

CARE RATINGS PRESS RELEASE

December 28, 2020

Name Of The Company	Instrments	Rating	Amount (Rs.Cr.)
Sadbhav Kim Expressway Private Limited	Bank Facilities	CARE BBB; Stable [Revised from CARE BBB+; Stable]	669
Kimiya Engineers Private Limited	Bank Facilities	CARE B; Stable / CARE A4; ISSUER NOT COOPERATING* [Revised from CARE BB-; Stable / CARE A4;]	31
NCML Finance Private Limited	Bank Facilities	CARE A; Negative / CARE A1; ISSUER NOT COOPERATING* [Outlook Revised from Stable]	410
	CP	Withdrawn	---
J P Structures Private Limited	Bank Facilities	CARE BBB+; Negative / CARE A2 [Reaffirmed & Outlook revised from Stable]	146
Essel Lucknow Raebareli Toll Roads Limited	NCD	CARE BBB-; Negative [Revised from CARE BBB; Negative]	426.90
Dhanlaxmi Bank Limited	Tier II Bonds (BASEL III Compliant) Upper Tier II Bonds	CARE BB+; Stable [Reaffirmed] Withdrawn	150 ---
Greenko KA01 IREP Private Limited	NCD	Withdrawn	---
Chaitanya Seeds Private Limited	Bank Facilities	CARE B+; Stable	10.88

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

Explanatory notes regarding rating symbols of CARE

Symbol	Explanation	Symbol	Symbol	Explanation		Symbol	
CARE A1	Superior	CARE AAA	CARE AAA (FD)	Best Quality	High Investment Grade	CCt 1	Very high project execution capability[
CARE A2	Strong	CARE AA	CARE AA (FD)	High Quality	-do-	CCt 2	High project execution capability
CARE A3	Adequate	CARE A	CARE A (FD)	Adequate Safety	Investment Grade	CCt 3	Moderate project execution capability
CARE A4	Risk prone	CARE BBB	CARE BBB (FD)	Moderate Safety	-do-	CCt 4	Inadequate project execution capability
CARE D	Default	CARE BB	CARE BB (FD)	Inadequate safety	Speculative Grade	CCt 5	Poor project execution capability
		CARE B	CARE B (FD)	Risk Prone	-do-		
		CARE C	CARE C (FD)	High Risk	Poor Grade		
		CARE D	CARE D(FD)	Default	-do-		

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Essel Lucknow Raebareli Toll Roads Limited

December 28, 2020

Ratings

Instrument	Amount (Rs. crore)	Rating ¹	Rating Action
Non-convertible Debentures (NCD) issue	426.90 (reduced from 467.70)	CARE BBB-; Negative (Triple B Minus; Outlook: Negative)	Revised from CARE BBB; Negative
Total Instruments	426.90 (Rs. Four hundred twenty six crore and ninety lakhs only)		

Details of instruments in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in the ratings assigned to the instruments issued by Essel Lucknow Raebareili Toll Roads Limited (ELTRL) is primarily on account of aggravated Operation & Maintenance (O&M) risk impacting its revenue visibility. The above mentioned risk assumes significance in light of recurrent annuity deductions faced by the company due to inferior maintenance quality. As such, the ability of ELTRL to meet any cost overrun in operation and maintenance (O&M) and major maintenance (MM) expenses on the back of reduced financial flexibility is weak and is a rating negative.

The rating continues to factor favorably the credit quality of the underlying annuity receivables from National Highways Authority of India (NHAI - rated CARE AAA; Stable) and 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 funded reserves towards Major Maintenance Reserve Account (MMRA) and Debt Service Reserve Account (DSRA).

The rating strengths are continued to be tempered by significant deterioration in the credit profile of the sponsor, Essel Infraprojects Limited (EIL; rated CARE D/Issuer Not Cooperating) accentuated with Operation & Maintenance (O&M) risk impacting its revenue visibility.

The rating also factors likely triggering of events due to multiple rating actions, which may potentially result in step up of coupon rates as per the Debenture Trust Deed (DTD) agreement. As per the DTD, there is a coupon step-up clause of 25bps for every notch of downgrade of ELTRL rating. Increase in coupon rate will result in a lower debt service coverage thereby further weakening the credit profile. Meanwhile, as per Independent Consultant's report, the major maintenance requirement has increased beyond original estimates due to inadequate maintenance activities in the current period, while the Debenture Trustee has conveyed the maintenance related issues are being discussed between the company and debenture holders for resolution. In view of the above mentioned, the risk related to ability of ELTRL to conduct desired maintenance activity is elevated considerably. This in turn shall impair the revenue visibility and consequently the liquidity profile of ELTRL.

