

India Ratings Affirms Nagpur Seoni Expressway's NCDs at 'IND AAA'/Stable

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India Ratings and Research (Ind-Ra) has affirmed the ratings on Nagpur Seoni Expressway Limited's (NSEWL) non-convertible debentures (NCDs) as follows:

Instrument Type	Date of Issuance	Coupon Rate	Maturity Date	Size of Issue (million)	Rating/Outlook	Rating Action
NCDs [#]	-	-	-	INR1,950*	IND AAA/Stable	Affirmed

[#]Details in annexure

* Outstanding INR767.7 million as on 30 September 2021

The affirmation of rating reflects the continuing timely receipt of annuities from National Highways Authority of India (NHAI; 'IND AAA'/Stable (<https://www.indiaratings.co.in/PressRelease?pressReleaseID=54362>)), the adequate built-in liquidity in the form of a debt service reserve account (DSRA) and major maintenance reserve, the satisfactory road quality and the pre-payment of certain portion of non-infrastructure debt fund (IDF) debentures. The early redemption of debentures and the increased annuity inflows post a favourable arbitration award in FY19 have propped up the debt service coverage ratios (DSCR). The agency believes the consequent additional project cashflows will provide added cushion to meet any cost overruns in the operations and maintenance (O&M) and major maintenance activity being undertaken in FY22 and proposed to be undertaken in FY28.

The management has indicated that the audit para/vigilance towards the non-executed work stands resolved and there are no adverse observations. Hence, there is no risk of annuity deductions on account of audit para/vigilance observations. Ind-Ra is yet to receive relevant order copies and would continue to monitor the same.

As on 30 September 2021, IndInfravit (the trust) has extended loans to NSEWL to the extent of INR1,415.30 million, of which NHAI has treated INR663.1 million as senior loan and INR752.2 million as a subordinated loan. However, Ind-Ra has considered the entire loans extended by the trust as sub-ordinated loan, since they can be paid only from the surplus cash flows generated by the company and the trust can call for an event of default only after the

redemption of the rated NCDs. Ind-Ra has not considered repayment of the IndInfravit loans while undertaking rating of NCDs.

Key Rating Drivers

Stable Availability-based Payments: The project has been operational from FY11 and has received annuities without any performance-related deductions since its commercial operations date. Although the concession agreement stipulates performance deductions (such as lane non-availability) in annuity payments, NSEWL's track record of receiving full and timely annuity payments and the group's track record in operating highway projects mitigate the availability-related risks. Furthermore, NSEWL has received the last six annuities in accordance to the arbitration award. Ind-Ra expects NSEWL to continue receiving fixed and pre-agreed semi-annual annuities in accordance with the concession agreement in May and November each year. The management has represented that the pending audit para/vigilance observations is resolved. Furthermore, as per the management, there will not be any negative adjustment in annuities going ahead due to the audit para/vigilance observations. The observations will remain a key rating monitorable as any negative adjustment in annuities will impact the coverages.

Sponsor Infusions: IndInfravit had infused about INR1,415.30 million of unsecured loans as on 30 September 2021, a part of which was utilised to retire the unsecured loans infused by the erstwhile sponsor Sadbhav Infrastructure Projects Limited (SIPL) and prepay non-IDF debentures. The company is required to repay the interest and principal for the unsecured loans only if sufficient amounts are available with the borrower such that the utilisation of such amounts will not result in a breach of the financing documents including the terms of supplementary escrow agreement. The inability of the company to pay the interest/principal towards the unsecured loans due to insufficient funds cannot be construed as an event of default.

Liquidity Indicator - Adequate: The overall liquidity of the company including all reserves is INR642.00 million as on 30 November 2021, maintained as fixed deposits and mutual funds. A debt service reserve of INR159.20 million is maintained as fixed deposits. NSEWL maintains INR101.20 million in the form of mutual fund investments in lieu of a debenture redemption reserve. A sum of INR 71.1 million is earmarked in fixed deposits as major maintenance reserve. As per the current financing documents, surplus cash of INR85 million is to be created prior to any restricted payment being allowed which would be used for major maintenance. Steady flow of annuity payments, prepayment of debentures and sufficient liquidity maintained in the project would aid the company in meeting its debt servicing and major maintenance obligations.

Moderate O&M Risk: The project company negotiated a fixed-price O&M contract with SIPL from FY20 until the concession tenor end. The major maintenance activity, which was originally scheduled for FY23, has been brought forward to FY22, considering the road condition. Furthermore, the concessionaire (NSEWL) and investment manager (LTIDPL INDVIT Services Limited) have outsourced a major portion of major maintenance work to a third party at the risk and cost to the contractor i.e. SIPL. The estimated cost of the current major maintenance activity undertaken is about INR230 million and the management expects it to be funded through internal accruals. NSEWL has expensed about INR158 million till 15 December 2021. The management expects major maintenance activity to be completed in FY22. Besides this, the project is maintaining a major maintenance reserve of INR71.1 million, thereby providing visibility for remaining expense to be incurred. The management represented that any cost overrun would be recovered from SIPL. Furthermore, SIPL has pledged 2.50% of the units held by it in IndInfravit to the trust which acts as a comfort.

