

No. CARE/HO/RL/2019-20/3042

Mr. Nishikant Upadhyay
Essel Lucknow Raebareli Toll Roads Limited
6th Floor, Plot 19 & 20, Sector 16A,
Film City, Noida-201301

October 01, 2019

Confidential

Dear Sir,

Credit Rating of Essel Lucknow Raebareli Toll Roads Limited

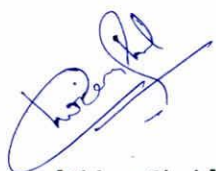
This is with reference to our rating agreement dated September 02, 2015, wherein you had agreed to provide information and pay annual surveillance fee to monitor and conduct the surveillance/review of the rating over the lifetime of rated Non-convertible Debentures.

2. In the absence of adequate co-operation from your end despite repeated requests, CARE has reviewed the rating as follows:

Facilities/Instruments	Amount (Rs. crore)	Rating ¹	Rating Action
Non-Convertible Debentures (NCD) issue	506.70	CARE AA; Negative/ ISSUER NOT COOPERATING* (Double A; Outlook: Negative ISSUER NOT COOPERATING*)	Issuer Not Cooperating; Revised from CARE AAA; Negative
Total	506.70 (Rs. Five hundred and six crore and Seventy lakhs only)		

3. We would be issuing a Press Release shortly to inform the regulators, investors and public at large. A draft of the Press Release is enclosed.

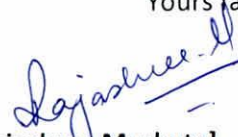
Thanking you,



[Chirag Shah]
Analyst

chirag.shah@careratings.com

Yours faithfully,



[Rajashree Murkute]
Associate Director

rajashree.murkute@careratings.com

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

*Issuer did not cooperate; Based on best available information

Encl.: As above

Disclaimer

CARE's ratings are opinions on the likelihood of timely payment of the obligations under the rated instrument and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. CARE's ratings do not convey suitability or price for the investor. CARE's ratings do not constitute an audit on the rated entity. CARE has based its ratings/outlooks on information obtained from sources believed by it to be accurate and reliable. CARE does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE have paid a credit rating fee, based on the amount and type of bank facilities/instruments. CARE or its subsidiaries/associates may also have other commercial transactions with the entity. In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is, inter-alia, based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors. CARE is not responsible for any errors and states that it has no financial liability whatsoever to the users of CARE's rating.

Our ratings do not factor in any rating related trigger clauses as per the terms of the facility/instrument, which may involve acceleration of payments in case of rating downgrades. However, if any such clauses are introduced and if triggered, the ratings may see volatility and sharp downgrades.



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Annexure I

Essel Lucknow Raebareli Toll Roads Limited Draft Press Release

Ratings

Facilities	Amount (Rs. crore)	Rating ²	Rating Action
Non-Convertible Debentures (NCD) issue	506.70	CARE AA; Negative/ ISSUER NOT COOPERATING* (Double A; Outlook: Negative ISSUER NOT COOPERATING*)	Issuer Not Cooperating; Revised from CARE AAA; Negative
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Details of instruments in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in the ratings assigned to the instruments issued by Essel Lucknow Raebareli Toll Roads Limited (ELTRL) is primarily on account of the significant deterioration in the credit profile of the sponsor, Essel Infraprojects Limited (EIL; rated CARE A4/Issuer Not Cooperating); higher than expected tax liabilities (due to shift to IndAS); increased operating risk emanating from the aspect that operation and maintenance(O&M) contract being executed at price point lower than CARE benchmarks for similar National Highways Authority of India (NHAI; rated 'CARE AAA' for instruments) Annuity road projects. The abovementioned risk elevates further, given the company faced annuity deductions in the past due to inferior maintenance quality, and with deterioration in the financial profile of O&M contractor and Sponsor any such recurrence is likely to put stress on its cash flows, with no recourse to a strong sponsor anymore.

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 has significantly weakened and therefore a credit concern.

The rating however continues to derive strength from the credit quality of the underlying annuity receivables from NHAI 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

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

*Issuer did not cooperate; Based on best available information

² As stipulated vide SEBI circular no SEBI/HO/RRD/P/2019/70 dated June 13, 2019
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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.

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 are the key rating sensitivities.

CARE has been seeking information from ELRTRL for the purpose of periodic surveillance vide e-mail communications dated July 05, 2019; July 10, 2019; July 24, 2019; August 07, 2019; August 16, 2019; September 10, 2019 and September 17, 2019 and numerous phone calls. However, despite our repeated requests, the company has not provided the requisite information for monitoring the ratings. Also, ELRTRL has not paid the surveillance fees for the rating exercise agreed to in its Rating Agreement. In line with the extant SEBI guidelines, CARE's rating on ELRTRL's instruments will now be denoted as **CARE AA; Negative; ISSUER NOT COOPERATING***.

Users of this rating (including investors, lenders and the public at large) are hence requested to exercise caution while using the above rating(s).

Outlook : Negative

The outlook has been revised from Stable to Negative owing to increased O&M risk with major maintenance activity being scheduled for FY19-FY20 combined with deterioration in the financial profile of O&M Contractor. Further ELRTRL has not shared any information on the extent of major maintenance activity undertaken and the corresponding financing plan with CARE. As a result, CARE is unable to ascertain the adequacy of the reserve creations and consequent impact on the debt servicing coverage for the rated instruments.

