Kishangarh Beawar NH- 8 Tollway Private Limited

December 07, 2022

Rating

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	949.51 (Reduced from 1,080.23)	CARE BBB-; Stable (Triple B Minus; Outlook: Stable)	Reaffirmed
Total Bank Facilities	**949.51** **(₹ Nine Hundred Forty-Nine Crore and Fifty-One Lakhs Only)**		

Details of instruments/facilities in Annexure-1.

Detailed rationale and key rating drivers

The reaffirmation of rating assigned to the bank facilities of Kishangarh Beawar NH-8 Tollway Private Limited (KBTPL) continues to factor the well-defined escrow mechanism monitored by lenders with a cash trap mechanism wherein the entire surplus funds generated from the project are to remain with the project throughout the loan tenor and shall only be utilized for project related expenses including debt servicing. The rating also considers its operational track record of over seven years and favourable location of the project stretch forming a part of Golden Quadrilateral on NH- 8 giving it strategic advantage entailing comparatively higher influx of traffic especially from commercial vehicles. Furthermore, receipt of extension of concession period by 3.6 years resulting in a tail period of 2.9 years and presence of debt service reserve account (DSRA) equivalent to one quarter debt obligations provided by the sponsor, Roadis, in the form of bank guarantee are the other credit positives.

The above rating strengths are, however, tempered by modest debt coverage indicators coupled with the inherent revenue risk associated with toll-based projects including risk of likely traffic diversion upon commissioning of Delhi Mumbai Expressway (DME) and Western Dedicated Freight Corridor which may compete with the NH-8 stretch. Furthermore, Operations and Maintenance (O&M) risk due to absence of any fixed price O&M contract, interest rate risk and legal risks emanating from the counter claims filed by NHAI are other risks associated with the project.

Rating sensitivities

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

- Growth of 15%-20% in toll revenue leading to DSCR levels in excess of 1.20x on a sustained basis
- Arbitration award in favour of the company leading to significant reduction in debt levels

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

- Any non-compliance of restructured terms including dip in DSRA or withdrawal of funds from SPV
- Deterioration in traffic levels leading to moderation in DSCR levels to below unity.
- Adverse movement in the interest rate and O&M cost as well as Major Maintenance cost affecting the cumulative debt coverage indicators below 1.05x
- Levy of penalties by the authority due to inadequate maintenance of the project
- Adverse outcome of the arbitration between the company and NHAI impacting the liquidity position of the company

Detailed description of the key rating drivers

Key rating strengths

Favourable location of the stretch: KBTPL is part of NH-8 (Now known as NH-48). NH8 is a 4/6 lane national highway connecting Delhi to Mumbai, one of the busiest roads of national importance connecting the national capital Delhi to the financial capital Mumbai, as well as important cities viz. Gurgaon, Jaipur, Ajmer, Udaipur, Ahmedabad, Vadodara, Surat, Nadiad, Anand and Kheda. NH8 is part of Golden Quadrilateral and was the first section of GQ to be completed.

A lot of commercial traffic originating in the vicinity of Ajmer District is catered by KBTPL. Some of the largest cement producers in the country have their plants located in Ajmer. Furthermore, one of the largest limestones and marble mines are located in

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

Kishangarh, which are major contributors to the traffic on the project stretch. Such industries are freight intensive and their operations are pertinent to the growth in collections recorded by KBTPL.

Track record of toll collections of more than seven years and tail period of 2.9 years: The company had achieved provisional COD on April 28, 2015, and it has track record of more than seven years of toll collection. The average daily toll collection (ADTC) during FY21 and FY22 was ₹ 61.55 lakhs (Over 345 days of toll operation) and ₹ 59.78 lakhs (Over 365 days of toll operation) respectively. The collections in FY22 remained lower than envisaged levels due to moderation of traffic in Q1FY22 on account of second wave of Covid-19 and in Q4FY22 due to construction works ongoing on a connecting stretch along NH-8. During H1FY23 the ADTC stood at ₹62.76 lakh against ₹ 56.86 lakh during H1FY22. During November 2022, the collections have reached to the extent of ₹67 lakh per day and are expected to be sustained at this level for the periods ahead.
The toll collections have shown consistent growth over the years supported by growth in both traffic volumes and toll rates. The company reported toll revenues of about ₹218 crore in FY22 and has recorded a compounded annual growth rate (CAGR) of 7.60% in the toll collections since becoming operational in FY16, wherein it has reported toll revenues of ₹142 crore.
The company has also received extension in the concession period by 3.6 years as envisaged in the resolution plan on the grounds of lower traffic than the targeted traffic of 80085 passenger car units (PCUs) which has resulted in a tail period of 2.9 years rendering financial flexibility to an extent.

