Essel Lucknow Raebareli Toll Roads Limited

December 26, 2022

Rating

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Non Convertible Debentures	338.10 (Reduced from 383.70)	CARE BBB; Positive (Triple B; Outlook: Positive)	Revised from CARE BBB-; Negative (Triple B Minus; Outlook: Negative)
Total Long Term Instruments	**338.10 (₹ Three Hundred Thirty-Eight Crore and Ten Lakhs Only)**		

Details of instruments/facilities in Annexure-1.

Detailed rationale and key rating drivers

The revision in the ratings assigned to the instruments issued by Essel Lucknow Raebareili Toll Roads Limited (ELRTRL) primarily factors in the completion of major maintenance (MM) works negating the risk of inferior quality maintenance of stretch resulting in deductions in annuities earlier and subsequent shrink in the deduction intensity among the annuities thereby indicating stabilization of the annuity streams. Furthermore, the rating continues to favourably factor the credit quality of the underlying annuity receivables from National Highways Authority of India (NHAI - rated CARE AAA; Stable) supplemented by a structured payment mechanism (SPM) for servicing of the NCDs in the form of an escrow of semi-annual annuity receivables from NHAI along with cash trap mechanism (i.e. till the time surplus cash exceeds the outstanding NCD commitment, no payment from the surplus to be made to shareholders/group companies) and creation of funded reserve towards Debt Service Reserve Account (DSRA). CARE Ratings takes cognizance that the company took approval from the debenture holders to dip into DSRA by Rs.20 crore (out of total balance of Rs.50 crore) and as on date the DSRA balance stands at Rs.30 crore. The dip into DSRA was required to fulfil the major maintenance obligations and the operational expenditure of the SPV and the approval from the debenture holders was granted with stipulated timelines for DSRA replenishment. While the DSRA is at Rs.30 crore, the company has additional liquidity over and above DSRA of Rs.20.08 crore as on September 30, 2022 which is also expected to remain with the company.

The rating strengths are however, tempered by significant deterioration in the credit profile of the sponsor, Essel Infraprojects Limited (EIL; rated CARE D/Issuer Not Cooperating) accentuated with Operation & Maintenance (O&M) risk impacting its revenue visibility as well. The above-mentioned risk had assumed significance in light of recurrent annuity deductions faced by the company due to inferior maintenance quality. The company, however, has completed the major maintenance works and CARE Ratings expects that going forward the likelihood of performance related deductions shall be lower. Any significant deduction in annuities going forward impacting the coverage metrics of ELRTRL shall continue to remain a key rating monitorable.

The Debenture Trustee Deed (DTD) states triggering of events due to multiple rating actions, which may potentially result in step up of coupon rates. As per the DTD, there is a coupon step-up clause of 25bps for every notch of downgrade of ELRTRL rating. CARE Ratings believes that such scenarios are less likely to happen as the major maintenance of the road has been completed.

Rating sensitivities

Positive factors – Factors that could lead to positive rating action/upgrade:

- Replenishment of DSRA to the stipulated level of Rs.50 crore
- Timely receipt of annuities without any delays and deductions on sustained basis

Negative factors – Factors that could lead to negative rating action/downgrade:

- Deterioration in the credit profile of NHAI
- Non-receipt/delayed/reduced receipt of annuities
- Non-adherence of the Structured Payment Mechanism
- Step-up of coupon rates bringing down the DSCR levels below 1.05x
- Triggering of accelerated prepayment of the instrument

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

Outlook: Positive

The outlook for the rating has been revised to 'Positive' on account of the expectation that the annuities going forward shall no longer be incurring performance related deductions since major maintenance has been completed and the DSRA will be replenished to the stipulated level of Rs.50 crore from the project cashflows. Outlook may be revised to stable if there is any incurrence of performance related deduction in the annuities.

Detailed description of the key rating drivers

Key rating strengths

Low credit risk associated with the annuity provider – NHAI:

Incorporated by the Government of India (GoI) under an act of the Parliament as a statutory body, NHAI functions as the nodal agency for development, maintenance and management of the National Highways in the country. NHAI's credit rating factors in high level of support that NHAI receives from GoI due to its strategic importance for implementing various road sector projects including various phases of NHDP. By virtue of being a quasi-government body, the risk arising from NHAI defaulting on the annuity payments is minimal.

