

Kanpur Lucknow Expressway Private Limited

July 05, 2024

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long Term Bank Facilities	779.75	CARE A; Stable	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The rating assigned to bank facilities of Kanpur Lucknow Expressway Private Limited (KLEPL) factors in the inherent strengths of hybrid annuity model (HAM)-based road projects such as (i) lower project funding risk with inflation-indexed annuity to be received for construction and favourable clauses introduced in the concession agreement (CA) to de-bottleneck project execution challenges; (ii) lower post-implementation risk considering inflation-indexed annuity to be received for operations and maintenance (O&M) of the road; and (iii) receipt of marginal cost of lending rate (MCLR) linked interest annuity.

The rating continues to derive strength from the established presence of the sponsor, PNC Infratech Limited (PIL, rated 'CARE AA+; Stable'), and promoter, PNC Infra Holdings Limited (PIHL), providing explicit support undertakings, and presence of a fixed-price fixed-time engineering, procurement and construction (EPC) contract entered with the sponsor, which has an established track record of constructing roads and highways on public private partnership (PPP) mode. The rating considers credit quality of the project completion milestone payments and underlying annuity receivables from National Highway Authority of India (NHAI; rated 'CARE AAA; Stable'), both in construction and post commencement of operations.

The rating also factors the proposed liquidity support mechanism such as upfront creation of debt service reserve account (DSRA) on commercial operations date (COD) and major maintenance reserve (MMR). Comfortable debt coverage indicators considering lower leverage on project funding and presence of competitive floating rate interest on term debt against the interest rate applied on interest annuity, and the 15 days cushion available between the due date of receipt of annuity and the date of debt repayment and a tail period of 1.5 years (three annuities) are other credit positives for the rating.

However, above rating strengths are tempered by the inherent risks associated with execution of project within the estimated costs and time, susceptibility to changes in the O&M costs, and interest rate fluctuation risks.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Completion of project on or before scheduled COD, and timely receipt of first annuity.
- Timely creation of DSRA and major maintenance reserve account (MMRA) reserves

Negative factors

- Deteriorating credit profile of sponsor (PIL) or counter party (NHAI).
- Delaying project progress including achievement of project milestones leading to levy of penalty by NHAI.
- Substantial adverse movement in the interest rate, O&M cost, and major maintenance (MM) cost deteriorating the debt coverage indicators.

Analytical approach:

Standalone, while factoring sponsor's and promoter's support undertaking and the track record of the EPC Contractor, PIL.

Outlook: Stable

The outlook for KLEPL is 'Stable' considering expected benefits from the company's parentage and support structures in place, which will ensure mitigation of any execution risks that are likely to arise. The inherent strengths of the HAM-based road projects, including the credit quality of the underlying annuities and the liquidity support mechanisms shall render stability to the operations post COD.

¹Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

Detailed description of the key rating drivers:

Key strengths

Successful track record of PIL in executing road projects

KLEPL has entered into a fixed-price EPC contract with PIL. PIL, with its operations spread across 16 states in the country, is a leading contracting company with experience of more than 20 years and has expertise in the execution of major infrastructure projects. Aply supported by a team of qualified engineers, it is backed by a large fleet of owned construction equipment and has ensured timely delivery to clients without compromising on quality. PIL's strong project execution capabilities and consistent track record of receipt of performance bonus, brings in comfort for the lenders.

Sponsor support agreements for meeting exigencies

PIL, as the sponsor, has extended undertakings in favour of the lenders to meet any overrun including considering statutory payments in the project cost to the extent of shortfall in the borrower and to provide additional funds to meet shortfall arising out of delay/deduction in NHAI funding in the construction period. The promoter, PIHL, has undertaken to meet the shortfalls in the funds of KLEPL for meeting O&M expenses, statutory expenses, and MM costs. PIL has a demonstrated track record of supporting its operational projects in case of any exigencies. CARE Ratings Limited (CARE Ratings) expects that with the sponsor and promoter support agreements in place, the support stance shall continue for KLEPL as well.

Favourable clauses of hybrid annuity concession

The CA – in line with the model CA for HAM projects – includes clauses that serve to partially secure the project and its lenders against construction risks, including delays in land acquisition. Such clauses include stipulating the achievement of at least 80% Right of Way (RoW) as a precedent condition for declaring the appointed date for the project. Besides, there is a provision for granting deemed completion of the project in case 100% of the work is completed on the RoW, which becomes available to the concessionaire within 182 days of the appointed date.

Low funding risk and permitted price escalation

The HAM model entails lower sponsor contribution in the construction period considering 40% construction support from the NHAI and the availability of 10% mobilisation advances on the bid project cost (BPC). The BPC and O&M cost will be inflation-indexed [through a price index multiple (PIM)], which is the weighted average of the wholesale price index (WPI) and consumer price index (CPI) in the ratio of 70:30. The inflation-indexed BPC protects the developers against price escalation to an extent.

Low counterparty credit risk

Incorporated by the Government of India (GoI) under an Act of the Parliament as a statutory body, the NHAI functions as the nodal agency for the development, maintenance, and management of the national highways in the country. The outlook on NHAI reflects the outlook on the sovereign, whose direct and indirect support continues to be the key rating driver.

