

KCC Lateri Expressway Private Limited

January 05, 2023

Rating

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long Term Bank Facilities	29.10 (Reduced from 44.20)	CARE A-; Stable (Single A Minus; Outlook: Stable)	Reaffirmed
Total Bank Facilities	29.10 (₹ Twenty-Nine Crore and Ten Lakhs Only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The reaffirmation of rating assigned to the bank facilities of KCC Lateri Expressway Private Limited (KLEPL) continues to derive comfort from its assured cash flow stream in the form of fixed annuities from Madhya Pradesh Road Development Corporation. (MPRDC, a Government of Madhya Pradesh (GoMP) undertaking) The ratings derive comfort from established track record of receipt of sixteen semi-annual annuities with operational track record of eight years, comfortable debt coverage indicators and maintenance of debt service reserve account (DSRA) covering interest obligations for ensuing three months. The rating also takes note of completion of first major maintenance cycle during FY22.

The rating is, however, constrained by force majeure risks, exposure to interest rate fluctuation and inherent O&M risk.

Rating Sensitivities

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

- Improvement in the credibility of the counterparty i.e., MPRDC.

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

- Deterioration in the credit profile of MPRDC.
- Significant deterioration in the credit profile of sponsor cum O&M contractor (KBPL).
- Adverse movement in the interest rate and O&M cost affecting the debt coverage indicators below 1.15x levels.
- Non-maintenance of road leading to deduction/ delay in receipt of annuities from MPRDC.

Detailed description of the key rating drivers

Key Rating Strengths

Operational annuity-based project with an established track record of receipt of annuities from MPRDC and long-term revenue visibility

KLEPL's annuity project achieved commercial operations date (COD) in August 2014. The project has a successful operational track record of eight years with receipt of sixteen semi-annual annuities and a bonus for early completion of the project. The company has long-term revenue visibility due to annuity-based nature of the project and healthy financial risk profile of MPRDC, which has been paying the annuities in a timely manner as per the concession agreement.

Low counterparty credit risk

Incorporated in 2004, MPRDC is wholly owned by the GoMP. It is the 'State Highway Authority' and facilitator for construction, maintenance and up gradation of state highways and major district roads for the GoMP. It receives funds quarterly in advance for meeting viability gap funding (VGF), annuity pay-outs and for regular contracts.

Comfortable debt coverage indicators due to prepayment of debt

The debt coverage indicators of the company continue to remain comfortable. The company is maintaining DSRA equivalent to interest due for ensuing 3 months in line with the sanctioned terms and funds in the form of fixed deposit receipts (FDRs), under lien of lender, equivalent to balance interest obligations till the receipt of next annuity in February 2023, which provides comfort. Annuity received from MPRDC adequately covers the debt obligations of KLEPL. Furthermore, as per the terms of sanction of the

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

term loan, repayment of principal obligations shall be due after 45 days from due date of receipt of annuity, thus providing cushion in case of any delay in the actual receipt of annuity.

With a well-defined waterfall mechanism in place, KLEPL has made prepayments of its term loans (in reverse order of maturity) out of its surplus proceeds, thereby reducing the terminal date of loan to October 2024, with a tail period of 4 years.

Completion of major maintenance expenditure

The company completed its first major maintenance (MM) activity during FY21-FY22 at a cost of Rs.24.58 crore while the second MM is scheduled for FY27-28 after repayment of its term debt. Major maintenance was executed by KCC Buildcon Private Limited.

Key Rating Weaknesses

Exposure to interest rate fluctuation risk

The company remains susceptible to inherent interest rate risk over the tenor of the loan considering variable rate of interest and presence of annual reset clause for spread, whereas, its revenue stream, in the form of annuities, are fixed in nature. Therefore, any major adverse movement in interest rates may impact the debt coverage indicators of the company.

Inherent O&M risk

All road projects are exposed to inherent O&M risk. KLEPL continues to remain exposed to O&M risk, as non-maintenance of the road, as per the specified standards, by KBPL may result in delay or deduction in the receipt of its annuities. District roads generally have low O&M requirements due to low traffic flow and negligible freight/ commercial traffic. Although, the company has a fixed price O&M contract for routine and major maintenance and provision for liquidated damages in case of reduction in annuity payments, any significant increase in O&M costs or deduction in annuity could impact the debt servicing ability of the company.