The timely and satisfactory completion of the major maintenance will be a key monitorable, as a failure to do so could lead to a deduction/delay in annuity payments. The management has represented that the roughness index test and deflection test in the project stretch would be undertaken upon completion of the major maintenance, and Ind Ra will continue to monitor the road quality. Indinfravit's track record in operating highway projects acts as a comfort.

Debt Structural Features: The debt structure risk is mitigated by the debt amortisation schedule being structured to suit the expected cash flows. A gap of over 60 days between the receipt of annuity and redemption of NCDs (February and August each year) for any potential procedural delays is a credit positive. A 10-month tail period, although low, is comparable to other Ind-Ra-rated annuity road projects. Furthermore, the financing documents

have a well-defined waterfall mechanism and upstreaming to be permitted only after meeting the restricted payment covenants including reserves for debt servicing and maintenance. Of the total outstanding NCDs of INR767.70 million on 30 September 2021, INR172.00 million are subscribed by non-IDFs. IndInfravit plans to prepay the same upon the receipt of approvals from the NCD holders.

Rating Sensitivities

Negative: A negative rating action could result from:

- any performance deduction or a significant delay in the receipt of the annuity
- any adverse outcome from the audit/para vigilance observation leading to a deduction in the annuity or additional liability which is not being funded
- any adverse change in the debt structure
- deterioration in the credit profile of the sponsor, O&M contractor and/or the counterparty
- the non-adherence to the structured payment mechanism and the upstreaming of project cashflows to IndInfravit before debt servicing

Company Profile

NSEWL has implemented and operates a four-lane 27.73km road stretch from Seoni bypass to the Madhya Pradesh-Maharashtra border on National Highway 7 on an annuity basis for a 20-year concession period.

Of the total project stretch of 56.48km, a certain length falls under a reserve forest area and at the periphery of Pench Tiger Reserve in Madhya Pradesh. Due to the prolonged delay in the clearance of land, NHAI had delinked this stretch from the scope of work and reduced the semi-annual annuity to INR191.9 million from INR354 million, payable half-yearly. Subsequently, in November 2018, the company received a favourable arbitration award of additional annuity of INR26 million.

NSEWL achieved commercial operations in May 2010. The project, with the revised scope, was completed at a cost of INR2.78 billion, which was 62% funded through foreign currency debt and 38% through promoter contribution.

The entire equity stake in the project company was acquired by IndInfravit from SIPL on 14 February 2020.

FINANCIAL SUMMARY#

Particulars	FY21	FY20
Revenue from operations (INR million)	87.25	38.30
Total income (INR million)	287.40	236.74
EBITDA (INR million)	204.02	203.44
EBITDA margin (%)	70.99	85.93
Source: NSEWL		

#NSEWL's financials for FY21 and FY20 are as per IND-AS 115, by which the net present value of annuities receivable are recognised as financial assets discounted based on effective interest rate method and interest income on these assets accrues during the year. Hence, these financials do not reflect the annuities received in the financial year.

IndInfravit (the trust) is an irrevocable trust set up under the Indian Trusts Act, 1882 and registered with the Securities and Exchange Board of India as an infrastructure investment trust under the Securities and Exchange Board of India (Infrastructure Investment Trusts) Regulations, 2014. Canada Pension Plan Investment Board holds a 43.87% stake while The Ontario Municipal Employees Retirement System and Allianz Capital Partners have a 20.03% and 22.66% stake, respectively in IndInfravit. The sponsor of the trust is L&T Infrastructure Development

Projects Limited (LTIDPL), which has an extensive experience in development of roads. Furthermore, LTIDPL IndvIT Services Limited is the investment manager while LTIDPL and SIPL are the project managers. LTIDPL and SIPL hold 6.05% and 2.50% stake, respectively in the trust. The trust's initial portfolio of assets comprised five toll road projects in the states of Rajasthan, Karnataka, Tamil Nadu and Telangana. Subsequently, the trust acquired another eight road assets from SIPL in Rajasthan, Karnataka, Telangana and Maharashtra in FY20. Out of these eight projects, six are NHAI projects and two are state projects. The trust posted an EBITDA of INR9,823 million on an income of INR16,264 million in FY21. The total distributions made in FY21 stood at INR1,340 million as against INR3,758 million in FY20.

Solicitation Disclosures

Additional information is available at www.indiaratings.co.in. The ratings above were solicited by, or on behalf of, the issuer, and therefore, India Ratings has been compensated for the provision of the ratings.

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Rating History

Instrument Type	Current Rating/Outlook			Historical Rating/Outlook		
	Rating Type	Size of Issue (million)	Rating	4 January 2021	3 January 2020	16 September 201
NCDs	Long-term	INR1,950	IND AAA/Stable	IND AAA/Stable	IND AAA/RWN	IND AAA/RWN

Annexure

Instrument	ISIN	Date of Issue	Coupon Rate (%)	Maturity date	Outstanding (million)	Rating/Outlook
NCDs	INE626J07012	15 December 2015	8.72	1 February 2025	INR595.72	IND AAA/Stable
NCDs	INE626J07152	15 December 2015	8.91	1 August 2026	INR50.00	IND AAA/Stable
NCDs	INE626J07160	15 December 2015	8.91	1 February 2027	INR122.00	IND AAA/Stable

Complexity Level of Instruments

Instrument	Complexity Indicator
NCD	Low

For details on complexity level of the instruments please visit www.indiaratings.co.in/complexity-indicators (<http://www.indiaratings.co.in/complexity-indicators>).

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