Rating Sensitivities

Positive Factors - Factors that could lead to positive rating action/upgrade:

- Timely receipt of annuities without any delays and deductions on sustained basis

Negative Factors- Factors that could lead to negative rating action/downgrade:

- Reduction in DSRA and MMR reserves than stipulated levels
- Deterioration in the credit profile of NHAI
- Non-receipt/delayed/reduced receipt of annuities
- Deferment of scheduled Major maintenance expenditure(MME) or MME exceeding budgeted levels
- Non-adherence of the Structured Payment Mechanism

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

Outlook: Negative

The O&M contractor Pan India Infraprojects Private Limited (PIIPL) is admitted under the Corporate Insolvency Resolution Process (CIRP) as ordered by the Hon'ble National Company Law Tribunal (NCLT), Mumbai bench, vide order no. CP(IB) NO.2815(MB)/2019 pronounced on July 16, 2020, under the Insolvency & Bankruptcy Code. Hence, the O&M agreement with PIIPL does not derive any credit comfort. Currently, the major maintenance work is carried out by PATH India Limited and the routine maintenance work is carried out by various local vendors appointed by ELRTRL. The SPV faced annuity deductions in the past due to inferior maintenance quality, any such recurrence will likely to put stress on its cash flows.

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 (GoI) 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.

Structured Payment Mechanism with provision for DSRA and MMRA liability composition: ELRTRL is maintaining an escrow account which includes the proceeds account and insurance account. The entire cash flows of the project 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. Furthermore, structural mitigants with respect to upfront creation of funded DSRA for an amount of Rs.50 crore, provides comfort from the credit perspective. As of September 30, 2020 ELRTRL has maintained cash DSRA of Rs.53.50 crore and there is no bank guarantee.

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. However, if there is an unprecedented increase in MMRA expenses, then the earmarked reserves will be insufficient to meet the requirement which are likely to result into potential annuity deductions and subsequently weaken its DSCR for timely debt servicing. The deviation from the earlier envisaged MMRA estimates and non-adherence to structured mechanism, along with any force majeure event, constitute key rating monitorables.

Debt repayment structure & fixed rate of coupon 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.173.10 crore debt as on September 30, 2020 (Rs.40.20 crore in FY20 and Rs.20.4 crore in H1FY21), with the total debt outstanding at Rs.426.90 crore, as on September 30, 2020. The project has a repayment period of 13 years 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 9.30% p.a. (ROI revised from 9.05% in April, 2019) for NCD issue.

Key Rating Weaknesses

Heightened risk of cash flow visibility albeit timely receipt of annuity from NHAI: ELRTRL is an annuity project and as per the CA, it would receive 29 annuities of Rs.50.40 crore on semi-annual basis every year up to August 2029 from NHAI. The project has received eleven annuities till July, 2020. There was a performance related deduction of Rs.71.70 lacs in eleventh annuity payment. There was a deduction of Rs.79 lacs in tenth annuity payment due in February, 2020 as well based on the LIE recommendation letter dated February 11, 2020.

There are several defects and deficiencies found in the LIE report for the month of November 2020. If the said defects and deficiencies are not cured in a timely manner, it will further widen the risk of increased penalty deductions in the future annuities. In the past also, the company received Third, Fourth and Fifth Annuity at reduced amounts from NHAI due to sub-par performance of maintenance obligations, against stipulated terms. However, subsequent annuities were received in full in January 2018, July 2018, January 2019 and July 2019. Timely completion of major maintenance work as well as on time receipt of annuity without any deductions continue as key rating monitorable.

Further in case of exercise of discretion by Debenture holders to accelerate the maturity of NCDs, cash flow coverage shall be further compromised.

Weak financial risk profile of Sponsor EIL: In view of deterioration in the credit profile of sponsor Essel Infraprojects Limited (EIL), no credit comfort is derived from the sponsor support undertaking.

Increased O&M risk: Nonetheless, the deterioration in the financial profile of the group and erstwhile O&M contractor PIPL were the primary reasons for inadequate maintenance quality of the road. If there is an unprecedented increase in MMR expenses, then the earmarked reserves will be insufficient to meet the MMR requirement. This has further heightened the O&M risk. CARE notes that ELRTRL has signed an item rate contract with PATH India Limited (Prakash Asphalt and Toll Highways Limited, rated CARE BBB+/CARE A2; (under credit watch with developing implications)) for major maintenance work. Presently, the major maintenance work is carried out by PATH and routine maintenance work is carried out by various local vendors appointed by ELRTRL. As per the management, the balance MMR expenses to be incurred for FY21 is expected around Rs.17 crore out of which only Rs.1.7 crore was incurred till September 30, 2020. Although certain amount of reserves are maintained in order to meet major maintenance expenses, if there is an unprecedented increase in MMR expenses then the earmarked reserves of Rs.17.51 crore will be insufficient to meet the MMR requirement. Timely completion of the maintenance work within the budget as envisaged would be critical, as any compromise on maintenance can lead in consequent annuity deductions.

