

Patel KNR Infrastructures Limited

January 05, 2022

Rating

Instruments	Amount (Rs. crore)	Rating ¹	Rating Action
Non-convertible Debentures	181.64 (Reduced from 205.38)	CARE AA+; Stable (Double A Plus; Outlook: Stable)	Reaffirmed
Total Long-term Instruments	181.64 (Rs. One hundred eighty one crore and sixty four lakh only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The reaffirmation of the rating assigned to the non-convertible debenture (NCD) issued by Patel KNR Infrastructures Limited (PKIL) continues to derive strength from the long track record of timely receipt of annuity payments, structured payment mechanism whereby biannual annuity is received from the National Highways Authority of India (NHAI, rated 'CARE AAA; Stable') in an escrow account for servicing of the NCDs, strong credit profile and significant experience of O&M contractor and sponsor undertaking for infusion of funds for any shortfall in meeting Major Maintenance expenses over and above the budgeted expenses. The rating also factors in completion of second Major Maintenance (MM) activity within the budgeted costs in FY21 (refers to the period April 1 to March 31), timely receipt of 24th and 25th semi-annuity payments (due in March 2021 and September 2021) without any deductions and maintenance of stipulated reserves along with liquid funds for meeting any exigency.

The company continues to remain exposed to the risks arising out of possibility of lower disbursement of annuity than stipulated due to non-adherence to clauses in Concession Agreement (CA) pertaining to maintenance of project stretch, higher-than-envisaged increase in the operations and maintenance (O&M) expenses and absence of suitable amendments in fixed Major Maintenance contract in line with revised MM estimates albeit presence of undertakings from the sponsors to meet cost overrun above the envisaged cost.

Rating Sensitivities

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

- Minimum debt service coverage ratio (DSCR) should be more than 1.10 x for every year for the projected period (post factoring all the requisite provisions and excluding interest income)

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

- Non-receipt/significant delayed/reduced receipt of annuities and increase in O&M and MM than envisaged
- Withdrawal of cash balance lying in escrow account

Detailed description of the key rating drivers

Key Rating Strengths

Timely receipt of annuity from NHAI

PKIL is an annuity project and is not exposed to any traffic risk. The revenue source for PKIL is the bi-annual annuity (i.e., due on March 26th and September 24th of every year) of Rs.32.94 crore receivable from NHAI up to March 26, 2027. PKIL has a track record of timely receipt of annuity payments from NHAI and has received 24th and 25th semi-annual payments from the Concessioning Authority with any deduction (except TDS) and significant delay. Furthermore, the project is operating since more than 10 years having final completion certificate and hence there is no construction risk.

Strong financial risk profile of annuity provider, i.e., NHAI

Incorporated by the Government of India under an act of Parliament, NHAI (rated 'CARE AAA; Stable') functions as the nodal agency for development, maintenance and management of National Highways in the country. By virtue of being a quasi-government body and its strategic importance to GOI, the risk arising on account of NHAI defaulting on annuity payments is very low.

Structured payment mechanism

PKIL has opened and maintained an 'Escrow account' with the Escrow bank with the first priority assigned towards O&M expenses followed by debt servicing of the NCD and appropriation to Debt Service Reserve Account (DSRA) and other relevant expenses, in that order. A 'T+20' 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.

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

Significant portion of second major maintenance is completed with no time or cost overrun

The second major maintenance activity was scheduled to be completed in FY20 and FY21 at a total cost of Rs 52.81 crore. The said activity had commenced during June 2019 and was completed in December 2020 as envisaged (with BC overlaying over the main carriageway completed on September 22, 2020) with budgeted cost of Rs.50.49 crore. Final completion certificate from IE has also been received.

Significant sponsor experience coupled with strong credit profile of KNRCL

The sponsors have established track record of project execution with operations and maintenance of large portfolio of infrastructure assets. KNR Constructions Ltd (KNRCL – holding 40% stake in the company) was set up in 1995 and provides Engineering, Procurement, and Construction (EPC) services across sectors such as roads and highways, irrigation, and urban water infrastructure management. The company has a strong outstanding order book of Rs.11,679 crore as on June 30, 2021. The other sponsor Patel Engineering Limited (PEL – holding 60% stake) has vast experience in the construction segment, although the credit profile has relatively moderated over the years.

Fixed interest rate

The principal and interest payments to the NCDs are to be made on semi-annual basis (i.e., due on October 14th and April 14th every year). The interest rates on NCDs are fixed thereby eliminating interest rate risk.

