation/Standalone	Standalone

About the company

NJKEPL is a special purpose vehicle (SPV) and is 100% promoted by NPPL. The SPV was formed in May 2021 for 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 in Andhra Pradesh 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 achieved on March 28, 2022.

As on 31 August 2023, ~98% of RoW is made available by NHAI and out of the total project cost of Rs. 598.77 crore, ~Rs. 281.4 crore cost has already been incurred. The project achieved 47% physical completion.

Key financial indicators (audited)

The key financial indicators are not meaningful as NJKEPL 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	Jan 18, 2022	-
1	**Term loan**	Long term	245.00	90.10	**[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**	Sep 2021	-	FY2038*	245.00	[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 4547 4829
rajeshwar.burla@icraindia.com

Ashish Modani
+91 20 6606 9912
ashish.modani@icraindia.com

Ritu Goswami
+91 124 4545826
ritu.goswami@icraindia.com

Vaibhav Jain
+91 124 4545 868
vaibhav.jain@icraindia.com

RELATIONSHIP CONTACT

L. Shivakumar
+91 22 6114 3406
shivakumar@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.

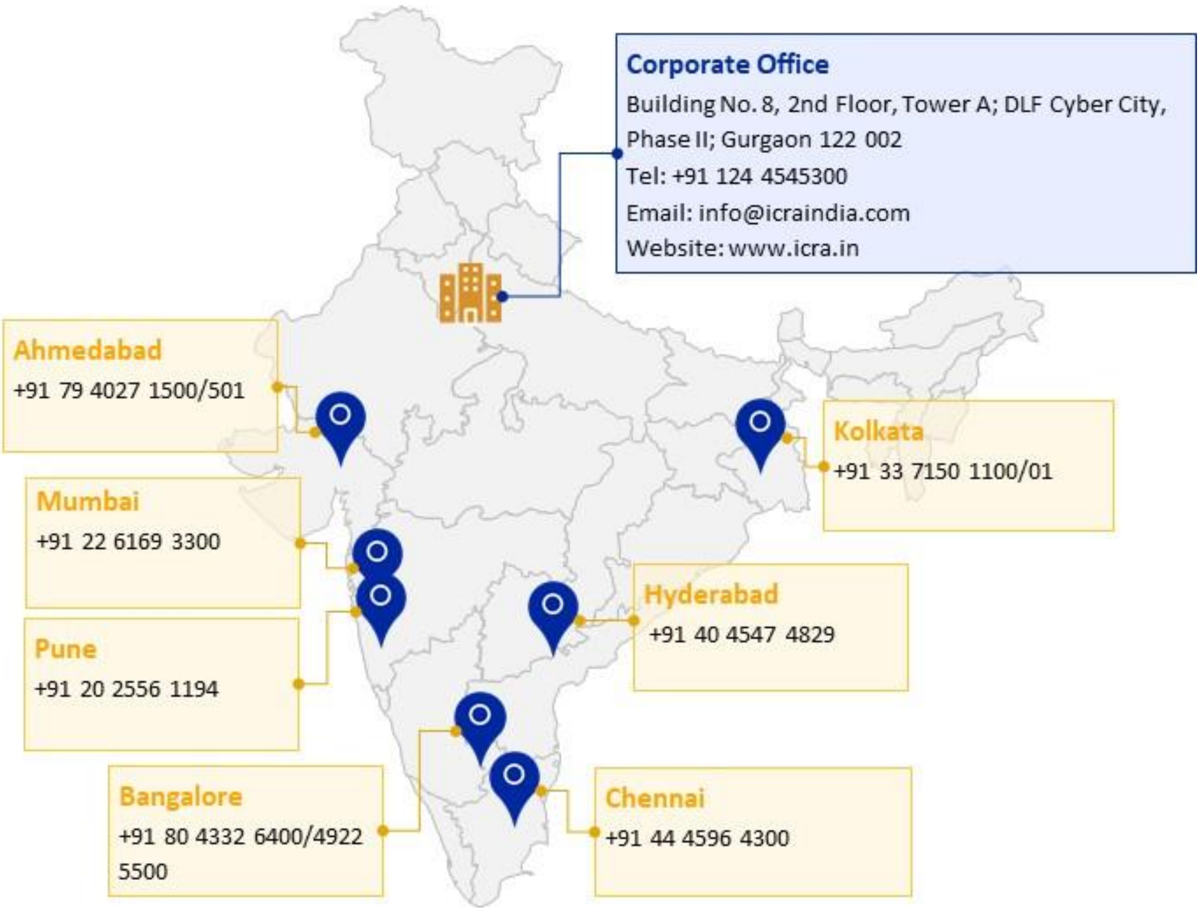
For more information, visit www.icra.in

ICRA Limited

Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45

Branches



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.