Residual construction risk, however, no grant of pending RoW: The construction work is yet to be 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 (rated, CARE D/ Issuer Not Cooperating) had undertaken to bear the construction cost as and when the land is made available to ELRTRL. The deteriorated credit profiles of the EPC contractor and sponsor has aggravated the funding risk towards the residual construction. Nonetheless, the SPV is entitled to receive full annuities (subject to satisfactory maintenance) as the residual construction works are not pertaining to the main carriageway.

Liquidity: Adequate

As on September 30, 2020 the company has a cash & bank balance of Rs.85.6 crore out of Rs.53.50 crore is reserved towards DSRA balance and Rs.17.51 crore towards MMRA balance. The company further has a balance of Rs.8.50 crores in other reserves. The company has a debt obligation of Rs.40.4 crore in March 2021. Due to poor quality of O&M work, NHAI has deducted Rs.72 lacs and Rs.79 lacs from the eleventh and tenth annuity respectively. Any such recurrence with higher deductions are likely to put stress on its cash flows.

Analytical approach:

Standalone along with the structured payment mechanism being in place with DSRA and cash trap mechanism.

Applicable Criteria

[Criteria on assigning Outlook to Credit Ratings](#)

[Factoring Linkages in Ratings](#)

[CARE's Policy on Default Recognition](#)

[Financial ratios – Non-Financial Sector](#)

[Rating Methodology - Infrastructure Sector Ratings \(ISR\)](#)

[CARE's methodology for Annuity Road Projects](#)

About the Company

Incorporated in February 2011, ELRTRL is a special purpose vehicle (SPV) promoted by Essel Infraprojects Limited (EIL; rated CARE D; Issuer not cooperating) to design, construction development, operation, maintenance, and management of four laning of Lucknow-Raebareli section from km 12.700 to km 82.700 (70 km 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; Stable' 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. The company is entitled to receive 29 annuities semi-annually of Rs.50.40 crore each in the months of January and July each year, ending on August 2029.

Brief Financials (Rs. crore)	FY19 (A)	FY20 (A)
Total operating income	73.13	70.02
PBILDT	65.85	62.07
PAT	12.59	13.81
Overall gearing (times)	5.12	4.18
Interest coverage (times)	1.33	1.37

A: Audited; Note: Financials are classified as per CARE Internal standards

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

Covenants of rated instrument: Detailed explanation of covenants of the rated instrument is given in Annexure-3

Complexity level of various instruments rated for this company: Annexure 4

Annexure-1: Details of Instruments

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Debentures Non-convertible Debentures	INE465N07116	November 27, 2015	9.30%	March 31, 2021	21.00	CARE BBB-; Negative
	INE465N07124			September 30, 2021	22.20	
	INE465N07132			March 31, 2022	22.20	
	INE465N07140			September 30, 2022	23.40	
	INE465N07157			March 31, 2023	24.30	
	INE465N07165			September 30, 2023	24.90	
	INE465N07173			March 31, 2024	25.80	
	INE465N07181			September 30, 2024	26.70	
	INE465N07199			March 31, 2025	27.60	
	INE465N07207			September 30, 2025	27.00	
	INE465N07215			March 31, 2026	27.90	
	INE465N07223			September 30, 2026	28.80	
	INE465N07231			March 31, 2027	30.00	
	INE465N07249			September 30, 2027	31.20	
	INE465N07256			March 31, 2028	32.40	
	INE465N07264			September 30, 2028	31.50	
					426.90	

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Debentures Non-convertible Debentures	LT	426.90	CARE BBB-; Negative	-	1)CARE BBB; Negative (03-Mar-20) 2)CARE BBB; Negative; ISSUER NOT COOPERATING* (17-Dec-19) 3)CARE AA; Negative; ISSUER NOT COOPERATING* (07-Oct-19)	1)CARE AAA (SO); Negative (18-Mar-19) 2)CARE AAA (SO) (06-Apr-18)	-

Annexure-3: Detailed explanation of covenants of the rated instrument

Name of the Instrument	Detailed explanation
A. Financial covenants	
I	DSCR shall not be lower than 1.05x during the tenor of the NCD
II	To maintain DSRA equivalent to peak coupon and principal instalment servicing during the tenor of the Issue.
III	Adequate provision for the budgeted Major Maintenance Amount from the annuity payments as provided in the base case business plan.

Annexure 4: Complexity level of various instruments rated for this company

Sr. No.	Name of instrument	Complexity level
1	Debentures-Non Convertible Debentures	Simple

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

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