

Nandi Economic Corridor Enterprises Limited (Revised)

July 18, 2024

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long-term bank facilities	1,098.58 (Reduced from 1,337.81)	CARE AA-; Stable	Revised from CARE A+; Stable

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

Revision in the rating assigned to bank facilities of Nandi Economic Corridor Enterprises Limited (NECE) factors in healthy growth in toll collection in FY24 (refers to April 01 to March 31), completion of the road concretisation and track record of toll hike every year in last three years. NECE has implemented a toll hike of 18% in FY23, 16.2% in FY24 and 15.3% from July 01, 2024. Healthy toll collection and completion of concretization also led to sizeable prepayment of term debt of ₹139 crore till June 2024. The rating continues to remain underpinned by operational track record of around 16 years of healthy toll collection, diversified traffic mix, and strategic location of the project stretch at Bangalore-Hosur-Mysore Corridor with absence of major alternate route.

The rating continues to derive strength from low leverage, strong debt coverage indicators, presence of debt service coverage account (DSRA), and strong parentage. The rating also takes cognisance of autonomy of NECE for hike in toll rates (every year fixed increase of 10%) as defined in the toll concession agreement (TCA) entered with Government of Karnataka.

However, the rating strengths are tempered considering awaited handover of land parcels for the balance expressway and real estate from the Government of Karnataka (GoK) and residual construction risk associated with the balance construction of expressway and real estate facilities (township and interchange developments) upon land allotment. NECE has developed two interchanges with aggregate area of around 215 acres and approval for sale of such plots is awaited from GoK. Part proceeds of this interchange sale shall be sufficient to fund balance capex related to expressway construction and other real estate development in case of balance land allotment. Furthermore, CARE Ratings understands that township development post-handover of land shall be done in phase wise manner from monetization of land parcels and customer advances which mitigates the credit risk to an extent. The rating strengths are also tempered by inherent traffic risk associated with toll-based road projects and operations and maintenance (O&M) risk associated with satisfactory maintenance. The rating strengths are also constrained due to the inherent interest rate risk considering the floating nature of interest rates on the debt, regulatory risk associated with state highway project, and multiple litigations surrounding the project.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Emergence of clarity on development and sale of interchange land and residual construction work including township development and expressway construction.
- Significantly growing toll revenue and sizable reduction in debt levels.

Negative factors

- Significantly declining toll collections or increasing O&M leading to debt service coverage ratio (DSCR) of below 1.50x on a sustained basis.
- Increasing debt levels for funding real estate development and expressway construction leading to DSCR decline below 1.50x on a sustained basis.
- Emergence of significant outflow towards real estate development and expressway construction without commensurate revenue from land development leading to DSCR decline below 1.50x.
- Emergence of potential liabilities out of pending legal matters pertaining to the real estate development.

Analytical approach: Standalone

Outlook: Stable

NECE's business and financial risk profiles are expected to remain stable due to healthy toll collections, comfortable leverage indicators, and the strong liquidity.

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

Established operational track record with healthy traffic growth and diversified traffic mix

NECE has an established track record of around 16 years of healthy toll collection. The toll collection was adversely impacted in FY20 and FY21 due to COVID-19-related disruptions. However, the traffic has revamped, and the toll collection has surpassed pre-COVID-19 levels in FY23, mainly considering the pent-up demand of the Indian economy.

In FY24, NECE reported a toll collection of ₹592 crore (FY23: ₹475 crore) registering a growth of around 25% in FY25. The average daily toll collection (ADTC) in FY24 increased to ₹1.62 crore per day as against ₹1.30 crore per day in FY23. With the envisaged benefit from increased traffic from operationalisation of six-lane Bangalore-Mysore expressway of National Highways Authority of India (NHAI), vehicle traffic is expected to increase further. Traffic mix is well diversified with around 53% of the traffic (in terms of PCUs) being from passenger vehicles, while balance 47% from commercial vehicles.

Monetisation of interchange land assets

According to the Framework agreement, besides development and toll collection on roads, NECE is also entitled to develop land at 10 interchanges besides development of a township. NECE has monetised its land for ₹15.20 crore in FY22 and ₹94 crore in FY23 by way of sale of land to Bangalore Metro Rail Corporation as the project land falls under consent land acquisition. Of the ₹94 crore, NECE has received ₹40 crore, while the balance amount is pending due to lower-than-agreed pending compensation by BMRC. The matter is sub judice. Moreover, of the 10 interchanges to be developed, NECE has already developed two of the interchanges and has applied for approval with Government of Karnataka for the sale of the same. Going forward, receipt of approval from GoK for sale of interchanges shall remain crucial from the credit perspective.

