Annexure-I

Rating Rationale

Nagpur – Seoni Express Way Private Limited

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Non-convertible debentures	60.03 (Reduced from 76.77)	CARE AAA; Stable	Reaffirmed

Details of instruments in Annexure-1

Rationale and key rating drivers

The rating of the non-convertible debentures (NCDs) of Nagpur - Seoni Express Way Private Limited (NSEWPL) continues to derive strength from the credit quality of the underlying annuity receivables from National Highways Authority of India (NHAI; rated 'CARE AAA; Stable'), 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 cognisance of the successful completion of major maintenance (MM) activity in FY21-FY22 (refers to the period April 1 to March 31) and maintaining the satisfactory riding quality of the road as per roughness index report. Furthermore, the rating also takes note of the increase in the annuities post receipt of arbitration award as well as the fact that 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: Factors likely to lead to rating actions

Positive factors – Not applicable

Negative factors

- 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 1.10x.
- Non-adherence of the structure payment mechanism.

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.

Detailed description of the key rating drivers

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

NSEWPL 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 2022, NSEWPL has received 25 annuities with last two annuities of ₹21.35 crore each received on May 24, 2022, and November 24, 2022 (net of TDS of ₹0.43 crore). The semi-annual annuities for NSEWPL 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 NSEWPL have increased to ₹21.79 crore on retrospective basis.

Successful completion of MM activity

To maintain the roughness index of the road, NSEWPL had preponed the MM activity to FY21-FY22 as against the scheduled MM during FY23. The cost of MM was around ₹22 crore, which was incurred in FY21 and FY22. Next MM expense is envisaged

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

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in FY27 and FY28 of around ₹27 crore for which sufficient MMR shall be created and maintained. Furthermore, as per roughness index report for October 2022, the riding quality of the road is satisfactory.

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 September 30, 2022, NSEWPL has maintained DSRA of ₹16.25 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.

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. The key investors include the Canada Pension Plan Investment Board (CPPIB), Allianz Capital Partners (ACP) and OMERS Infrastructure Asia Holdings Pte. The total loan from the sponsor stood at ₹141.53 crore as on March 31, 2022, which is subordinated to the senior debt.

Inherent O&M risk
NSEWPL is exposed to the inherent O&M risk associated with BOT project. Furthermore, weakened credit profile of O&M contractor, Sadbhav Infrastructure Project Limited [SIPL - rated 'CARE B / CARE A4 (RWN); Issuer Not Cooperating'], also elevates the 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, NSEWPL had preponed the MM activity to FY21-FY22 as against the scheduled MM during FY23. The cost of MM was around ₹22 crore, which was incurred in FY21 and FY22. Next MM expense of around ₹27 crore is envisaged in FY27 and FY28 for which sufficient MMR shall be created and maintained.
For the MM activity, NSEWPL had 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. NSEWPL has maintained MMRA reserve to the tune of ₹8.57 crore as on September 30, 2022.

Liquidity: Strong
The company has strong liquidity position with timely receipts of annuities. Furthermore, 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 ₹16.25 crore and MMRA balance of ₹8.57 crore as on September 30, 2022. Furthermore, NSEWPL has other liquid investments (including MFs, FD and free cash) amounting to ₹21.97 crore as on September 30, 2022.

Applicable criteria
Policy on default recognition
Factoring Linkages Parent Sub JV Group
Financial Ratios – Non financial Sector
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Credit Watch

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[Annuity Road Projects](#)
[Policy on Withdrawal of Ratings](#)

About the company

Incorporated in February 2007, NSEWPL 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 NSEWPL was transferred to IndInfravit as on February 14, 2020, along with seven other operational special purpose vehicles (SPVs) for total sale consideration of around ₹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, NSEWPL had achieved commercial operations date (COD) for the completed stretch of 27.73 km of road with effect from May 2010.

