Essel Lucknow Raebareli Toll Roads Limited
March 18, 2019

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Non-Convertible Debentures (NCD) issue	506.70	**CARE AAA (SO); Negative [Triple A (Structured Obligation); Outlook: Negative]**	**Revised from CARE AAA (SO); Stable [Triple A (Structured Obligation); Outlook: Stable]**
Total Facilities	**506.70 (Rs. Five Hundred and Six Crore and Seventy Lakh only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in outlook from 'Stable' to 'Negative' reflects the deterioration in credit profile of the sponsor, Essel Infraprojects Limited (EIL, rated CARE A4; under credit watch with negative implications), and higher expected tax liabilities than earlier envisaged in the base case business plan (due to shift to IndAS). The ability of the sponsor to meet any cost overrun in operation and maintenance (O&M) and major maintenance (MM) expenses on the back of reduced financial flexibility is a key rating sensitivity.

The rating assigned to the Non-Convertible Debenture (NCD) of Essel Lucknow Raebareli Toll Roads Limited (ELRTRL) continue to derive strength from the credit quality of the underlying annuity receivables from National Highways Authority of India (NHAI; rated 'CARE AAA' for instruments) and timely receipt of annuity 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 with waterfall 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 cash balances under Major Maintenance Reserve Account (MMRA) and Debt Service Reserve Account (DSRA). Furthermore, the elimination of interest rate risk as the NCDs have a fixed coupon and fixed price contractual arrangement for operation and maintenance (O&M) are other credit positives. The rating also takes cognizance of the established track record of the sponsor – EIL, which has provided sponsor support undertaking and O&M contractor Pan India Infraprojects Private Limited (PIIPL) in the infrastructure space.

Furthermore, timely completion of major maintenance work in future, thereby ensuring timely receipt of full annuity due, inability of the promoters to support the SPV in timely manner including non-reimbursement of performance deduction, deterioration in the credit profile of the annuity provider-NHAI, occurrence of any force majeure event and any deterioration in the credit profile of the promoters, are the key rating sensitivities.

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 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.

Stable cash-flow and timely receipt of annuity from NHAI

As per the Concession Agreement (CA), the company would receive 29 annuities of Rs.50.40 crore on semi-annual basis in the month of August and February every year up-to August 2029 from NHAI providing cash-flow visibility. The company has received eight semi-annual annuities with last one being on January 2019. ELRTTRL being an annuity project is not exposed to any traffic risk. Further, as it is already operational project for nearly 4 years, hence no construction risk exists.

Structured Payment Mechanism with provision for DSRA and MMRA and fixed interest rate providing ample Liquidity

ELRTRL is maintaining an escrow account which includes the proceeds account and insurance account. The entire cash flows of the project (including the bonus payments, if any) 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.

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[1] *Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications*

Furthermore, structural mitigants with respect to upfront creation of funded DSRA for an amount of Rs.50 crore, provides comfort from the credit perspective. ELRTRL has maintained DSRA in the form of cash. As of December 31, 2018, the company has maintained cash DSRA of Rs.50.07 crore and the bank guarantee (by ABFL) has been discharged. The annual appropriation in MMRA (which is a part of the cash-flow waterfall mechanism) for the purpose of major maintenance activity act as credit comfort and is to be maintained in liquidity prior to period in which Major Maintenance is to be carried out. As of December 31, 2018, the MMRA balance is Rs.12.04 crore, this balance is post expenses of Rs.2.56 crore in the period October 2018 to December 2018 for major maintenance. The deviation from the aforesaid structured mechanism, along with any force majeure event, are key rating monitorable.

Debt repayment structure & fixed rate of interest for NCD
As per the terms stipulated, 'T+30' structure has been provided for NCD repayment with 'T' being the NHAI annuity receipt date to take care of any operational delay in receipt of annuity from NHAI. ELRTRL has repaid a total of Rs.93.30 crore debt till date (Rs.34.20 crore in FY18 and Rs.18.6 crore in 9MFY19), with the total debt outstanding at Rs.506.70 crore, as on December 31, 2018. The average DSCR for the tenor is 1.16x (till FY28). The project has a repayment period of 13 years starting from March 2016 and ending in September 2028 and has tail period of 1 year. The repayment and interest payments is to be made on semi-annual basis with fixed interest rate of 9.05% p.a. for NCD issue which completely mitigates interest rate risk providing comfort from credit perspective.

Fixed price O&M contract with the an Essel group company - PIIPL
ELRTRL is exposed to inherent O&M risk attached to the operational road projects. In order to mitigate the same, ELRTRL entered into fixed time fixed price O&M contract with PIIPL on May 22, 2015 for entire concession period of the project and covers the scope of routine O&M work and periodical major maintenance work. PIIPL, an Essel group company, has been operating in construction of infrastructure projects for last 14 years. However, Essel group does not carry out any EPC work on its own and it subcontracts O&M work entirely.