Cash flow visibility and cushion between annuity receipt date and debt repayment date

In the operational phase, cash flow is assured in the form of annuity payments from the NHAI on a semi-annual basis covering 60% of the project completion cost and interest at an 'average of one-year MCLR of the top five scheduled commercial banks plus 1.25%' on the reducing balance and inflation-indexed O&M payments. Per the financing plan, the repayment of the term debt commences post moratorium of six months and 15 days from COD. Thus, there is a moderate cushion of 15 days between the principal repayment date and annuity receipt date, which is viewed as a credit positive.

Presence of liquidity support mechanisms such as DSRA and MMRA

According to the terms of the facility agreement, there is a stipulation to create and maintain a DSRA equivalent to ensuing six months' debt service obligations, , six months interest and one instalment of principal amount, of the cash flows of the project in the operational period. The facility agreement also stipulates the creation of a MMRA per the base-case business plan. The sponsor has undertaken to either directly or through the promoter, meet the shortfall in case the initial DSRA is not created out of first two annuity payments post COD, which gives comfort from the credit perspective.

Interest annuities linked to MCLR, mitigating the interest rate risk to a large extent

Interest rate risk is a largely mitigated in KLEPL, as both the interest annuities and the interest on debt are linked to MCLR. Interest annuities are linked to 1-year average MCLR of top five scheduled banks + 125 bps, and interest on term loan is linked to MCLR of the lender.

Key weaknesses

Inherent project execution risk

As on March 2024, KLEPL has achieved two project milestones with physical progress of 48%, in line with the planned progress. However, the project still remains exposed to inherent construction risk. Based on Independent Engineer report, as of March 2024, the project has 96.72% hindrance free land with minute hindrances in the rest of the stretch, that are not expected to significantly impact the implementation of the balance works. Moreover, PNC's demonstrated track record as an EPC contractor in executing large-sized road projects mitigates execution risk to an extent.

Inherent O&M risk associated with the project

Although inflation-indexed O&M annuity partly mitigates O&M risk, the developers would still face the risk of sharp increase in the O&M cost due to more-than-envisaged wear and tear and aggressive bidding in O&M cost. Flexible pavement is prone to more wear and tear than rigid pavement. However, the presence of promoter undertaking to fund the routine O&M expenses over and above as envisaged in the Base Case Business Plan to the extent of shortage of funds to borrower, mitigates the O&M risk to an extent. KLEPL is adjacent to another HAM Project of PIL, Awadh Expressway Private Limited. As both the projects are sponsored by PIL, owing to their geographical proximity, significant sharing of resources is expected which shall result in synergies leading to reduction in O&M and MM expenses.

Liquidity: Adequate

Adequate liquidity is marked by the timely accessibility of the special purpose vehicle (SPV) to avail need-based support from PIL. This apart, PIL has extended undertakings to fund any cost overrun, funding of shortfall in debt servicing of KLEPL in case of delayed payment or non-payment or shortfall in annuity payments for any reason whatsoever. Additional comfort from the presence of proposed upfront creation of DSRA equivalent to three months interest payment obligations from the funds provided by the promoter upon COD and for six months interest and one principal instalment, of the cash flows of the project in the operational period, which will provide cushion for the debt servicing.

Assumptions/Covenants

Not applicable

Environment, social, and governance (ESG) risks

Not applicable

Applicable criteria

[Policy on Default Recognition](#)

[CARE Rating's criteria for notching by factoring linkages in ratings](#)

[CARE Ratings' criteria on Financial Ratios - Non-Financial Sector](#)

[Liquidity Analysis of Non-Financial Sector Entities](#)

[Criteria on Assigning 'Outlook' or 'Rating Watch' to Credit Ratings](#)

[Rating Methodology – Road Assets – Hybrid Annuity](#)

[Rating Methodology - Infrastructure](#)

About the company and industry

Industry classification

Macro Economic Indicator	Sector	Industry	Basic Industry
Services	Services	Transport Infrastructure	Road Assets–Toll, Annuity, Hybrid-Annuity

Incorporated on April 11, 2022, KLEPL is a special purpose vehicle (SPV) sponsored by PIL, promoted by PIHL, which entered into 15-years concession agreement (excluding construction period of 910 days from the appointed date) with the NHAI to 4 undertake the 'Construction of Six lane upgradable to Eight lane including spur of Kanpur Lucknow Expressway [from Km 10+980 to Km 28+500 (Length=17.520 Km) part of NH-27] (Package-I) under Bharatmala Pariyojana in the state of Uttar Pradesh on

Hybrid Annuity Mode Basis'. The project is scheduled to be completed within 910 days from the Appointed Date (February 01, 2023) at a total cost of ₹1,617.85 crore; proposed to be funded through debt of ₹779.95 crore, construction grant from NHA1 (including GST) of ₹666.94 crore and balance through the promoter's contribution of ₹171.16 crore.

Brief financials

Not applicable, as the project is under the implementation phase.

Status of non-cooperation with previous CRA:

Not applicable

Any other information:

Not applicable

Rating history for last three years: Annexure-2

Covenants of rated instrument / facility: Annexure-3

Complexity level of various instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Term Loan		-	-	31-3-2032	779.75	CARE A; Stable

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2024-2025	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022
1	Fund-based - LT-Term Loan	LT	779.75	CARE A; Stable	-	1)CARE A; Stable (20-Jun-23)	-	-

LT: Long term

Annexure-3: Detailed explanation of covenants of the rated instruments/facilities: Not applicable

Annexure-4: Complexity level of the various instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT-Term Loan	Simple

Annexure-5: Lender details

To view the lender wise details of bank facilities please [click here](#)

Note on the complexity levels of the rated instruments: CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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About us:

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