Liquidity analysis: Adequate

The liquidity position of the company is adequate with timely receipt of annuities covering principal and interest payment obligations of the company. As on November 30, 2022, KLEPL has total bank balances of Rs.5.45 crore including DSRA of Rs.2.36 crore (representing 3 months' interest obligations), interest FDRs of Rs 3.09 crore (covering interest obligations due till the receipt of next annuity in February 2023). The next repayment is due on April 30, 2023, post the receipt of the next annuity due on February 21, 2023.

Analytical approach: Standalone

Applicable Criteria

[Rating Outlook and Credit Watch](#)

[Policy on default recognition](#)

[Financial Ratios – Non financial Sector](#)

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

[Annuity Road Projects](#)

About the Company

Incorporated in January 2013, KLEPL is a special-purpose-vehicle (SPV) promoted by KBPL to develop and maintain five major district roads on Design-Build-Finance-Operate-Transfer (DBFOT, annuity) basis under package – V in the state of Madhya Pradesh. The scope of the project consists of intermediate-laning/ two-laning of the following sections:

- Lateri – Anandpur – Bhagwantpur,
- Tyonda (NH86) – Ganjbasoda,
- Itkhedi – Raslakhedi,
- Kurawar – Iklera – Talen, and,
- Ankhia – Barkheda – Dongargaon.

The project achieved COD on August 21, 2014, 14 months prior to the scheduled COD of October 3, 2015. Since commissioning, the company has received sixteen semi-annual annuities and a bonus of Rs.30.80 crore for early completion of the project.

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	H1FY23
Total operating income	25.96	9.40	NA
PBILDT	-2.41	-0.35	NA
PAT	-0.15	1.87	NA
Overall gearing (times)	1.54	0.92	NA
Interest coverage (times)	-0.38	-0.09	NA

A: Audited; NA: Not Available

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

Disclosure of Interest of Independent/Non-Executive Directors of CARE Ratings Ltd.: Not Applicable

Disclosure of Interest of Managing Director & CEO: 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/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Term Loan		-	-	30-10-2024*	29.10	CARE A-; Stable

*based on prepayment of debt

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	29.10	CARE A-; Stable	-	1)CARE A-; Stable (02-Nov-21)	1)CARE A-; Stable (21-Dec-20)	1)CARE A-; Stable (30-Dec-19)

*Long term/Short term.

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

Particulars	Detailed explanation
A. Financial covenants	<p>The borrower to ensure compliance with the following covenants:</p> <ul style="list-style-type: none"> • The ratio of debt to equity shall not exceed 85:15 during the entire tenure of the facility. • The Debt service coverage ratio (DSCR) shall, at any point in time, not fall below 1.15 times and 1.00 times in FY19
B. Non-financial covenants	
New Project/Expansion	<ul style="list-style-type: none"> • The company shall not, without prior permission of the lenders in writing, undertake any new project to change the scope of project except in accordance with Article 16 (Change of Scope) under Concession Agreement.
Other Covenants	<ul style="list-style-type: none"> • The Company shall create a Major Maintenance Reserve as envisaged in the base case plan from the cash flows of the project. • During the currency of the facility, KLEPL shall not, without prior permission of the lenders in writing: <ul style="list-style-type: none"> ○ Effect any change in the capital structure except as per the base case business plan. ○ Formulate any scheme of amalgamation or reconstruction. ○ Implement any scheme of expansion or acquire fixed assets, except as required in the normal course of business. ○ Enter into borrowing arrangement either secured or unsecured with any bank/Financial Institution or otherwise or accept deposits other than bank borrowings for meeting its working capital requirements. ○ Undertake guarantee obligations on behalf of any other company. ○ Withdraw monies brought in by the principal shareholders/ directors/ depositors except to the extent allowed in the provisions of restricted payments.

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

Sr. No.	Name of Instrument	Complexity Level
1	Fund-based - LT-Term Loan	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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