Sponsor support undertaking and Weakened financial risk profile of EIL
The sponsor shall undertake to meet any cost overruns with respect to O&M expenses, to cover any deductions in any annuity due to performance shortfall of ELRTRL, to cover any residual / additional construction costs as required by NHAI to complete the project / additional scope of the project as per NHAI and shall arrange to meet any shortfall for the major maintenance reserve (MMR) for the tenor of the facility or any shortfall amount which is not met by cash flows. The sponsors are to bring in funds in order to maintain the required DSRA amount, as and when required; and shall bring cash support, if any during operations to meet cash losses and financial covenants during the tenor of the facility. However, the ability of the sponsor i.e. EIL to meet cost overruns in O&M and MM, on the back of its reduced financial flexibility is a key rating monitorable.

Key Rating Weaknesses
Reduction in annuity related to non-performance of PIIPL
The reduction in annuity was due to non-performance of PIIPL, as per stipulated terms. However, the promoter (EIL) had infused Rs.1.40 crore (against deduction of Rs.1.38 crore) in the SPV for annuity deduction (4^{th} annuity) in February 2017. Also, PIIPL (on behalf of promoter) infused Rs.1.19 crore (against deduction of Rs.1.18 crore) for annuity deduction (5^{th} annuity) in July 2017, out of which Rs.0.41 crore is expected to be received from NHAI (the company has not received the same as of February 28, 2019). The amount deducted from the 5^{th} annuity was with-held on account of penalties levied for non-maintenance of the project. However, the company has received 6^{th}, 7^{th} and 8^{th} annuity in full from NHAI. Any performance deductions by NHAI on continuous basis remain a key rating monitorable.
The estimated routine and Major Maintenance expenses are lower than the peers and CARE median, which reduces cash flow cushion considering moderate DSCR. The non-performance risk by PIIPL is likely to have bearing on the receipt of annuity. However, the company remains confident that the MME will be as per budgeted numbers i.e. base case business plan. Furthermore, the Debenture Trustee shall have the right to appoint/ substitute O&M contractor in the event of non-performance/ breach by the existing O&M contractor as per the terms of O&M agreement which lends additional comfort. In case of non-performance by PIIPL, the ability to substitute O&M contractor with the similar terms remains critical. The undertaking from EIL to meet O&M expenses beyond the budgeted imparts comfort to certain extent. However, the credit profile of the sponsor i.e. EIL (rated CARE A4; under credit watch with negative implications) has weakened considerably, hence the ability of EIL to provide support remains a key rating sensitivity. And, any performance deductions by NHAI on continuous basis remain a key rating monitorable.

Increase in tax liability due to adoption of IndAS
As per IndAS, the annuity contracts are classified as Service Concession Agreement (SCA), which increased the tax liabilities of the company in the initial years of implementation.

Residual construction risk, however, to be funded by EIL

The construction work has been completed on the small portion of land, majority of the work is still pending due to un-availability of land, which does not impact the main carriageway. The sponsor i.e. EIL has undertaken to bear the construction cost as and when the land is made available to ELRTRL. However, it should be noted that ELRTRL continues to receive full semi-annuity of Rs.50.40 crore without any deduction. The liability of creating the safety fund has been taken by PIIPL, being the contractor.

Analytical approach

CARE has analyzed ELRTRL's credit profile by considering the structured payment mechanism (semi-annual annuity received from NHAI) in an escrow account for debt servicing of the NCD and adequate built in liquidity cushions with favorable credit protection mechanisms.

Applicable Criteria

Criteria on assigning Outlook to Credit Ratings
CARE's Policy on Default Recognition
Financial ratios – Non-Financial Sector
Rating Methodology - Infrastructure Sector Ratings

About the Company

Incorporated in February 2011, ELRTRL is a special purpose vehicle (SPV) promoted EIL to design, construction development, operation, maintenance, management and toll collection of four laning of Lucknow-Raebareli section from km 12.700 to km 82.700 (70km 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' 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 (Rs. crore)	FY17 (A)	FY18 (A)
Total operating income	74.77	73.67
PBILDT	68.07	66.93
PAT	12.70	10.79
Overall gearing (times)	7.31	6.12
Interest coverage (times)	1.23	1.28

A: Audited

Status of non-cooperation with previous CRA: NA
Any other information: NA
Rating History for last three years: Please refer Annexure-2

Note on complexity levels of the rated instrument: CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

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Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Debentures-Non Convertible Debentures	November 2015	9.05%	September 2028	506.70	CARE AAA (SO); Negative

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 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Debentures-Non Convertible Debentures	LT	506.70	CARE AAA (SO); Negative	1)CARE AAA (SO) (06-Apr-18)	-	1)CARE AAA (SO); Stable (20-Jan-17)	1)CARE AAA (SO) (14-Dec-15) 2)Provisional CARE AAA (SO) (26-Nov-15)