January 29, 2025

NKC JK Expressway Private Limited: Rating reaffirmed; outlook revised to Positive from Stable

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-(Positive); reaffirmed; outlook revised to Positive from Stable
Total	**245.00**	**245.00**	

**Instrument details are provided in Annexure I*

Rationale

The revision in outlook for the long-term rating to Positive for NKC JK Expressway Private Limited (NJKEPL) favourably factors in the alleviation of project execution risks in the backdrop of advanced stages of physical progress (~96% as of December 2024), with achievement of provisional completion certificate (PCOD) w.e.f. October 07, 2024 (i.e., within 90 days of revised scheduled commercial operations date (SCOD) i.e., July 09, 2024, with extension of timeline (EOT) of 102 days from the original SCOD of March 29, 2024). The rating notes that the company has received all 10 milestone-based construction grant payments from the National Highway Authority of India {NHAI, rated [ICRA]AAA(Stable)}. ICRA notes that a settlement agreement has been entered with the NHAI for delinking of hindered stretches, for achievement of PCOD and extension of timeline for achievement of some stretches by January 31, 2025 and the balance within 75-96 days of handing over of the land by the authority. The first semi-annuity is likely to be received within six months of getting the PCOD, i.e., in April 2025. The Positive outlook reflects ICRA's expectations that the company's credit profile will improve with finalisation of completion cost and commencement of annuity payments.

The rating factors in the healthy 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 NJKEPL. The cumulative debt service coverage ratio (DSCR) is expected to remain adequate during the debt tenure. The rating derives strength from the inflation-adjusted operation and maintenance (O&M) cost, bid over the term of the concession by the project owner and annuity provider, the NHAI, which has a strong track record and credit profile, leading to lower counterparty credit risk. The annuity receipt is likely to start from the sixth month post commercial operation date (COD), whereas the debt repayment will commence from the seventh month post COD, providing a buffer of one month in case of delay in annuity receipt. Additionally, the debt service reserve account (DSRA) up to six months of obligation would be created in a phased manner up to the receipt of the second annuity. The creation of major maintenance reserve (MMR) shall commence upon the receipt of the first semi-annual annuity.

The rating, however, remains constrained by the exposure of NJKEPL's cash flows to inflation risks, 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. While the project remains exposed to limited residual execution risk, the pending project cost is expected to be funded by undrawn debt (~Rs. 10 crore) as on December 31, 2024. While the project witnessed cost overruns owing to delay in execution, the same was adequately funded by unsecured loans from NPPL. ICRA notes the single-asset nature of the project operations, thereby making the debt metrics of the project sensitive to any deductions in annuity and O&M receipts. Hence, 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 or major maintenance (MM) from the budgeted level could impact the company's DSCR.

Key rating drivers and their description

Credit strengths

Alleviation of execution risk with achievement of PCOD – NJKEPL achieved PCOD w.e.f. October 07, 2024, after completing the partial length of the project (23.955 km out of 24.300 km). It has received all the 10 milestone-based construction grant payments from the NHAI. Achievement of the final COD remains to be seen, as delinked sections and punch list items are yet to be executed. Consequently, the annuities are expected to be received by NJKEPL w.e.f. from April 2025. This reduces the uncertainty related to the annuity timelines. The annuities are likely to be sufficient to meet the debt servicing obligations.

Inherent benefits of hybrid annuity model (HAM) – The inherent benefits of the HAM project include upfront availability of right of way (RoW), inflation-linked revisions to the bid project cost during the construction period and relatively low equity mobilisation risk with 40% of the project cost to be funded by the authority during the construction period in the form of a grant. The project is expected to have a stable revenue stream post-commissioning as 60% of the remaining project cost will be paid out as annuity (adjusted for inflation), 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 project owner and annuity provider, the NHAI, a key Central Government entity that develops and maintains India's national highways.