Strategic location of the project stretch

Bangalore and Mysore are the two largest urban areas in Karnataka. These two cities are approximately 140 km apart and are connected by two state highways, SH-17 and SH-86. The Expressway, Link Road, and the Peripheral Road helps to bypass Bangalore city and save the travel time by around two hours, besides preventing M&HCVs from congesting roads of Bangalore. Any vehicle that moves through Bangalore-Nidagatta and Nidagatta-Mysore Highway is expected to pass through the stretch of NECE making it an important link. The project stretch of NECE has no feasible alternate route, insulating NECE from traffic risk to an extent.

Healthy debt coverage indicators with defined waterfall mechanism in place

The project has a defined waterfall mechanism in place with restrictions on withdrawal of surplus until completion of concretisation and accelerated repayment of loan thereafter. As concretisation of the peripheral road is completed, the company is envisaged to generate healthy cash surplus which will be utilised towards prepayment of the term loan. The company has pre-paid ₹79 crore in FY24 and ₹60 crore in Q1FY25. The total external debt / toll collection stood comfortable at 2x as on March 31, 2024, and the debt coverage indicators are envisaged to remain comfortable on back of healthy toll collections. The project has a long tail period providing financial flexibility to the company. As per the Framework Agreement and Toll Concession Agreement, the concession period will start from the date of signing of the Framework Agreement and end on the 30 years from the date set forth for the final component of the toll road in the Toll Road Completion Notice, which is to be issued after completion of final phase of Toll Road.

Fixed toll rate hikes per TCA

Per the toll concession agreement, NECE has an autonomy to revise the toll rates and has a provision of in-built fixed 10% increase in toll rates annually. NECE could not hike its toll rates since FY17 due to COVID-19-related disruptions. Nevertheless, NECE has implemented toll hike of 18% in FY23, 16.2% in FY24, and 15.3% from July 01, 2024.

Strong parentage

NECE is a Kalyani Group company, which is one of the leading business houses in India with high technology, engineering and manufacturing capability. Ashok Kumar Kheny, the Managing Director (MD) of NECE, has over three decades of experience across infrastructure development, transportation projects and telecommunication sector. NECE has a well-defined organisation structure supported by qualified and experienced second-tier management empowered with decision-making powers. Nandi Infrastructure Corridor Enterprise Ltd. (NICE), the immediate holding company of NECE, is held by BF Utilities Limited (BFUL, 75% of the holding), whose ultimate holding company is Bharat Forge Limited (BFL, rated CARE AA+; Stable / CARE A1+) - a flagship company of the Kalyani group.

Key weaknesses**Pending acquisition of land for the expressway and monetisation of interchange and township development**

The scope of the project includes acquisition and development of 6173 acres of land, of which 1575 acres of land is towards the construction of three roads, while the balance 4598 acres of land is for the development of the real estate and construction of proposed township. Of the above, NECE has 4184 acres of land under possession, while balance 1989 is yet to be acquired. The pending land primarily pertains to expressway and township construction.

NECE has extended advances towards land acquisition to the tune of ₹313 crore as on March 31, 2024, of which ₹199 crore have been advanced to Karnataka Industrial Agency Development Board (KIADB) and the balance to private parties for the land acquisition adjacent to peripheral road and express ways.

NECE is also exposed to the residual construction risk associated with construction of expressway, development of eight interchanges and a township. However, the above construction is dependent on land availability and is linked to land monetisation for its financing requirements. NECE has developed two interchanges with aggregate area of around 215 acres and approval for sale of such plots is awaited from GoK. The proceeds of this interchange sale shall be sufficient to fund balance capex in case of balance land allotment. CARE Ratings understands, going forward, timely monetisation of land parcel shall be crucial from the credit perspective for balance expressway development and township development.

Inherent traffic risk

For any toll project, there is an inherent risk associated with the sustainability and growth of traffic. The revenue in a toll-based road project is simultaneously dependent on the rate of traffic growth, traffic-mix and growth in toll rates, all of which are estimates based on surveys carried out at the time of bidding for a specified period and thereafter adjusted for seasonal factors thereby exposing the company to the uncertainties with respect to revenue.

