Nagpur - Seoni Express Way Limited

January 31, 2022

Rating

Facilities/Instruments	Amount (Rs. crore)	Rating[1]	Rating Action
Non-convertible Debentures	76.77 (Reduced from 89.91)	CARE AAA; Stable (Triple A; Outlook: Stable)	Reaffirmed
Total Long-term Instruments	**76.77 (Rs. Seventy-six crore and seventy-seven lakh only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The rating of the non-convertible debentures (NCDs) of Nagpur - Seoni Express Way Limited (NSEL) continues to derive strength from the credit quality of the underlying annuity receivables from National Highways Authority of India (NHAI; rated 'CARE AAA; Stable/ CARE A1+') which is further supplemented by a structured payment mechanism for servicing of the NCDs, established track record of receipt of annuities from NHAI, elimination of interest rate risk (through issue of fixed coupon rate NCDs), along with adequate liquidity in the form of presence of debt service reserve account (DSRA), as well as pre-defined appropriation of funds into major maintenance reserve account (MMRA). The rating also takes note of the pre-payment of the existing non-infrastructure debt fund (IDF) debt through infusion of unsecured loans from IndInfravit which is subordinated till the currency of the debt. Collectively, increase in the annuities post receipt of arbitration award as well as partial pre-payment of senior debt has improved the debt coverage indicators of the company. The above rating strengths are partially offset by inherent O&M risk attached with the project.

Rating Sensitivities

Positive Factors - Factors that could lead to positive rating action/upgrade: NA

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

- Deterioration in the credit profile of the counter party (NHAI)
- Breach of performance obligations of O&M contractor leading to deduction in annuities and consequent deterioration in debt service coverage ratio (DSCR) below 1.10 times
- Non-adherence of the structure payment mechanism

Detailed description of the key rating drivers

Key Rating Strengths

Operational annuity project with established track record of receipt of annuity from NHAI, thus providing cash flow stability

NSEL commenced commercial operations from May 2010. Being an operational annuity road project with NHAI as the annuity provider, the revenue risk is expected to be minimal. Till November 2021, NSEL has received 23 annuities with last two annuities of Rs.21.35 crore each received on May 24, 2021, and November 24, 2021 (net of TDS of Rs.0.43 crore). The semi-annual annuities for NSEL fall due in the months of May and November every year. Furthermore, presence of a 'T plus 60' structure for debt servicing with 'T' being the scheduled date for receipt of annuity from NHAI is expected to take care of any procedural delay in the receipt of annuity. Consequent to favourable arbitration award during FY19 (refers to the period April 1 to March 31), the semi-annuities of NSEL have increased to Rs.21.79 crore on retrospective basis. Furthermore, as informed by the management, CARE Ratings Ltd also understands that the pending work with respect to the vigilance observation referred by NHAI's independent engineer (IE) stands withdrawn.

Low credit risk associated with the annuity provider (NHAI)

NHAI's rating factors in the high level of support that it receives from GoI due to its strategic importance as the country's nodal agency for implementing various road sector projects including various phases of National Highways Development Programme (NHDP). The outlook on NHAI reflects the outlook on the sovereign, whose direct and indirect support continues to be the key rating driver. By virtue of being a quasi-government body, the risk arising from NHAI defaulting on the annuity payments is negligible.

Structured payment mechanism in place

The annuity receivable from NHAI is deposited in a trustee monitored escrow account and utilisation out of the account is made as per the pre-defined water fall mechanism. The terms of the NCD structure ensure transfer of requisite amounts to the designated accounts like DSRA and MMRA. As on November 30, 2021, NSEL has maintained DSRA of Rs.15.92 crore in the form of fixed deposits. Furthermore, the company also maintains MMRA at stipulated levels.

Mitigation of interest rate risk

The NCDs issued by the company carry a fixed coupon rate for the entire tenure resulting in elimination of interest rate fluctuation risk.

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

Sponsor support through infusion of unsecured loan
IndInfravit was established by L&T Infrastructure Development Projects Limited (L&T IDPL) on March 7, 2018, as an irrevocable Trust and was registered as an infrastructure investment trust under the SEBI (InvIT) Regulations on March 15, 2018. Key investors include the Canada Pension Plan Investment Board (CPPIB), Allianz Capital Partners (ACP) and OMERS Infrastructure Asia Holdings Pte. The total loan from sponsor stood at Rs.141.53 crore as on March 31, 2021, which is subordinated to the senior debt.

Key Rating Weaknesses
Inherent O&M risk
NSEL is exposed to inherent O&M risk associated with BOT project. Furthermore, weakened credit profile of O&M contractor, Sadbhav Infrastructure Project Ltd (rated 'CARE BB+; CWN'), also elevates O&M risk. However, adequate cushion in the assumption of O&M cost and strong debt coverage indicators offer cash flow protection in case of substitution of O&M contractor. In order to maintain the roughness index of the road, NSEL has preponed the major maintenance (MM) activity to FY21-FY22 as against the scheduled MM during FY23. The cost of MM is around Rs.22 crore. CARE Ratings Ltd understands about 95% of the MM activity is completed and balance is expected to be completed by March 2022. For the ongoing MM, NSEL has entered into MM agreement with M/s Radhika engineering Co (who is a sub-contractor of SIPL) due to the relatively weaker financial position of SIPL at the same risk and cost basis. NSEL has maintained MMRA reserve to the tune of Rs.7.1 crore as on November 30, 2021.