Structured Payment Mechanism with cash trap and provision for DSRA composition

ELRTRL is maintaining an escrow account which includes the proceeds account and insurance account. The entire cash flows of the project are required to be pooled into this account. The credits and debits to this account shall be made in accordance with the procedures and priorities described in the Escrow Agreement. Furthermore, structural mitigants with respect to upfront creation of funded DSRA, provides comfort from the credit perspective. DSRA as per DTD has to be for Rs.50 crore throughout the debenture tenure, however the company sought interim waiver from the debenture holders to dip into DSRA by Rs.20 crore for completing the major maintenance works and meet the operational expenditure till the ensuing annuity is received and as on date the DSRA balance stands at Rs.30 crore. The Debenture Trustee has stipulated replenishment of DSRA to minimum of Rs.40 crore by Nov 2023 and Rs.50 crore by May 2024 which is expected to be adhered to from the project cashflows. While the DSRA is at Rs.30 crore, the company has additional liquidity over and above DSRA of Rs.20.08 crore as on September 30, 2022 which is also expected to remain with the company considering the cash trap mechanism restricting withdrawal of surpluses from the project only for project related expenses and debenture servicing. Adherence to structured payment mechanism continues to constitutes as key rating monitorable.

Debt repayment structure & fixed rate of coupon for NCD

As per the terms stipulated in the DTD, 'T+30' structure has been provided for NCD repayment with 'T' being the NHAI annuity receipt date in order to take care of any operational delay in receipt of annuity from NHAI. ELRTRL has the total debt outstanding at Rs.338.10 crore as on September 30, 2022. The project has a repayment period of 13 years ending in September 2028 and has tail period of 1 year.

The repayment and interest payments are to be made on semi-annual basis with fixed interest rate of 9.30% p.a. (ROI revised from 9.05% in April, 2019) for NCD issue. Nonetheless the company is exposed to interest rate risks due to multiple rating actions, which may potentially result in step up of coupon rates as per the Debenture Trust Deed (DTD) agreement. However, CARE Ratings expects the interest rates to continue to be at 9.30%. Any step-up in coupon rates is critical for the rating and continues to be a key rating monitorable.

Key rating weaknesses

Heightened risk of cash flow visibility albeit improvement expected from Q4FY23 onward

ELRTRL is an annuity project and as per the CA, it would receive 29 annuities of Rs.50.40 crore on semi-annual basis every year up to August 2029 from NHAI. The company has received fifteen annuities till July 2022. There was a performance related deduction of Rs.1.72 crore for the annuities received in FY22 and Rs.0.10 crore in the fifteenth annuity received in July 2022. As per the independent engineer (IE) recommendation for the fifteenth annuity the deduction for Rs.0.10 crore pertains to the period of December 2021 and no penalty was imposed for the period between January'22-July'22.

In the past also, the company received Third, Fourth and Fifth Annuity at reduced amounts from NHAI due to sub-par performance of maintenance obligations, against stipulated terms. However, subsequent annuities were received in full in January 2018, July 2018, January 2019 and July 2019. The deductions again arose from the tenth annuity primarily due to delay in major maintenance works on the road. As the major maintenance works stand completed the cash flow visibility is expected to be stabilised. CARE Ratings expects that the sixteenth annuity shall not incur any performance related deduction.

Any performance related deduction going forward shall compromise the cash flow visibility and hence remains a key rating monitorable.

Weak financial risk profile of Sponsor EIL
In view of deterioration in the credit profile of sponsor Essel Infraprojects Limited (EIL), no credit comfort is derived from the sponsor support undertaking.

O&M risk
Being a road project, the company is inherently exposed to O&M risk. The absence of a strong sponsor has further aggravated these risks. Presently, the major maintenance work stands completed, therefore the maintenance risks stands mitigated to an extent. However, sharp movement in O&M cost heads due to over than envisaged wear and tear as well as rising construction material costs expose the company to O&M risk. CARE Ratings understands that the cash trap mechanism ensures retention of surpluses with the SPV which shall be available for the company towards meeting any exigencies.

Residual construction risk, however, no grant of pending Right of Way (RoW)
The construction work is yet to be completed on the small portion of project due to un-availability of land, which does not impact the main carriageway. The sponsor i.e. EIL had undertaken to bear the construction cost as and when the land is made available to ELRTRL. The deteriorated credit profiles of the EPC contractor and sponsor has aggravated the funding risk towards the residual construction and the works are expected to be funded from the project cash flows. The SPV is entitled to receive full annuities (subject to satisfactory maintenance) as the residual construction works are not pertaining to the main carriageway. However, negative change of scope for the residual works may cause a downward revision in the annuities.