Financial performance

(₹ crore)

Brief Financials (Rs. Crore)	FY20	FY21	FY22
	A	A	A
Toll Income/Annuity Income	43.56	43.56	43.56
PBILDT	20.34	20.40	14.07
Interest	16.58	28.26	25.26
Depreciation	-	0.00	0.05
PBT	3.76	(7.86)	(11.24)
PAT	3.76	(7.86)	(11.24)
GCA	3.76	(7.86)	(11.19)
Overall gearing (times)	NM	NM	NM
Interest coverage (times)	1.23	0.72	0.56

A: Audited; NM: Not meaningful.
Note: Financials are as per IND-AS, where in it has recognised financial assets as the present value of annuities receivables under its concession (discounted based on effective interest rate method) and interest income on these assets as it accrues during the year. Hence, these financials are less meaningful.

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

Details of the rated facilities: Please refer Annexure-3

Complexity level of various instruments rated: Annexure-4

Covenants of the rated instruments/facilities: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-5

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Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of the Issue (₹ 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:** February 01, 2025 **Series B:** February 1, 2027	60.03	CARE AAA; 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 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	60.03	CARE AAA; Stable	-	1)CARE AAA; Stable (31-Jan-22)	1)CARE AAA; Stable (04-Feb-21)	1)CARE AAA (CW with Developing Implications) (05-Feb-20) 2)CARE AAA (SO) (CW with Developing Implications) (26-Jul-19)

*Long term/Short term.

Annexure-3: Details of rated facilities

Details of rated NCD

Particulars	Issue Details
Size of the issue	Issue of bonds in the form of NCD aggregating to Rs.195 crore structured in the form of two series as provided below: **Series A:** Rs.100 crore **Series B:** Rs.95 crore
Outstanding as on September 30, 2022	Rs.60.03 crore
ISIN Number	**Series A**: INE626J07012 **Series B:** INE626J07152 and INE626J07160
Tenure	**Series A:** 9 years and one month **Series B:** 11 years and one month
Issue Price	Each unit of Debentures of Series A and Series B shall have face value of Rs.1 lakh and shall be issued at par.
Mode of Issuance	Private Placement
Rate of interest (coupon rate)	Series A:- 8.72 % fixed per annum payable semi annually Series B:- 8.91 % fixed per annum payable semi annually
Purpose of the issue	Refinancing of the existing debt facilities of the issuer
Time lag between receipt of annuity and date of redemption of NCD	60 days

Particulars	Issue Details
Debt service reserve account (DSRA)	The Issuer shall maintain in the DSRA a total amount of fixed deposits equivalent to ensuing 6 months of interest on the outstanding NCDs and 100% of the face value of the NCDs maturing during the next redemption/due date (DSRA Amount). Debenture Trustee may accept, at their option, a guarantee from a bank/financial institution (if permitted under Applicable Laws) in place of fixed deposit without recourse to the Project assets / revenues. The cost of the guarantee shall be borne by the Sponsors without recourse to assets of the Issuer. The DSRA shall be created upfront before subscription to the NCDs and shall be maintained at all times during the currency of the NCDs.
Renewal of BG issued in lieu of funded DSRA	If the renewed BG towards DSRA is not received by the Escrow Banker or the trustee before one month of the expiry date, they will invoke the BG and the Sponsors will have the responsibility of establishing a fresh BG towards the DSRA without recourse to the Company. In the intervening period, DSRA will be kept only in the form of fixed deposit.
Key sponsor undertaking	Corporate Guarantee from the Sponsors to fund the shortfall in servicing of NCDs including redemption and coupon payments and premature redemption in case of termination of Concession Agreement

Annexure-4: Complexity level of the various instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Debentures-Non-convertible debentures	Simple

Annexure-5: Detailed explanation of the covenants of the rated instruments/facilities:

Name of the Instrument – NCDs (Series A – Rs. 100 crore; Series B – ₹ 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 ₹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

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Name of the Instrument – NCDs (Series A – Rs. 100 crore; Series B – ₹ 95 crore)	Detailed Explanation
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.

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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(This follows our Brief Rationale for entity published on January 30, 2023)

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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