Escrow arrangement supported by cash trap mechanism: Due to lower than expected toll collections against relatively high debt obligations, the company's cash flows were stretched from the date of commencement of commercial operation. The same was further impacted due to Covid-19 pandemic, wherein the company underwent OTR as per RBIs policy 'Resolution Framework for COVID19 related stress' announced on August 6, 2020. The repayment obligations have now been structured and elongated to address the issues of cash flow mismatches. KBTPL has an escrow mechanism in place whereby entire toll collection proceeds are deposited in lender monitored escrow account and utilization out of the account is based on pre-defined water fall mechanism. The debt terms stipulate a cash trap mechanism wherein the entire surplus funds generated from the project shall remain in the project till the entire tenor of the loan and shall only be utilized for project related expenses and debt servicing.

Presence of Debt Service Reserve Account (DSRA): The company has created DSRA equivalent to one quarter of debt obligations (interest as well as principal repayment). The DSRA is in the form of BG to the tune of ₹39.24 crore. The said BG shall continue till the creation of cash DSRA, which is proposed to be created from the project cash flows. CARE Ratings understands that DSRA BG shall continue till the time funded DSRA is created for one quarter of debt servicing, which is expected to be maintained throughout the tenure of the loan and would continue to be a key rating monitorable. In case the DSRA BG is not renewed 30 days prior to expiry date, the same shall be encashed and retained as funded DSRA in the SPV.

Key Rating Weaknesses

Cash flow risk from traffic fluctuations and possible diversions towards alternate routes: Being a toll-based SPV, KBTPL is exposed to the inherent revenue risks arising from the traffic fluctuations and annual revision of the toll rates which are indexed to Wholesale Price Index (WPI).
Furthermore, possible traffic diversion towards alternate routes poses diversion risks to the tollable traffic. The proposed Delhi-Vadodara-Mumbai Expressway (DME) which is likely to be operational by FY23-FY24 shall pose competition to KBTPL stretch. Traffic bound for Mumbai from Delhi are likely to opt for DME as it is both economically viable and time saving. However, as per Origin and Destination survey conducted by the TEV consultant appointed by the lenders, majority of the traffic on KBTPL is originated from the near vicinity of Ajmer District therefore such diversion risk remains mitigated to an extent.
The traffic on the section is majorly commercial, therefore diversion risks for the freight traffic from the expected commissioning of Western Dedicated Freight Corridor persists and would continue to remain a key rating monitorable.

Legal Risks posed by counter claims filed by NHAI: Due to delays in receipt of PCOD and other issues relating to cost overruns, the company is undergoing arbitration proceedings with NHAI. While the company has raised claims aggregating to the tune of ₹1196.79 crore and extension claim of 2051 days in the concession agreement, NHAI has inturn raised counter claims of ₹310.95 crore. As per articulation from the management, the company is confident to get the arbitration order in its favour and the proceeds of the same would be utilized for debt reduction. However, any adverse outcome of these legal proceedings remains a key monitorable from credit perspective.

Inherent O&M risk: O&M of the project is being done inhouse by KBTPL. The company could face the risk of a sharp increase in the O&M cost in the event wear and tear on the road is more than envisaged levels.