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.

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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. ELRTRL being an annuity project is not exposed to any traffic risk. Further, as it is already operational project for nearly four years, hence no construction risk exists.

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

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.

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 was 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, constitute key rating monitorables.

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. As per last review, ELRTRL had repaid a total of Rs.93.30 crore debt till March 18, 2019 (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 was 1.16x (till FY28). The project had a repayment period of 13 years starting from March 2016 and ending in September 2028 and had 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.



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Fixed price O&M contract with an Essel group company – PIPL albeit PIPL has moderate credit profile

ELRTRL had entered into fixed price agreement for Engineering, Procurement and Construction (EPC) and O&M work with group company Pan India Infraprojects Private Limited (PIPL). However, the credit profile of PIPL has deteriorated since FY18. Consequently, the ability of the SPV to negotiate/substitute the O&M contractor at marked linked price levels is a rating concern. Further given 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, with no recourse to a strong sponsor anymore.

Key Rating Weaknesses

Sponsor support undertaking and weakened financial risk profile of EIL

Considering the O&M contract was contracted at price point lower than CARE benchmarks, the deterioration in the credit profile of Essel Infraprojects Limited (EIL; rated CARE A4/Issuer Not Cooperating), reflects the weak ability of EIL to meet any cost overruns in O&M and MM and is a key rating concern.

Reduction in annuity related to non-performance of PIPL

The reduction in annuity in 4th & 5th Annuity was due to non-performance of PIPL, 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 (4th annuity) in February 2017. Also, PIPL (on behalf of promoter) infused Rs.1.19 crore (against deduction of Rs.1.18 crore) for annuity deduction (5th 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 5th annuity was with-held on account of penalties levied for non-maintenance of the project. Subsequently, the company received 6th, 7th and 8th 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 benchmarks, which reduces cash flow cushion considering moderate DSCR. The non-performance risk by PIPL is likely to have bearing on the receipt of annuity. 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 PIPL, 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 minimal comfort with the credit profile of the sponsor i.e. EIL (rated CARE A4; under credit watch with negative implications) weakened considerably. Hence the ability of EIL to provide support constitutes a key rating concern.



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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. This has further elevated due to weakened credit profile of the sponsor.

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. The actual tax liability stood at Rs. 4.01 crore for FY19 as against Rs. 3.65 crore estimated during the last review. Continued increase in tax liabilities beyond envisaged level reduces the cushion available for debt repayment.

Liquidity analysis: Adequate

As per provisional financials, the company has cash and bank balance of Rs. 1.88 crore as on March, 2019. The current ratio stood at 1.61x as on March, 2019.

Analytical approach: The credit enhancement in the rating is factored in the form of underlying annuities being receivable from NHAI and a structured payment mechanism being in place with DSRA and cash trap mechanism.

Applicable Criteria

Policy in respect of Non-cooperation by issuer

Criteria on assigning Outlook to Credit Ratings

Factoring Linkages in Ratings

CARE's Policy on Default Recognition

Financial ratios – Non-Financial Sector

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 A4; 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 (NHA), 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

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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 February and August each year, ending on August 2029.

Brief Financials (Rs. crore)	FY18 (A)	FY19 (Prov.*)
Total operating income	73.67	73.33
PBILDT	66.93	66.05
PAT	10.79	12.59
Overall gearing (times)	6.12	4.73
Interest coverage (times)	1.28	1.34

A: Audited; Prov=Provisional; The detailed annual report for FY19 has not been shared by the client despite repeated requests and hence CARE is unable to comment on audit report.

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

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

Annexure-1: Details of Instruments

Name of the Instrument	Date of Issuance	ISIN No	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Debentures-Non Convertible Debentures	November 27, 2015	INE465N07066	9.05%	September 30 2018	18.60	CARE AA; Negative; ISSUER NOT COOPERATING* Issuer not cooperating; Revised from CARE AAA; Negative on the basis of best available information
		INE465N07074		March 31, 2019	19.20	
		INE465N07082		September 30, 2019	19.80	
		INE465N07090		March 31, 2020	20.40	
		INE465N07108		September 30, 2020	20.40	
		INE465N07116		March 31, 2021	21.00	
		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	
Total					506.70	

*Issuer did not cooperate; Based on best available information

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Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Debentures-Non Convertible Debentures	LT	506.70	CARE AA; Negative; ISSUER NOT COOPERATING* Issuer not cooperating; Revised from CARE AAA; Negative on the basis of best available information	-	1)CARE AAA (SO); Negative (18-Mar-19) 2)CARE AAA (SO) (06-Apr-18)	-	1)CARE AAA (SO); Stable (20-Jan-17)



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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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About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

Disclaimer

CARE's ratings are opinions on the likelihood of timely payment of the obligations under the rated instrument and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. CARE's ratings do not convey suitability or price for the investor. CARE's ratings do not constitute an audit on the rated entity. CARE has based its ratings/outlooks on information obtained from sources believed by it to be accurate and reliable. CARE does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE have paid a credit rating fee, based on the amount and type of bank facilities/instruments. CARE or its subsidiaries/associates may also have other commercial transactions with the entity. In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is, inter-alia, based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors. CARE is not responsible for any errors and states that it has no financial liability whatsoever to the users of CARE's rating.

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