

## Inkel-Ekk Roads Private Limited

January 03, 2023

### Rating

Facilities/Instruments	Amount (₹ crore)	Rating <sup>1</sup>	Rating Action
Long Term Bank Facilities	159.43	CARE BB-; Stable; ISSUER NOT COOPERATING* (Double B Minus; Outlook: Stable ISSUER NOT COOPERATING*)	Rating moved to ISSUER NOT COOPERATING category
<b>Total Bank Facilities</b>	<b>159.43</b> <b>(₹ One Hundred Fifty-Nine Crore and Forty-Three Lakhs Only)</b>		

Details of instruments/facilities in Annexure-1.

### Detailed rationale and key rating drivers

CARE Ratings Ltd. has been seeking information from Inkel EKK Roads Private Limited to monitor the rating(s) vide e-mail communications dated August 30, 2022, September 02, 2022, December 03, 2022 and December 21, 2022 among others and numerous phone calls. However, despite our repeated requests, the company has not provided the requisite information for monitoring the ratings. In line with the extant SEBI guidelines, CARE Ratings Ltd. has reviewed the rating on the basis of the best available information which however, in CARE Ratings Ltd.'s opinion is not sufficient to arrive at a fair rating. The rating on Inkel EKK Roads Private Limited bank facilities and instruments will now be denoted as CARE BB-; Stable; 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).

The rating continues to be tempered by the delay in the receipt of annuity payments in timely manner from the concession authority, relatively low amount of Debt Service Reserve Account (DSRA), relatively high debt level of the company due to securitization of the future annuity receivables, resultant moderate debt service coverage indicators, non-creation of Major Maintenance Reserve Account (MMRA) and the exposure to interest rate risk associated with the borrowings. The rating assigned, however, derives comfort from the fixed price annuity nature of the project mitigating the traffic related risk and the moderate counter party risk of the annuity provider

### Detailed description of the key rating drivers

At the time of last rating on December 3, 2021, the following were the rating strengths and weaknesses. (updated with FY22 financials obtained from public sources)

### Detailed description of the key rating drivers

#### Key Rating Weaknesses:

**Delay in receipt of annuity payment in timely manner:** As on September 2021, the company has received 7 annuities. The first three annuities have been received with delay of ~20-34 days from the scheduled due date of receipt, fourth annuity was received with delay of 96 days on account of COVID-19. March 2021 annuity was received with around 10 days of delay and annuity for September 2021 received with 6 days delay.

#### Securitization of the annuity receivables leading to increased debt levels and moderate debt service coverage indicators:

The project was funded through equity of Rs.28 crore, grant of Rs.21.6 crore from RICK (Road Infrastructure Corporation of Kerala Limited) and term loan (project loan) from the bank of Rs.112 crore. In the month of May 2019, the company had obtained sanction for Term loan from SBI for Rs.182 crore against the securitization of its future annuity receivables. The company has drawn Rs.163.30 crore as on June 2020, of which Rs.100.77 crore has been utilized to close its outstanding project loan and around Rs.17.51 has been up streamed to one of its sponsors, EKK Infrastructure Limited (EKK) and the balance Rs.45 crore which is lying as cash balance with IERPL. The undrawn loan amount (Rs.18.7 crore) and the balance Rs.45 crore was expected to be given to its sponsor Inkel Limited (Inkel) as loan to meet the funding requirements of its new HAM (Hybrid Annuity Model) road project but the project is now put on hold. The company has provided Rs.17 crore to Inkel Limited. It is to be noted that the securitization transaction has led to the moderation in the debt service coverage indicators with tightly matched accruals vis a vis repayment obligation

<sup>1</sup>Complete definition of the ratings assigned are available at [www.careedge.in](http://www.careedge.in) and other CARE Ratings Ltd.'s publications

**Relatively low amount of Debt Service Reserve Account (DSRA) and non-creation of Major Maintenance Reserve Account (MMRA):** The company maintains DSRA in the funded form to the tune of Rs.7.91 crore (average of all the semi-annual principle installments of the term loan) which covers one semi-annual installment of principal and around four months of interest repayment for FY21. With the repayments ballooning over the tenor of the term loan, the extent of cover available by way of DSRA will come down for the ensuing years. Further, the company is required to maintain Major Maintenance Reserve Account (MMRA) for the execution of major maintenance activity; however the same has not been created so far and no provisions have been made by the company for the same so far. However, it is to be noted that the company has maintained cash of Rs.58.98 crore in the form of term deposits as on March 31, 2022.

