

Essel Lucknow Raebareli Toll Roads Limited

December 21, 2023

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Non-convertible debentures	288.90 (Reduced from 338.10)	CARE BB+ (RWN)	Revised from CARE BBB; Positive; Placed on Rating Watch with Negative Implications

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

CARE Ratings Limited (CARE Ratings) has placed the rating of Essel Lucknow Raebareli Toll Roads Limited (ELRTRL) on 'Rating watch with Negative Implications' following the demand from a new non-convertible debenture (NCD) holder to the debenture trustee to increase the coupon rate as per the rating change event provided under the terms of debenture trust deed (DTD). As per DTD, there is a coupon step-up clause of 25 bps for every notch downgrade of ELRTRL's rating. The increase in coupon rate is subject to the approval from requisite NCD holders. As confirmed by debenture trustee, there is no breach of covenants as on November 18, 2023, as earlier investors have waived of coupon set up clause. The increase in coupon rate from current level will have significant deterioration in debt service coverage ratio (DSCR). CARE Ratings continues to monitor the developments in this regard and will take a view on the rating once the exact implications of the above on the credit risk profile of the company are clear.

The revision in the rating assigned to the instruments issued by ELRTRL primarily factors in the deduction in annuities during last one year ended November 2023 due to performance-related deficiencies. This is in contrast to earlier expectations of receipt of annuities in full owing to completion of major maintenance (MM) activity. Such deductions in annuities due to non-compliance with the maintenance benchmarks of the authority as stipulated in the project's concession agreement (CA) expose the company to cash flow risks. Any further deductions in the annuities will negatively impact the debt coverage indicators for the company and thus will be a key rating monitorable.

However, the rating continues to favourably factor in the credit quality of the underlying annuity receivables from National Highways Authority of India (NHAI - rated 'CARE AAA; Stable') supplemented by a structured payment mechanism for servicing of the NCDs 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). CARE Ratings factors the presence of ₹40.52 crore in debt service reserve account (DSRA) against the requirement of ₹40 crore by November 2023 as stipulated by the investors. Going forward, replenishment of DSRA to ₹50 crore by May 2024 in compliance with the terms agreed with the debenture holders is also key rating monitorable.

The rating strengths, however, continue to be tempered by weak credit profile of the sponsor, Essel Infraprojects Limited (EIL; rated 'CARE D/Issuer Not Cooperating') accentuated by operation & maintenance (O&M) risk impacting its revenue visibility. The above-mentioned risk has assumed significance considering recurrent annuity deductions faced by the company due to inferior maintenance quality of the project stretch.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

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

Negative factors

- Deterioration in the credit profile of NHAI.
- Non-receipt/delayed/reduced receipt of annuities.
- Non-adherence to the terms of debenture agreement including DSRA replenishment.
- Increase in coupon rate impacting debt coverage ratios.

Analytical approach: Standalone

¹Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

Outlook: Not applicable

Detailed description of the key rating drivers:

Key weaknesses

Heightened risk of cash flow visibility with deductions in annuities primarily due to performance-related deficiencies in the project stretch

ELRTRL is an annuity project, and as per the CA, it would receive 29 annuities of ₹50.40 crore on a semi-annual basis every year up to August 2029 from NHAI. The company has received 17 annuities till July 2023. An amount of ₹8.84 crore was deducted from the 16th annuity as a one-time deduction on account of negative change of scope (CoS). Post the deduction, as articulated by the company's management, the negative CoS will have no further impact on the future annuities to be received from NHAI. Furthermore, the company completed the major maintenance (MM) works by March 2022 and received its 15th annuity without any performance-related deductions post January 2022 onwards. Consequently, based on IE interaction and the roughness index report for June 2022, CARE Ratings expected no further deductions in annuities because of completion of the MM works. However, in contrast to the expectations, there have been performance-related deductions in the subsequent annuities with ₹3.08 crore deducted from the 17th annuity. CARE Ratings expects that in case of continued non-maintenance of the project stretch as per the provisions of the concession, further deductions in future annuities will negatively impact the credit profile of the entity, and therefore, shall be a key rating monitorable.

Inherent O&M risk associated with the project

Being a flexible pavement type, the company can face the risk of a sharp increase in the O&M cost in the event of the wear and tear on the road or road facilities being more than the extent envisaged. Currently, the routine maintenance works on the project stretch are carried out by ELRTRL, and the company has appointed various third-party local vendors to execute the works. However, in the absence of a strong sponsor, there is no recourse available during the scenario of a sharp uptick in O&M and MM costs. Furthermore, considering that NHAI has, in the past, frequently imposed penalties due to non-fulfilment of maintenance obligations on the project stretch, it becomes crucial to ensure the riding quality of the stretch as per the terms of the concession. CARE Ratings understands that the cash trap mechanism ensures retention of surpluses with the special purpose vehicle (SPV) which will be available for the company towards meeting any exigencies.

