

Essel Lucknow Raebareli Toll Roads Limited

December 17, 2019

Ratings

Facilities	Amount (Rs. crore)	Rating ¹³	Rating Action
Non-Convertible Debentures (NCD) issue	467.70 (Reduced from 506.70)	CARE BBB: Negative ISSUER NOT COOPERATING* (Triple B; Outlook: Negative Issuer Not Cooperating*)	Issuer Not Cooperating; Revised from CARE AA; Negative; ISSUER NOT COOPERATING* on the basis of best available information
Total	467.70 (Rupees Four hundred and sixty seven crore and seventy lakhs only)		

Details of instruments in Annexure-1

Detailed Rationale & Key Rating Drivers

CARE had, vide its press release dated **October 07, 2019** placed the rating of ELRTRL under the 'Issuer Non-Cooperating' as the company failed to provide information for monitoring of the rating as agreed to in its Rating Agreement. Subsequently CARE was in receipt of partial information. However, ELRTRL continues to be non-cooperative as the company has not furnished complete material information despite repeated follow-ups through email dated December 11, 2019; November 27, 2019 and November 19, 2019. In line with the extant SEBI guidelines, CARE has reviewed the rating on the basis of the best available information. Also, ELRTRL has not paid the surveillance fees for the rating exercise agreed to in its Rating Agreement.

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

The revision in the rating factors deterioration in the credit profile of the sponsor, Essel Infraprojects Limited (EIL; rated CARE D/Issuer Not Cooperating) combined with aggravated Operation & Maintenance (O&M) risk impacting its revenue visibility. The abovementioned risk assumes significance in light of annuity deductions faced by the company in the past due to inferior maintenance quality. With deterioration in the financial profile of O&M contractor and sponsor, any such recurrence is likely to put stress on its cash flows. As such, the ability of ELRTRL 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 also factors the recent rating action by another credit rating agency citing steep maintenance issues, which CARE has not been informed about by ELRTRL. The rating action follows triggering of events, 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 ELRTRL by any of the credit rating agencies. Increase in coupon rate will result in a lower debt service coverage thereby further weakening the credit profile. Meanwhile, as per CARE's interactions with Independent Consultant, 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 ELRTRL to conduct desired maintenance activity is elevated considerably. This in turn shall significantly impair the revenue visibility and consequently the liquidity profile of ELRTRL.

The rating however continues to factor favorably the credit quality of the underlying annuity receivables from National Highways Authority of India (NHAI- rated CARE AAA; Stable) 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).

Nevertheless, timely completion of major maintenance work in future, thereby ensuring timely receipt of full annuity due, any reduction in DSRA and MMRA reserves, deterioration in the credit profile of the annuity provider-NHAI and occurrence of any force majeure event are the key rating sensitivities.

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/ MIRSD/ DOS3/ CIR/ P/ 2019/ 70 dated June 13, 2019

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.

Stable cash-flow and timely receipt of annuity from NHAI

As per the Concession Agreement (CA), the company shall 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 nine semi-annual annuities with last one being on July 2019 against the annuity due in August, 2019. ELRTRL being an annuity project is not exposed to 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 liability composition

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. As of September 30, 2019, ELRTRL had maintained cash DSRA of Rs.56.24 crore and MMRA balance of Rs. 11.12 crore.

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 increase in MMRA expenses based on the information available in the public domain and as confirmed by independent engineer, then the earmarked reserves will be insufficient to meet the requirement which will result into annuity deductions and subsequently weakened 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 had repaid a total of Rs.132.30 crore debt till September 30, 2019, with the total debt outstanding at Rs.467.70 crore, as on that date. 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 coupon rate for NCD issue.

Key Rating Weaknesses

Fixed price O&M contract with an Essel group company – PIPL; 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 FY19. 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. In view of the recent instances of delay in debt servicing at EIL level, no credit comfort is derived from the sponsor support undertaking.

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) 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, 8th and 9th 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 significant bearing on the receipt of full 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. 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 is no longer a strength from credit perspective.

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. The deteriorated credit profiles of the EPC contractor and sponsor has aggravated the funding risk towards the residual construction.

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 : Stretched

The total cash and bank balance as on September 30, 2019 was Rs. 75.38 crore. This includes cash DSRA of Rs.56.24 crore; MMRA balance of Rs.11.12 crore and the other balances include Rs. 8 crore. However, if there is an increase in MMR expenses based on the information available in the public domain, then the earmarked reserves will be insufficient to meet the requirement. This may further result into annuity deductions which will again impact the revenue visibility and consequent liquidity of the company.

Analytical approach: The rating factors in the mechanism involving 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](#)

[Criteria for Infrastructure Sector Rating](#)

About the Company

Incorporated in February 2011, ELRTRL is a special purpose vehicle (SPV) promoted by Essel Infraprojects Limited (EIL) 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 February and August each year, ending on August 2029.

Brief Financials (Rs. crore)	FY18 (A)	FY19 (A)
Total operating income	73.67	73.13
PBILDT	66.93	65.85
PAT	10.79	12.59
Overall gearing (times)	6.12	5.12
Interest coverage (times)	1.28	1.33

A: Audited

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/Facilities

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	INE465N07090	9.05%	March 31, 2020	20.40	CARE BBB; Negative; ISSUER NOT COOPERATING* Issuer not cooperating; Revised from CARE AA; Negative; ISSUER NOT COOPERATING* on the basis of best available information
		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	
					467.70	

*Issuer did not cooperate; Based on best available information

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 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	467.70	CARE BBB; Negative; ISSUER NOT COOPERATING* Issuer not cooperating; Revised from CARE AA; Negative; ISSUER NOT COOPERATING* on the basis of best available information	1)CARE AA; Negative; ISSUER NOT COOPERATING* (07-Oct-19)	1)CARE AAA (SO); Negative (18-Mar-19) 2)CARE AAA (SO) (06-Apr-18)	-	1)CARE AAA (SO); Stable (20-Jan-17)

*Issuer did not cooperate; Based on best available information

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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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.

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