Liquidity Analysis: Strong
The company has strong liquidity position with timely receipts of annuities Further, there is a gap of around 60 days between due date of annuity receipt and due date of redemption, providing cushion in case of procedural delay in annuity. The company is maintaining DSRA balance of Rs.15.92 crore in the form of fixed deposits as on November 30, 2021.Furthermore, NSEL had funded MMRA of Rs.7.11 crore as on November 30, 2021.

Analytical approach:
Standalone along with existence of a 'structured payment mechanism' covering utilisation of the annuity receipts and its appropriation to various reserves has also been suitably factored in the analysis.

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

About the Company
Incorporated in February 2007, NSEL was promoted by SIPL to design, build, finance, operate and transfer a four-lane road for the total length of 56.48 km starting from Seoni bypass to Madhya Pradesh (MP)/Maharashtra border of National Highway – 7 (NH-7) in the state of MP on an annuity basis. As per the concession agreement (CA), the concession period of the project is 20 years (including construction period of 30 months) from the appointed date. The entire equity stake of SIPL in NSEL was transferred to IndInfravit as on February 14, 2020, along with eight other operational special purpose vehicles (SPVs) for total sale consideration of around Rs.2,546 crore.
Out of the total project stretch of 56.48 km, certain length of the stretch fell under reserve forest area along the periphery of Pench Tiger Reserve in the state of MP. Due to prolonged delay in the clearance of this stretch of land from the Wild Life Board for construction of the road, NHAI had deleted this stretch from the scope of work as per the provision of the CA. Subsequently, NSEL had achieved commercial operations date (COD) for the completed stretch of 27.73 km of road with effect from May 2010.

Brief Financials (Rs. crore)	31-03-2020 (A)	31-03-2021 (A)	H1FY22 (Provisional)
Total operating income	23.67	28.74	27.34
PBILDT	20.34	20.40	12.84
PAT	3.76	-7.86	-4.28
Overall gearing (times)	NM	NM	NM
Interest coverage (times)	NM	NM	NM

A: Audited
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 for this company: Annexure 4

Annexure-1: Details of Instruments / Facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Debentures-Non-Convertible Debentures	**Series A**: INE626J07012 **Series B:** INE626J07152 and INE626J07160	December 15, 2015	**Series A**: 8.72% **Series B**: 8.91%	**Series A**: Feb 1, 2025 **Series B**: Feb 1, 2027	76.77	CARE AAA; Stable

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1	Debentures-Non Convertible Debentures	LT	76.77	CARE AAA; Stable	-	1)CARE AAA; Stable (04-Feb-21)	1)CARE AAA (CWD) (05-Feb-20) 2)CARE AAA (SO) (CWD) (26-Jul-19)	1)CARE AAA (SO); Stable (08-Oct-18)

* Long Term / Short Term

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

Name of the Instrument – NCDs (Series A – Rs.100 crore; Series B – Rs.95 Crore)	Detailed explanation
A. Financial covenants	
1. Minimum Debt Service Coverage Ratio (DSCR) of 1.08x to be maintained throughout the tenure of NCD issue	Provides comfort from credit perspective
2. Subordinate debt not to be repaid until full repayment of NCDs	
3. Issuer shall maintain Debt Service Reserve Account (DSRA) equivalent to ensuing six months of debt servicing in either fund based or non-fund based form. The cost of guarantee shall be borne by sponsor without recourse to assets of Issuer. Major Maintenance Reserve Account (MMRA) to be maintained as stipulated.	
4. Restricted payments to be permitted from surplus cash flows when all reserves are available and effective and when all financial covenants are complied. Additional reserve aggregating Rs.8.5 crore to be created for meeting any contingency for major maintenance due in FY22. Restricted payments also include repayment of loans to sponsor	Provides additional cushion for any cost overrun during major maintenance. Provides better control to debenture trustee regarding repatriation of funds to sponsor
B. Non-financial covenants	
1. Step-up of coupon rate	Coupon will be reset and increased by 25 bps for every notch downgrade from the date of such downgrade
2. Sponsor Undertaking	Undertaking from sponsor to fund the shortfall in servicing in NCDs and fund all expenses over and above 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 instrument: CARE Ratings Ltd. 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 CARE Ratings Limited:
Established in 1993, CARE Ratings Ltd. is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India (SEBI), it has also been acknowledged as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). With an equitable position in the Indian capital market, CARE Ratings Limited provides a wide array of credit rating services that help corporates to raise capital and enable investors to make informed decisions backed by knowledge and assessment provided by the company.
With an established track record of rating companies over almost three decades, we follow a robust and transparent rating process that leverages our domain and analytical expertise backed by the methodologies congruent with the international best practices. CARE Ratings Limited has had a pivotal role to play in developing bank debt and capital market instruments including CPs, corporate bonds and debentures, and structured credit.

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