

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

Jan 02, 2023 | Road Assets–Toll | Annuity | Hybrid-Annuity

India Ratings and Research (Ind-Ra) has affirmed Nagpur Seoni Expressway Private Limited's (NSEWPL) non-convertible debentures' (NCDs) rating 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 INR600.3 million as on 30 September 2022

The affirmation reflects the continued timely receipt of annuities from the National Highways Authority of India (NHAI; 'IND AAA'/Stable), the adequate built-in liquidity in the form of a debt service reserve account (DSRA) and major maintenance (MM) reserve, completion of MM activity, 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 proposed to be undertaken in FY28.

As on 30 September 2022, IndInfravit (the trust) has extended loans to NSEWPL 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 the repayment of the IndInfravit loans while arriving at the rating of the 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, NSEWPL'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, NSEWPL has received the last eight annuities in accordance to the arbitration award. Ind-Ra expects NSEWPL to continue receiving fixed and pre-agreed semi-annual annuities in May and November each year, in accordance with the concession agreement. 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 has received supporting communication from NSEWPL in this regard.

Sponsor Infusions: IndInfravit had infused unsecured loans of about INR1,415.30 million in NSEWPL as on 30 September 2022, 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 the 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, in the form of reserves, fixed deposits and mutual funds, stood at INR467.90 million as on 30 September 2022. A debt service reserve of INR162.50 million was maintained as fixed deposits, INR104.60 million was maintained in the form of mutual fund investments in lieu of a debenture redemption reserve, and a sum of INR85.70 million was earmarked in fixed deposits as MM reserve as on 30 September 2022. As per the 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. The 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 MM obligations.

Moderate O&M Risk: The project company has negotiated a fixed-price O&M contract with SIPL from FY20 until the end of the concession tenor. The MM activity undertaken in the project stretch during FY21-FY22 was completed at a cost of INR223.8 million, which was in line with the agency's estimate. The MM activity was funded through the internal accruals of the project. The roughness index tests undertaken in the project stretch during October 2022 indicates satisfactory road quality. In May 2022, Sadbhav Pima Private Limited (SPPL) a wholly owned subsidiary of Indinfravit, was appointed as the project manager for eight Sadbhav Indinfravit assets, including NSEWPL. The management has informed the agency that approval for the appointment of SPPL for the remaining 5 Indinfravit assets is under process and SPPL has the required capability for the management of the project assets and the fixed price O&M and MM contract executed with SIPL will remain in place. Furthermore, the management is in the process of renaming SPPL and has sought the required approvals for the same. Ind Ra will continue to monitor the road quality. Indinfravit's established track record in operating highway projects lends comfort to the rating.

Debt Structural Features: The debt structure risk is mitigated by the debt amortisation schedule being structured to suit the likely 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. The 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 INR600.30 million on 30 September 2022, INR172.00 million have been subscribed by non-IDFs.

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 change in the debt structure
- deterioration in the credit profile of the sponsor, O&M contractor and/or the counterparty
- non-adherence to the structured payment mechanism and the upstreaming of project cashflows to IndInfravit before debt servicing

ESG Issues

ESG Factors Minimally Relevant to Rating: Unless otherwise disclosed in this section, the ESG issues are credit neutral or have only a minimal credit impact on NSEWPL, due to either their nature or the way in which they are being managed by the entity. For more information on Ind-Ra's ESG Relevance Disclosures, please click [here](#). For answers to frequently asked questions regarding ESG Relevance Disclosures and their impact on ratings, please click [here](#).

Company Profile

NSEWPL 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.

NSEWPL 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 foreign currency debt was subsequently refinanced by the rated NCDs.

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

FINANCIAL SUMMARY#

Particulars	FY22	FY21
Revenue from operations (INR million)	264.79	87.25
Total income (INR million)	383.00	287.40
EBITDA (INR million)	140.70	204.02
EBITDA margin (%)	36.74	70.99
Finance cost (INR million)	252.60	282.62
Source: NSEWPL		

#NSEWPL's financials for FY22 and FY21 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.

About IndInfravit

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 43.88% 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 extensive experience in the development of roads. Furthermore, LTIDPL IndvIT Services Limited is the investment manager while Sadbhav Pima Private Limited acts as the project manager. LTIDPL and SIPL hold 6.05% and 1.75% 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 INR11,206.58 million on an income of INR18,564.22 million in FY22. The total distributions made in FY22 stood at INR5,689.17 million as against INR1,339.96 million in FY21.

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.

Ratings are not a recommendation or suggestion, directly or indirectly, to you or any other person, to buy, sell, make or hold any investment, loan or security or to undertake any investment strategy with respect to any investment, loan or security or any issuer.

Rating History

Instrument Type	Current Rating/Outlook			Historical Rating/ Rating Watch/Outlook				
	Rating Type	Size of Issue (million)	Rating	4 January 2022	4 January 2021	3 January 2020	16 September 2019	15 J
NCDs	Long-term	INR1,950	IND AAA/Stable	IND AAA/Stable	IND AAA/Stable	IND AAA/RWN	IND AAA/RWN	AAA(

Annexure

Instrument	ISIN	Date of Issue	Coupon Rate (%)	Maturity date	Outstanding (million)	Rating/Outlook
NCDs	INE626J07012	15 December 2015	8.72	1 February 2025	INR428.30	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

Contact

Primary Analyst

Suryanarayanan S

Analyst

India Ratings and Research Pvt Ltd

Harmony Square 3rd Floor, Door No. 48 & 50 Prakasam Street T Nagar Chennai - 600017

044 43401707

For queries, please contact: infogrp@indiaratings.co.in

Secondary Analyst

Dhamodharan M

Analyst

044 43401732

Chairperson

Vishal Kotecha

Director

+91 22 40356136

Media Relation

Ankur Dahiya

Senior Manager – Corporate Communication

+91 22 40356121

APPLICABLE CRITERIA

Evaluating Corporate Governance

Rating Criteria for Infrastructure and Project Finance

Rating Criteria for Availability-Based Projects

DISCLAIMER

All credit ratings assigned by india ratings are subject to certain limitations and disclaimers. Please read these limitations and disclaimers by following this link: <https://www.indiaratings.co.in/rating-definitions>. In addition, rating definitions and the terms of use of such ratings are available on the agency's public website www.indiaratings.co.in. Published ratings, criteria, and methodologies are available from this site at all times. India ratings' code of conduct, confidentiality, conflicts of interest, affiliate firewall, compliance, and other relevant policies and procedures are also available from the code of conduct section of this site.