Liquidity: Adequate
As on September 30, 2022, the company has a cash & bank balance of Rs.50.08 crore, including Rs.30 crore in the fixed deposits which is earmarked towards DSRA balance. Apart from the surplus reserves and cash balances, which are expected to be retained at SPV levels for project related expenses and debenture servicing only, the company is expected to receive sixteenth annuity from NHAI, which is due in January 2022. As against this, the company has a debt obligation of Rs.24.30 crore towards principal redemption and ~Rs.15.72 crore on Coupon in March 2023. As such, liquidity position appears to be adequate.

Analytical approach
Standalone

Applicable criteria
Policy on default recognition
Financial Ratios – Non financial Sector
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Credit Watch
Annuity Road Projects

About the company
Incorporated in February 2011, ELRTRL is a special purpose vehicle (SPV) promoted by Essel Infraprojects Limited (EIL; rated CARE D; Issuer not cooperating) to design, construction development, operation, maintenance, and management of four laning of Lucknow-Raebareli section from km 12.700 to km 82.700 (70 km length) of NH-24B in the State of Uttar Pradesh under NHDP Phase IVA on design, built, finance, operate and transfer (DBFOT)-Annuity Basis as per the tender awarded by the National Highways Authority of India (NHAI, rated 'CARE AAA; Stable' for instruments). As per the concession agreement (CA), the concession period of the project is 17 years (including construction period of 30 months) ending in July 2029. The SPV attained provisional commissioning certificate on January 16, 2015, and final commercial operation date (COD) on April 14, 2015.

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	H1FY23 (UA)
Total operating income	65.35	88.14	35.84
PBILDT	48.71	23.58	22.27
PAT	6.30	-7.98	4.41
Overall gearing (times)	3.64	3.51	2.81
Interest coverage (times)	1.18	0.63	1.30

A: Audited; UA: Un-Audited; Note: Financials are classified as per CARE Internal standards

Status of non-cooperation with previous CRA:
Not applicable

Any other information:
Not applicable

Rating history for the last three years: Please refer Annexure-2

Covenants of the rated instruments/facilities: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated for this company: Annexure-4

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Debentures-Non Convertible Debentures	INE465N07157	November 27, 2015	9.30%	March 31, 2023	24.30	CARE BBB; Positive
	INE465N07165			September 30, 2023	24.90	
	INE465N07173			March 31, 2024	25.80	
	INE465N07181			September 30, 2024	26.70	
	INE465N07199			March 31, 2025	27.60	
	INE465N07207			September 30, 2025	27.00	
	INE465N07215			March 31, 2026	27.90	
	INE465N07223			September 30, 2026	28.80	
	INE465N07231			March 31, 2027	30.00	
	INE465N07249			September 30, 2027	31.20	
	INE465N07256			March 31, 2028	32.40	
	INE465N07264			September 30, 2028	31.50	
					338.10	

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 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Debentures-Non Convertible Debentures	LT	338.10	CARE BBB; Positive	-	1)CARE BBB-; Negative (27-Dec-21)	1)CARE BBB-; Negative (28-Dec-20)	1)CARE BBB; Negative (03-Mar-20) 2)CARE BBB; Negative; ISSUER NOT COOPERATING* (17-Dec-19) 3)CARE AA; Negative; ISSUER NOT COOPERATING* (07-Oct-19)

*Long term/Short term.

Annexure-3: Detailed explanation of the covenants of the rated instruments/facilities

Name of the Instrument	Detailed Explanation
A. Financial covenants	DSCR shall not be lower than 1.05x during the tenor of the NCD
	To maintain DSRA equivalent to peak coupon and principal instalment servicing during the tenor of the Issue.
	Adequate provision for the budgeted Major Maintenance Amount from the annuity payments as provided in the base case business plan.

Annexure-4: Complexity level of various instruments rated for this company

Sr. No.	Name of Instrument	Complexity Level
1	Debentures-Non Convertible Debentures	Simple

Annexure-5: Bank lender details for this company

To view the lender wise details of bank facilities please click here

Note on 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:
Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

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