

# India Ratings Downgrades Essel Lucknow Raebareli Toll Roads' NCDs to 'IND BB+'; Outlook Negative

Jan 24, 2024 | Road Assets–Toll | Annuity | Hybrid-Annuity

India Ratings and Research (Ind-Ra) has downgraded Essel Lucknow Raebareli Toll Roads Limited's (ELRTRL) non-convertible debentures (NCDs) to 'IND BB+' from 'IND BBB-'. The Outlook is Negative. The detailed rating action is as follows:

Instrument Type	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of Issue (million)	Rating/Outlook	Rating Action
NCDs*	-	-	-	INR2,889 (reduced from INR3,381)	IND BB+/Negative	Downgraded

\* Details in annexure

**Analytical Approach:** Ind-Ra continues to take a standalone view of ELRTRL to arrive at the rating.

The downgrade and Negative Outlook reflect the resumption of deduction in annuities impacting ELRTRL's revenue visibility, weakening liquidity increasing the risk associated with replenishment of the debt service reserve account (DSRA) to the stipulated level of INR500 million by May 2024 and a risk of step up in interest rate, which, if implemented, would impact the company's debt serviceability as the existing coverages are around unity.

Furthermore, the lenders have the option of a mandatory prepayment if the rating is downgraded below 'AA' category. If the lenders were to exercise the rights, the company might not have adequate liquidity for the prepayment immediately. Ind-Ra will continue to monitor any updates on the same.

While the rating is supported by the presence of a strong counterparty, National Highways Authority of India (NHAI; IND AAA/Stable) the timely receipt of annuities without performance-related deductions and the maintenance of the project stretch would continue to be key rating monitorable.

## Key Rating Drivers

**Liquidity Indicator - Stretched:** As on 31 December 2023, the company's overall liquidity totalled INR427.8 million, including a DSRA of INR410.6 million. The major maintenance activity on the project stretch was completed during FY22 with a cost overrun of INR33.7 million, thereby leading to a higher-than-initially envisaged shortfall amount of INR60 million, which was funded by utilising the DSRA. The DSRA was to be replenished to INR400 million by November 2023 and INR500 million by May 2024. However, the resumption of deductions in the annuity would impact the company's already stretched liquidity position; thus, Ind-Ra believes ELRTRL will be unable to replenish the DSRA to the stipulated levels by May 2024.

Furthermore, the debenture trustee deed stipulates maintenance of a minimum debt service coverage ratio of 1.05x. Any increase in the quantum of deductions in the annuities would affect the DSCR. As per the debt terms, there will be no upstreaming of surplus cash until the DSRA is replenished to the stipulated levels. Thus, the timely replenishment of the DSRA to the stipulated levels would be a key rating monitorable.

**Heightened Operations and Maintenance (O&M) Risk:** The major maintenance activity on the project stretch has been completed and the overall road quality, as per the November 2023 independent engineer's (IE) report, is satisfactory. The report further instructed ELRTRL to appoint technical professionals at the project site to undertake the regular monitoring and maintenance at the project stretch. The IE, in its monthly progress report, has been highlighting some rectification works on the project site, which has been undertaken by the company, albeit with minor delays, thereby leading to performance-related deduction. Given the frail financial profile of the sponsor and ELRTRL's stretched liquidity position, the timely maintenance of the project stretch is key for receiving annuities without performance-related deduction and would be a key rating monitorable.

**Heightened Risk of Step Up in Interest Rate:** The agency understands that the new NCD holders, holding about 66.97% of the outstanding NCDs, have requested for step-up in line with the terms of the debenture trust deed. As per the management, an approval from 75% of the NCD holders was required for any change in interest rates. Since the proposal did not garner the required approval, the interest rate was not stepped up. The current interest rate on NCDs is 9.30% as per the management. Any increase in the interest rate would adversely impact the debt serviceability and would remain a key rating monitorable.

**Residual Construction Risk:** The project had residual construction works, which were to be executed upon the land being made available by the NHAI. The authority revised the scope of the project in January 2023 and removed the pending works and non-adherence to the schedule B from the scope of the concession agreement. Thus, the total negative change of scope was INR88.5 million, which was deducted from the 16<sup>th</sup> annuity.

Further, the company has claimed a positive change of the scope of work totalling INR67.8 million, however, the same has not been considered by the IE in its recommendation to the authority. Further, the November 2023 IE report highlighted pending construction work, which the management, during the discussion with the agency, represented that the said pending works have been covered under the negative change of scope and the authority has already deducted INR85.5 million towards the same.

Hence, the completion of the balance works undertaken, withholding of the annuity payments towards negative change of scope and the disallowance of the positive change of the scope would continue to add pressure on the already stretched liquidity position of ELRTRL, and would remain a key rating monitorable.