Coupon rate hike risk

One of the new debenture holders of the company has sought increased rate of interest on the NCDs, from the currently applicable 9.30% per annum on account of revision in the external ratings of past years as per the terms of the DTD. The approval of majority investors is awaited. CARE Ratings is of the view that any steep increase in the coupon rate will weaken the debt coverage ratios thereby negatively impacting the credit risk profile.

Weak financial risk profile of sponsor, EIL

The sponsor, EIL, is rated 'CARE D; INC' category, which is also a rating weakness.

Key strengths

Low credit risk associated with the annuity provider

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 received by NHAI 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 cash trap and provision for DSRA

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. As per the DTD, DSRA aggregating to ₹50 crore must be maintained throughout the debenture tenure, however, the company sought interim waiver from the debenture holders to dip into DSRA by ₹20 crore for completing the MM works and meet the operational expenditure. The debenture trustee had stipulated replenishment of DSRA to minimum of ₹40 crore by November 2023 and ₹50 crore by May 2024. As of November 2023, the company has maintained ₹40.52 crore as its DSRA balance. The adherence to structured payment mechanism continues to be a key rating monitorable.

Debt repayment structure

As per the terms stipulated in the DTD, 'T+30' structure has been provided for NCD repayment as well as coupon payments with 'T' being the NHAI annuity receipt date to take care of any operational delay in receipt of annuity from NHAI. ELRTRL has the total debt outstanding at ₹288.90 crore as on September 30, 2023, with a repayment period of 13 years ending in September 2028 and a tail period of 1 year.

Liquidity: Stretched

The adequate liquidity is primarily marked by the presence of funded DSRA of ₹40.52 crore and free cash balance of ₹3.07 crore as of November 2023. However, the liquidity position is stretched given heightened annuity deduction and coupon set up risk. The replenishment of entire DSRA of ₹50 crore is key rating monitorable.

Assumptions/Covenants

Not applicable

Environment, social, and governance (ESG) risks

Not applicable

Applicable criteria

[Policy on default recognition](#)

[Financial Ratios – Non financial Sector](#)

[Liquidity Analysis of Non-financial sector entities](#)

[Rating Outlook and Credit Watch](#)

[Annuity Road Projects](#)

[Policy on Withdrawal of Ratings](#)

About the company and industry

Industry classification

Macro-economic Indicator	Sector	Industry	Basic Industry
Services	Services	Transport infrastructure	Road assets–Toll, annuity, hybrid-annuity

Incorporated on December 29, 2011, ELRTRL is an SPV promoted by EIL (rated 'CARE D; Issuer not cooperating') for '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 NHAI, (rated 'CARE AAA; Stable'). As per the CA, the concession period of the project is 17 years (including construction period of 912 days). The SPV attained provisional commissioning certificate on January 16, 2015, and final commercial operation date (COD) on April 14, 2015.

Brief Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)	H1FY24
Total operating income	93.51	82.99	NA
PBILDT	28.94	60.49	NA
PAT	-7.98	27.55	NA
Overall gearing (times)	3.51	2.51	NA
Interest coverage (times)	0.78	1.84	NA

A: Audited UA: Unaudited; NA: Not available; Note: 'the above results are latest financial results available'

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 / facility: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated: Annexure-4

Lender details: Annexure-5**Annexure-1: Details of instruments/facilities**

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Debentures-Non-convertible debentures	INE465N07173	November 27, 2015	9.30%	March 31, 2024	25.80	CARE BB+ (RWN)
	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	

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021
1	Debentures-Non-convertible debentures	LT*	288.90	CARE BB+ (RWN)	-	1)CARE BBB; Positive (26-Dec-22)	1)CARE BBB-; Negative (27-Dec-21)	1)CARE BBB-; Negative (28-Dec-20)

*Long term

Annexure-3: Detailed explanation of covenants of the rated instruments/facilities

Name of the Instrument	Detailed Explanation
A. Financial covenants	
I Debt service coverage ratio (DSCR)	Shall not be lower than 1.05x during the tenor of the NCD.
B. Non-financial covenants	
I DSRA	The DSRA amount to be maintained by the company shall be an aggregate amount of ₹50 crore in the form of cash, and/or DSRA guarantee.

Annexure-4: Complexity level of the various instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Debentures-Non-convertible debentures	Simple

Annexure-5: Lender detailsTo view the lender wise details of bank facilities please [click here](#)

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

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About us:

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