Key Rating Weaknesses

Higher expenditure on major maintenance on account of revised estimates

KNRCL is the O&M contractor for the project and Patel-KNR JV (Patel: KNR in the ratio 60: 40) is undertaking the periodic maintenance. The special purpose vehicle (SPV) has incurred higher major maintenance expenses than envisaged despite having a fixed price contract for Major Maintenance, due to instructions from NHAH for overlaying the renewal coat on the road with 40 mm Bituminous Concrete (BC) as against 30 mm BC overlay as per the agreement. Accordingly, the company had revised estimates for the major maintenance activity, which is higher than the initial estimates by more than 75% for 3rd MM cycle. Post revision in estimates of major maintenance expenditure, the company has not amended the fixed price contract entered with the contractor for execution of major maintenance though payment thereof is being made as per revised estimates instead of fixed price. As the promoters have provided undertaking to cover the cash shortfall over the revised estimates instead of fixed price contract, the cost of additional MM expense is borne by the company. Higher MM expense over and above the fixed price contract already executed has led to moderation in debt service coverage indicators of the company. The receipt of annuity from NHAH is fixed and is not linked to the Toll revenue on the project road. However, the receipt thereof in full is linked to maintenance of road in line with the clauses stipulated in Concession Agreement. Hence, the same would remain important from the credit perspective.

Furthermore, during FY22, owing to cyclone and heavier than normal rainfall in the area, despite completion of 2nd MM activity recently last year, additional maintenance expense was required to be incurred. The same was met out of project cash accruals despite presence of sponsor undertaking.

Inherent maintenance risk associated with road projects

In order to mitigate O&M risk and avoid any fluctuation in O&M and major maintenance expenses (MME), PKIL has entered into a fixed-price O&M contract with KNRCL. Besides, non-performance of O&M contractor in carrying out routine and Major Maintenance Activity (MMA) may translate into reduction in annuity receivables. Such shortfall in annuity will have a direct bearing on the envisaged debt servicing capability of PKIL.

No tail period

The last principal instalment of Rs.16.94 crore and coupon payment of NCD is due on April 14, 2027, whereas the concession end date is March 25, 2027. The last annuity of Rs.32.94 crore will be received during the month of March 2027 and DSRA of Rs.15 crore is maintained till the tenor of the NCD, which together would be sufficient to repay the last principal instalments and coupon payments. In addition, the surplus liquid reserves as maintained till April 2027 is also expected to be available.

Liquidity: Strong

Liquidity is marked by regular annuities of Rs.65.88 crore against repayment obligations of Rs.42.26 crore in FY22 with a T+20 repayment and presence of liquid investments of Rs.15 crore for DSRA (around 70% of next 6 month's interest & principal), lien marked to lender and Rs.23.23 crore towards major maintenance reserve and other exigencies as on November 30, 2021. The company had maintained higher funds in DSRA (Rs.30.26 crore, over and above requirement) till FY20 and hence the same was reduced to the stipulated level of Rs.15 crore as on November 30, 2021.

Analytical approach: Standalone

Applicable Criteria

[CARE's 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](#)

About the Company

Patel-KNR Infrastructures Limited (PKIL/the company) is a special purpose vehicle (SPV) incorporated on June 26, 2006 for developing four laning of national highways section "Km 463.6 (AP/Karnataka border) to Km 524.0 (Avathi Village), covering 60.42 Kms" on NH-7 in the state of Karnataka on Build Operate and Transfer (BOT) Annuity Basis. The Concession was awarded to the consortium Patel KNR JV based on its quote for lowest semi-annual annuity of Rs.32.94 crore. The Concession Agreement (CA) between PKIL and National Highways Authority of India (Authority) was signed on September 28, 2006. The concession is for a period of 20 years including construction period of 24 months.

The company is jointly promoted by Patel Engineering Limited (PEL) with 60% and KNR Constructions Limited (KNRCL) with 40%. Completion certificate for the project was received on March 31, 2017, however, post grant of PCOD in December 2009, the company has been receiving annuity since March 2010 (due in March and September every year) from NHAI.

Brief Financials (Rs. crore)	31-03-2020 (A)	31-03-2021 (A)	H1 FY22 (UA)
Total operating income	39.15	37.42	23.97
PBILDT	30.13	27.85	8.41
PAT	5.91	5.67	-0.99
Overall gearing (times)	4.78	3.92	3.76
Interest coverage (times)	1.34	1.38	0.90

A: Audited UA: Unaudited Note: The financials are classified as per CARE's 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 / facility: 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

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	INE057L07016	October 23, 2010	9.57%	April 14, 2027	181.64	CARE AA+; Stable

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 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1	Debentures-Non Convertible Debentures	LT*	181.64	CARE AA+; Stable	-	1)CARE AA+; Stable (06-Jan-21)	1)CARE AA+; Stable (24-Mar-20)	1)CARE AA+ (SO); Stable (26-Mar-19)

* Long Term

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

Non-Convertible Debentures	Detailed explanation
A. Financial covenants	
I Debt Service Coverage Ratio (DSCR)	Maintain DSCR of 1.11 times of all annuity payments

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

Sr. No	Name of instrument	Complexity level
1	Debentures-Non Convertible Debentures	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 instrument: CARE Ratings Ltd. 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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