Furthermore, KBTPL is incurring major maintenance for the stretch wherein it has appointed a third-party contractor and has executed a fixed price contract. The major maintenance has been incurred for about 76% of the stretch as per the management's articulation and the balance works are also proposed to be completed by March 2023. In medium term, the O&M costs are expected to reduce as the routine repairs shall be less likely to be required with the stretch being recently undergone major maintenance, however, maintenance of the stretch as per the benchmarks of the authority within the envisaged cost parameters shall remain a key monitorable.

Absence of fund based Major Maintenance Reserve Account: The company doesn't maintain any fund based reserve towards major maintenance expenditure. Currently, the major maintenance being done in the project stretch is met from the opening cash balance of FY22 and toll collected during FY23. Next major maintenance is expected in FY29 for which company proposes to create fund based reserve subject availability of cash surplus. Creation of funds based MMRA remains critical from credit perspective.

Inherent interest rate risk: As per the terms of the resolution plan, the loan will be at floating rate of interest and is subject to annual reset. Thus, any adverse movement in interest rate would impact the overall debt-serviceability of the company.

Liquidity: Adequate

As on November 28, 2022, the company has free cash and bank balance of ₹21 crore. The cashflow available from operations is expected to be adequate to meet the debt servicing obligations. The liquidity is marked by toll collections ranging from ₹65-67 lakh per day contributing to cashflows providing modest coverage of 1.13x to the project. Furthermore, DSRA in form of BG from sponsor covering the debt servicing requirement of one quarter provides further strength to the cashflows. The lenders have also stipulated the condition that the sponsor shall not withdraw any funds from the project during the currency of the loan which gives additional comfort.

Analytical approach: Standalone

Applicable criteria

Policy on default recognition
Factoring Linkages Parent Sub JV Group
Financial Ratios – Non financial Sector
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Credit Watch
Toll Road Projects

About the company

Kishangarh Beawar NH- 8 Tollway Private Limited (KBTPL) (erstwhile Soma Isolux Kishangarh-Beawar Tollway Private Limited) is a Special Purpose Vehicle (SPV) jointly promoted by Roadis Corsan Concessions SA (owned by Canadian Pension Fund Managers – PSPIB), Indus Concessions India Pvt. Ltd., Soma Enterprise Limited (SEL) and Soma Tollways Pvt. Ltd. (STL). The SPV was formed to undertake the development and operation of a road project awarded by National Highway Authority of India (NHAI – The Authority). Roadis is involved in development, operation and management of infrastructure concessions and the Group also has a strong international presence which, currently, extends to six countries, including a strong presence in Spain.
The company has undergone One Time Restructuring (OTR) towards the debt of the company as per RBI Circular "Resolution Framework for COVID-19-related stress" dated August 06, 2020.

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	H1FY23 (UA)
Total operating income	211.59	218.78	113.93
PBILDT	157.24	150.13	78.86
PAT	-8.97	1.63	5.95
Overall gearing (times)	3.36	3.15	3.01
Interest coverage (times)	1.40	1.47	1.65

A: Audited; UA: Un-audited

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 (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	NA	-	-	30-09-2028	949.51	CARE BBB-; Stable

NA: Not applicable

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)Withdrawn (01-Dec-21)	1)CARE D (08-Feb-21)	1)CARE D (03-Feb-20)
2	Fund-based - LT-Term Loan	LT	949.51	CARE BBB-; Stable	-	1)CARE BBB-; Stable (01-Dec-21)	-	-

*Long term/Short term.

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

Name of the Instrument	Detailed Explanation
A. Financial covenants	
• **Debt service Reserve Account (DSRA)** • **Cash Sweep**	• The borrower/sponsor shall create and maintain DSRA equivalent to debt servicing requirement of one quarter throughout the currency of the facility • With effect from FY24 onwards, 50% of the surplus operating cash, at the end of financial year, over and above ₹ 50 crore generated during the particular financial year post providing for DSR, Major Maintenance Reserve (MMR) and any other obligation, may be utilized for the cash sweep for prepayment of debt obligation of upcoming quarters. • Min DSCR: 1.00 and Avg DSCR of 1.10
B. Non-financial covenants	The entire surplus funds generated from the project shall remain in the project till the tenor of the loan and shall only be utilized for project related expenses.

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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About us:
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