

## Awadh Expressway Private Limited

July 17, 2024

Facilities/Instruments	Amount (₹ crore)	Rating <sup>1</sup>	Rating Action
Long Term Bank Facilities	776.85	CARE A; Stable	Reaffirmed

Details of instruments/facilities in Annexure-1.

### Rationale and key rating drivers

The rating assigned to bank facilities of Awadh Expressway Private Limited (AEPL) 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 project physical progress as per schedule is satisfactory with 45.70% as of March 2024, which emphasizes the strong execution capability of the sponsor.

Additionally, 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

- Deterioration in the credit profile of sponsor (PIL) or counter party (i.e. NHAI).
- Delay in project progress including achievement of the project milestones leading to levy of penalty by NHAI, thereby affecting financial risk profile.
- Non-receipt of timely need-based support from the sponsor.

### 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 AEPL 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.

<sup>1</sup>Complete definition of the ratings assigned are available at [www.careedge.in](http://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

AEPL 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 on account of 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 during the construction period. The promoter, PIHL, has undertaken to meet the shortfalls in the funds of AEPL for meeting O&M expenses, statutory expenses and major maintenance costs. Furthermore, 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 AEPL 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 during the construction period considering 40% construction support from the NHAI and the availability of 10% mobilisation advances on the 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

During 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 along with 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. Furthermore, as per the financing plan, the repayment of the term debt commences post moratorium of 6 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

As per the terms of the facility agreement, there is a stipulation to create and maintain a DSRA equivalent to ensuing six months' Debt Service obligation i.e. six months' interest and one instalment of principal amount, out of the cash flows of the project during the operational period. The facility agreement also stipulates the creation of a Major Maintenance Reserve Account (MMRA) as per the base-case business plan. Furthermore, the sponsor has undertaken to either directly or through the promoter, meet the shortfall in case the initial DSRA is not created out of the 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 AEPL, 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 of March 2024, AEPL has successfully accomplished two significant project milestones, maintaining a physical progress rate of 45.75%, consistent with the projected timeline. Nevertheless, the project continues to be susceptible to intrinsic construction risks. The Lender's Independent Engineer (LIE) report confirms that, as of March 2024, the project has secured 100% Right of Way without any obstructions. Furthermore, the proven expertise of PNC as an EPC contractor in the delivery of large-scale road projects serves to alleviate execution risks to a certain degree.

### 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. Nevertheless, in the base case, CARE Ratings has assumed O&M and MM outgo in line with its industry aggregates for similar projects rated by CARE Ratings and expects the coverage indicators to be strong.

Additionally, AEPL is adjacent to another HAM Project of PIL, Kanpur Lucknow 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 AEPL 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

[Definition of Default](#)

[Factoring Linkages Parent Sub JV Group](#)

[Liquidity Analysis of Non-financial sector entities](#)

[Rating Outlook and Rating Watch](#)

[Financial Ratios – Non financial Sector](#)

[Road Assets-Hybrid Annuity](#)

[Infrastructure Sector Ratings](#)

## 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 13, 2022, AEPL is a special purpose vehicle (SPV) sponsored by PIL, promoted by PIHL which entered into a 15-year CA (excluding a construction period of 910 days from the appointed date) with the NHAI for the construction of six lane upgradable to eight lane of Kanpur Lucknow Expressway including spur from Km 28+500 to Km 73+744 in the state of Uttar Pradesh on hybrid annuity mode under Bharatmala Pariyojana (Package-2). The Site of the project highway is a section of Kanpur Lucknow Expressway (KLE). Project section commences from Km 28+500 near Bani river in Hinora Village of Unnao district and terminates at Km 73+744 near Shuklaganj Intersection in Ata Village of Unnao District of Uttar Pradesh.

The BPC of the project excluding goods and services tax (GST) is ₹1,513.00 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:** Please refer Annexure-2

**Covenants of rated instrument / facility:** Detailed explanation of covenants of the rated instruments/facilities is given in 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	776.85	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*	776.85	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.

## Contact us

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### About us:

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