**Exposure to variability in the interest rate:** The company remains exposed to the variations in the interest rate on the debt availed, owing to the interest rate resets which shall be carried out by the lenders periodically. As a result, any steep increase in the interest rate will impact the cushion in the cash flows for the debt repayments.

### Key Rating Strengths

**Fixed price annuity nature of the project mitigating traffic related risk:** The project is annuity based and hence the revenue risk arising out of the traffic fluctuations is mitigated. The total annuity payment for this project is Rs.486.20 crore to be realized over a period of 13 years with semi-annual payments (March and September) of Rs.18.70 crore each, starting from September 29, 2018 till January 24, 2031. As on date, the company has received 6 annuities amounting to Rs.111.46 crore. Nonetheless, the company's ability to ensure the maintenance requirements and the lane availability of the project stretch would be critical in determining the quantum of annuity being received from the Authority.

**Moderate counter party risk of the annuity provider:** The company is receiving annuity payments from Road Infrastructure Company Kerala Limited (RICK). RICK is a public sector entity backed by Government of Kerala (GoK). The company has received annuities with minor delays. Going forward, the timely payments from RICK would be crucial from the credit perspective.

### Liquidity: Adequate

As on November 05, 2021, the company has DSRA of Rs.7.97 crore and lien free cash balance of Rs.50 crore. Liquidity of the company will be stretched if the surplus amount (Rs.27 crore pending to be given against board approved amount of Rs. 45 crore) is given as loan to the sponsor (Inkel) as planned earlier which will lead to tightly matched accruals vs repayment obligations.

### Analytical approach

Standalone

### Applicable Criteria

[Policy in respect of Non-cooperation by issuer](#)  
[Policy on default recognition](#)  
[Financial Ratios – Non financial Sector](#)  
[Liquidity Analysis of Non-financial sector entities](#)  
[Rating Outlook and Credit Watch](#)  
[Annuity Road Projects](#)  
[Infrastructure Sector Ratings](#)  
[Policy on Withdrawal of Ratings](#)

### About the Company

Inkel-EKK Roads Private Limited (IERPL), incorporated in 2016, is a Special Purpose Vehicle (SPV) through Joint Venture between Inkel Limited (Inkel, rated CARE C; Stable; Issuer Not Cooperating / CARE A4; Issuer Not Cooperating / CARE C (FD); Stable; Issuer Not Cooperating) and EKK Infrastructure Limited for the construction, operation and maintenance of a 58 km road project in Kerala on Design, Build, Maintain and Transfer (DBFMT) on Annuity basis. The company has entered into a Concession Agreement (CA) with Road Infrastructure Corporation of Kerala Limited (RICK) for a period of 15 years, which includes the construction period of 2 years. The company achieved COD on April 02, 2018 which was around 145 days ahead of the scheduled completion date of August 25, 2018.

Brief Financials (₹ crore)	March 31, 2020 (A)	March 31, 2021 (A)	March 31, 2022 (A)	H1FY23
Total operating income	21.88	17.98	23.14	NA
PBILDT	16.88	14.04	18.62	NA
PAT	0.27	2.87	8.42	NA
Overall gearing (times)	4.21	3.59	2.61	NA
Interest coverage (times)	1.02	0.99	1.38	NA

A: Actual; NA: Not Available

**Status of non-cooperation with previous CRA:** Not Applicable

**Any other information:** Not Applicable

**Rating history for the last three years:** Please refer Annexure-2

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

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

#### 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
Fund-based-Long Term		-	-	June 2030	159.43	CARE BB-; Stable; ISSUER NOT COOPERATING*

#### 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 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Fund-based - LT-Term Loan	LT	-	-	-	-	-	1)CARE BBB (CE); Negative (05-Dec-19) 2)Withdrawn (05-Dec-19)
2	Non-fund-based - LT-Bank Guarantee	LT	-	-	-	-	-	1)Withdrawn (05-Dec-19) 2)CARE BBB (CE); Negative (05-Dec-19)

3	Fund-based-Long Term	LT	159.43	CARE BB-; Stable; ISSUER NOT COOPERATING*	-	1)CARE BB-; Stable (03-Dec-21) 2)CARE BB-; Stable; ISSUER NOT COOPERATING* (09-Nov-21)	1)CARE BB-; Stable (18-Aug-20)	-
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\*Long term/Short term.

**Annexure-3: Detailed explanation of the covenants of the rated instruments/facilities:** Not Applicable

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

Sr. No.	Name of Instrument	Complexity Level
1	Fund-based-Long Term	Simple

**Annexure-5: Bank lender details for this company**

To view the lender wise details of bank facilities please [click here](#)

**Note on 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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