**Timely Annuity Payments Albeit with Deductions:** The special purpose vehicle received the 17<sup>th</sup> annuity with a performance deduction of INR29.97 million and the IE, in its recommendation, recommended a deduction of INR18.4 million for the 18<sup>th</sup> annuity. Of these, INR8.5 million is towards damages for non-maintenance of the project highway and the balance towards damages for expenses incurred by the NHAI.

Given the weak financial profile of the sponsor and the stretched liquidity position of ELRTRL, failure to adhere to the concession agreement standards in road maintenance could lead to a deduction in the annuity, resulting in a further stress on the project that cannot be completely eliminated. Thus, the visibility of funding maintenance obligations till the debt tenor ending in September 2028 is a key rating factor.

**Moderate Debt Structure:** The repayment follows a T+30 structure, i.e. the debt obligations are due 30 days post the receipt of annuities, giving the project some cushion against any delays in annuities. The distribution of surplus cash is possible only when the cash accumulation equals the outstanding commitment of the bonds.

## Rating Sensitivities

**Positive:** Future developments that may, individually or collectively, lead to a positive rating action are:

- an established track record of nil performance deductions and the replenishment of the DSRA to the stipulated level of INR500 million from project cash flows;
- sustained maintenance of the project stretches as per the stipulated standards.

**Negative:** Future developments that may, individually or collectively, lead to a negative rating action are:

- higher-than-estimated O&M expenses and deficiencies in the maintenance of road, leading to performance deductions in the annuities;
- the prepayment of debentures being triggered or step up of interest rates;
- a further depletion of the stipulated liquidity reserves due to cost overruns or deductions in annuities.

## 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 ELRTRL, 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

ELRTRL is a special purpose vehicle that was formed by Essel Infraprojects Limited to expand the 70km Lucknow-Raebareli section of National Highway 24B to four lanes. The project was awarded to the company by the NHAI under a competitive bidding process on a design, build, finance, operate and transfer basis. The project commenced provisional commercial operations on 16 January 2015 and the final commercial operations on 14 April 2015.

### FINANCIAL SUMMARY

Particulars (INR million)	FY23	FY22
Operating income	807.67	881.4
Total income	829.86	938.22
Operating expenditure	207.94	645.59
Finance cost	329.42	372.36
EBITDA	621.92	292.63
Cash and cash equivalents including deposits with banks	472.94	556.91
EBITDA margin (%)	74.9	31.2
Source: ELRTRL; Ind-Ra		

## Non-Cooperation with previous rating agency

Not applicable

## Solicitation Disclosures

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APPLICABLE CRITERIA

Rating Criteria for Infrastructure and Project Finance
Rating Criteria for Availability-Based Projects
Evaluating Corporate Governance
The Rating Process

DETAILED FINANCIAL SUMMARY

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Rating History

Instrument Type	Current Rating/Outlook			Historical Rating/Outlook		
	Rating Type	Rated Limits (million)	Rating	1 February 2023	3 February 2022	5 February 2021
NCDs	Long-term	INR2,889	IND BB+/Negative	IND BBB-/Stable	IND BBB-/Negative	IND BBB-/Negative

Annexure

Instrument	ISIN	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of Issue (million)	Rating/Outlook
NCD	INE465N07157	27 November 2015	9.30	31 March 2023	INR243	WD (paid in full)
NCD	INE465N07165	27 November 2015	9.30	30 September 2023	INR249	WD (paid in full)
NCD	INE465N07173	27 November 2015	9.30	31 March 2024	INR258	IND BB+/Negative
NCD	INE465N07181	27 November 2015	9.30	30 September 2024	INR267	IND BB+/Negative
NCD	INE465N07199	27 November 2015	9.30	31 March 2025	INR276	IND BB+/Negative
NCD	INE465N07207	27 November 2015	9.30	30 September 2025	INR270	IND BB+/Negative
NCD	INE465N07215	27 November 2015	9.30	31 March 2026	INR279	IND BB+/Negative
NCD	INE465N07223	27 November 2015	9.30	30 September 2026	INR288	IND BB+/Negative
NCD	INE465N07231	27 November 2015	9.30	31 March 2027	INR300	IND BB+/Negative
NCD	INE465N07249	27 November 2015	9.30	30 September 2027	INR312	IND BB+/Negative
NCD	INE465N07256	27 November 2015	9.30	31 March 2028	INR324	IND BB+/Negative
NCD	INE465N07264	27 November 2015	9.30	30 September 2028	INR315	IND BB+/Negative
Total					INR2,889	

Bank wise Facilities Details

[Click here to see the details](#)

Complexity Level of Instruments

Instrument Type	Complexity Indicator
NCDs	Low

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

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