Adequate coverage indicators and presence of structural features – NJKEPL is expected to maintain adequate debt coverage indicators with a cumulative DSCR above 1.1 times during the debt tenure. This provides adequate cushion to withstand any adverse movement in the interest on annuity and inflation to a certain extent. The credit profile is supported by NPPL's undertaking towards cost overruns during the construction phase and any shortfall in O&M expenses. Further, the presence of structural features of the debt, including escrow, cash flow waterfall mechanism, provisions for DSRA (to be created out of the first two annuities) and creation of MMR and restricted payment clause with a minimum DSCR of 1.25 times, provides comfort.

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 and had infused adequate funds to support the cost overruns. The equity mobilisation risk stands mitigated with 100% equity already infused as on December 31, 2024.

Credit challenges

Project's cash flows and returns exposed to interest rate and inflation risks – The project's cash flows and returns are sensitive to the spread between the interest to be paid by the NHAI on the outstanding annuities linked to the average of one-year MCLRs of top five scheduled commercial banks and the interest rate payable on the outstanding debt, linked to lender's marginal cost of fund-based lending rate (MCLR). Further, NJKEPL's cash flows are exposed to inflation risks as O&M receipts, though linked to inflation (70% WPI and 30% CPI), may not be adequate to compensate for any increase in O&M/periodic maintenance expenses.

Undertaking O&M as per concession requirement and risk of deductions from annuity – NJKEPL's prospective sources of income shall include annuity, interest on outstanding annuities and the annual O&M payments from the NHAI. Hence, regular, and periodic maintenance of the project's stretch as per the concession agreement is important for receiving full annuity receipts. An increase in expenditure towards regular or periodic maintenance will have a bearing on the DSCR and remains a key credit sensitivity. The SPV shall enter a fixed-price O&M and MM contract with its sponsor, NPPL. NPPL has a track record of around half a decade in the EPC segment and has undertaken multiple projects as a contractor. However, any material deterioration in NPPL's credit profile impacting NJKEPL's ability to undertake maintenance activities will remain a monitorable. Moreover, the O&M and MM assumptions are marginally lower than ICRA's benchmarks, owing to the company's expectations of traffic on the stretch. ICRA in its base case scenario has built-in additional cushion against the company's assumptions. Nonetheless, the timely receipt of annuity payments without any material deductions remains crucial.

Liquidity position: Adequate

NJKEPL's liquidity position is likely to be adequate, supported by timely receipt of annuities, without any major deductions. The expected creation of DSRA from the first two annuity payments (equivalent to six months of P+I) shall further support the liquidity.

Rating sensitivities

Positive factors – The rating could be upgraded upon timely receipt of semi-annuity and O&M payments without any material deductions, while maintaining healthy coverage metrics.

Negative factors – Pressure on the rating could arise if there are major deductions or delays in the receipt of semi-annual annuities or O&M payments or additional indebtedness resulting in deterioration in coverage metrics. Non-adherence/ weakening of debt structure, or any deterioration in the sponsor's credit profile could exert pressure on the rating.

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 was achieved on March 31, 2022. With approved EOT of 102 days, the SCOD was revised to July 09, 2024 (from the original SCOD of March 29, 2024).

With healthy pace of execution in FY2024 and YTD FY2025, the project achieved PCOD w.e.f. October 07, 2024 (within 90 days of revised SCOD), and expects to achieve the COD shortly with completion of the specified punch list items and delinked stretches as per the settlement agreement.

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

	Current (FY2025)			Chronology of rating history for the past 3 years					
				FY2024		FY2023		FY2022	
Instrument	Type	Amount rated (Rs. crore)	Jan 29, 2025	Date	Rating	Date	Rating	Date	Rating
Fund-based – Term loan	Long-term	245.00	[ICRA]A-(Positive)	Oct-09-23	[ICRA]A-(Stable)	Sep-02-22	[ICRA]A-(Stable)	Jan-18-22	[ICRA]BBB+(Stable)

Complexity level of the rated instruments

Instrument	Complexity indicator
Long-term – Fund-based – 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	**Fund-based – Term loan**	Sep 2021	-	FY2038*	245.00	[ICRA]A-(Positive)

*Source: Company, ICRA Research; *linked with PCOD/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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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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