Inherent O&M and interest rate risk

The project is exposed to inherent O&M risk with presence of around 140 toll booths and multiple exits, the O&M expenses have been higher as compared to other NHAI projects. Owing to multiple ongoing litigations and land-related issues, the legal and professional expenses have also remained high, which increases the overall O&M expenses. With completion of concretisation of existing roads, the MM requirement would be negligible. NECE shall also remain exposed to the risk related to variations in the interest rate on the project debt availed in the concession period.

Regulatory risk with multiple litigations surrounding project

CARE Ratings Limited (CARE Ratings) has observed that ratings assigned to the debt of state highways projects are exposed to the regulatory risk in case of toll exemption of cars announced by the state governments. However, debt coverage indicators are expected to remain adequate even under stressed scenario of toll exemption to cars. Furthermore, the frame work agreement (FWA) grants NECE with exclusive, unconditional and irrevocable rights of toll collection, mitigating the risk to a large extent. The same is reflected from the fact that NECE collects toll from two-wheelers unlike other road projects. Being a private road, the company has some degree of autonomy and asset ownership. However, lender's rights in case of substitution of sponsor and termination of project are relatively inferior as compared to build-operate-transfer (BOT) projects. This restricts overall financial flexibility. The project has also been subject to litigations surrounding the award of Bangalore Mysore Infrastructure Corridor (BMIC) project related to land and real estate development. According to the legal opinion sought by the company, no financial implications are expected from ongoing litigations.

Liquidity: Strong

NECE has a strong liquidity position marked by free cash and bank balance (including liquid investments) of ₹156 crore as on March 31, 2024. Considering adequate liquidity and healthy growth in traffic and toll collections, the cash flows of project reflect ample cushion for timely debt servicing in potential downside scenarios. The project also has a long tail period, which further aids to the project's financial flexibility. Per the sanction terms, NECE has created DSRA in the form of non-fund-based bank guarantee of ₹40 crore and in the form of lien on investments of ₹13.58 crore.

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](#)
[Infrastructure Sector Ratings](#)
[Road Assets-Toll](#)

About the company and industry

Industry classification

Macro-economic Indicator	Sector	Industry	Basic Industry
Services	Services	Transport infrastructure	Road assets–Toll, annuity, hybrid-annuity

NECE is a special purpose vehicle (SPV) promoted by NICE (54.22% of the stake) for the development of Stage-I of the BMIC. NICE is held by BF Utilities (BFUL, 75% of the holding) which in turn is the subsidiary of BFL (Flagship Company of the Kalyani group).

The scope of the work includes construction of the three toll roads: Peripheral Road: 41 km of peripheral road around the city of Bangalore linking NH-4 to NH-7, Link Road: 9.1 km of the link road from existing ring road to the proposed interchange at peripheral road and Expressway: 13 km of the Bangalore-Mysore expressway and the development and sale of land in the real estate segment.

NECE has completed 41 km of Peripheral Road in 2008 and commenced toll operations in December 2008; completed 8.5 km of Link Road, commencing toll operations in October 2009; and constructed 4.5 km of Expressway (total to be constructed 13 kms), of which the balance is pending due to delays in the acquisition of the land. The company started tolling of completed road portions and currently collects toll on the Peripheral Road and Link Road section.

The land required for both the toll road operation and the real estate aggregates to 6,173 acres (1,575 acres for toll road and 4,598 acres for interchange and township development).

Brief Financials (₹ crore)	March 31, 2023 (A)	March 31, 2024 (Prov.)
Total operating income	625	776
PBILDT	412	483
PAT	196	254
Overall gearing (times)	NM	NM
Interest coverage (times)	2.36	3.53

A: Audited; Prov.: Provisional; NM; Not meaningful; Note: these are latest available financial results

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 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	-	-	-	March 2032	916.59	CARE AA-; Stable
Fund-based - LT-Term loan	-	-	-	March 2030	181.99	CARE AA-; Stable

Annexure-2: Rating history for 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	916.59	CARE AA-; Stable	-	1)CARE A+; Stable (29-Jun-23)	1)CARE A; Stable (19-Jul-22)	1)CARE A-; Stable (24-Aug-21)
2	Fund-based - LT-Term loan	LT	181.99	CARE AA-; Stable	-	1)CARE A+; Stable (29-Jun-23)	1)CARE A; Stable (19-Jul-22)	1)CARE A-; Stable (24-Aug-21)

LT: Long term

Annexure-3: Detailed explanation of covenants of rated instruments/facilities – Not applicable**Annexure-4: Complexity level of 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 complexity levels of 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 clarifications.

Contact us

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About us:

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