PNC Kanpur Highways Limited

March 14, 2022

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating[1]	Rating Action
Long Term Bank Facilities	109.88 (Reduced from 147.39)	CARE A+; Stable (Single A Plus; Outlook: Stable)	Revised from CARE A; Stable (Single A; Outlook: Stable)
Total Bank Facilities	**109.88 (Rs. One hundred nine crore and eighty-eight lakhs Only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in the ratings of bank facilities of PNC Kanpur Highways Limited (PKHL) takes into account improved toll collections during FY21 and 11MFY22 (refers to the period April 01 to March 01) notwithstanding the challenges of second wave of Covid-19 pandemic. The rating also factors significant reduction in interest rate and steady traffic growth that are expected to strengthen debt coverage indicators. The project has an established operational track record of about seven years with healthy toll revenues leading to build-up of strong liquidity position aggregating Rs.109 crore, including one-quarter debt service reserve account (DSRA) maintained in the form of fixed deposits (FD). The ratings continue to derive strength from the company's experienced and resourceful promoter, PNC Infratech Limited (PIL; rated 'CARE AA'; Stable / 'CARE A1+') and satisfactory operational track record of the toll road wherein traffic levels are expected to improve further owing to increased construction works on the near-by stretches in the state of Uttar Pradesh, which are perceived to be the prominent factors contributing towards freight traffic growth. CARE Ratings Ltd. takes cognizance of the change in 'applicable rate of fee for overloading' with effect from December 2021, which is expected to normalize the toll revenues in FY23 by 10-12%. However, with the comfortable financial risk profile marked by debt to toll collection ratio of 1.59x as on March 31, 2021, the debt servicing ratios are expected to be satisfactory. Based on the company's articulation, CARE understands that surpluses would be maintained in the company itself and shall be available only for debt servicing and project related expenses.

The rating strengths are however, tempered by the inherent risks associated with toll-based projects, viz, sustainability of traffic and acceptability of toll rate hikes, operations & maintenance (O&M) risk and volatility in interest rates on project debt, considering the same is subject to periodic reset.

Rating Sensitivities

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

- Consistent growth in toll revenue by 10-15% on a year-on-year basis leading to higher DSCR levels in excess of 1.50x on a sustained basis.

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

- Any change in the credit profile of sponsor (PIL) or a downgrade from their current credit ratings.
- Any non-project related withdrawal from the surplus cash balance of the project
- Decrease in toll collections or adverse movement in the interest rate and O&M cost affecting the debt coverage indicators
- Non-compliance of various covenants as per sanctioned terms and concession agreement, including maintenance of debt service reserve account (DSRA).

Detailed description of the key rating drivers

Key Rating Strengths

Experienced and resourceful promoters

PKHL has been promoted by PNC Infra Holdings Ltd. (a wholly owned subsidiary of PIL). PIL has been engaged in construction activities across diverse sectors like highways, bridges, flyovers and airport runways. PIL has over two decades of experience in executing road projects and has received appreciation certificates for some of its projects in the past. The company has executed numerous infrastructure projects across 15 states across India.

Improved toll collections during FY21 and 11MFY22

The toll collection for the company improved to Rs.91.98 crore during FY21 as against Rs.76.23 crore during FY20. During 11MFY22 (refers to period from April 1, 2021 to February 28, 2022) the toll collections further improved to Rs.92.63 crore (Rs. 27.73 lakh/day) as compared to Rs.83 crore (Rs.26.43 lakh/day) during the corresponding period 11MFY21. The revenues for 11MFY22 has surpassed the revenues during FY21 with per day collection growth of about 5% on account of healthy growth in traffic vis-à-vis toll tariff hikes. The toll collections have improved during FY21 and 11MFY22, despite the impact of Covid-19 pandemic, on account of increased construction related traffic from under-implementation projects including Aligarh Kanpur Package IV, V and Unnao-Lalganj section four laning in the state of Uttar Pradesh. The construction activities of these projects

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

have picked up the pace, which have generated significant demand for the construction material sourced from Kabrai region during the said period leading to increased traffic PCUs on the project stretch.
Furthermore, new projects have been awarded in the near vicinity of the PKHL stretch during the Q4FY22, including Kanpur-Lucknow Expressway in the state of Uttar Pradesh. These new projects are expected to receive their appointed dates (AD) within the next one year. As such, construction materials viz. stone aggregates as well as sand, for these projects will be sourced from the Kabrai region, which happens to be one of the major sources of these raw materials in the state of Uttar Pradesh, which is expected to generate sizeable traffic on the Project Highway in the coming years.

Comfortable financial risk profile with healthy liquidity position
The company has a comfortable financial risk profile marked by debt to toll of 1.59 times for FY21 (estimated to be 1.11 times for FY22) and steady build-up of liquidity with cash and cash equivalents of Rs.109 crore as on February 28, 2022, including maintenance of DSRA of Rs.17.10 crore covering one quarter of debt servicing requirements. The surpluses generated from operations have not been withdrawn till date and are expected to be retained at PKHL's level in future, as communicated by the company, providing strength to the company's liquidity position. Furthermore, PKHL's debt coverage indicators are expected to remain comfortable in coming years.

Key Rating Weaknesses
Revenue risk associated with toll projects
Being a toll-based project, PKHL is exposed to the inherent revenue risks arising from traffic fluctuations and annual revision of the toll rates which are indexed to the Wholesale Price Index (WPI). Being an MAV-dominated stretch; the reduction in mining activities may directly impact the toll income of the company. Furthermore, adverse changes in overloading fee norms may subject the company to cash flow risks and would be a key rating monitorable.

Exposure to maintenance risks
The entire maintenance activity for the project is handled by an in-house team of PKHL. Going forward, completion of routine O&M and major maintenance expense within the budgeted cost estimates would be crucial.

Interest rate risks
PKHL is exposed to adverse movements in interest rates since infrastructure projects have long gestation periods. The presence of an annual reset clause in the loan agreements and linkage with base rate exposes the company to interest rate risks over the long term.

Liquidity: Strong
PKHL's liquidity position remains comfortable with unencumbered cash and liquid investments of around Rs.92 crore as on February 28, 2022. Furthermore, the company is maintaining DSRA of Rs.17.10 crore, in the form of fixed deposits, adequately covering debt servicing obligations equivalent to one quarter, which provides sufficient credit comfort. Based on a clear communication by the company and a demonstrated track record of the group till date of maintaining available liquidity at the SPV level, CARE Ratings believe that the free cash balances available would be maintained in the company itself and would be available for project related expenses only.

Analytical approach:
Standalone while factoring linkages with the parent company- PIL.

Applicable Criteria
Policy on default recognition
Financial Ratios – Non financial Sector
Liquidity Analysis of Non-financial sector entities
Rating Methodology-Factoring Linkages
CARE Policy-Rating Outlook and Credit Watch
CARE Criteria-Toll Road Projects

About the Company
PKHL is a special purpose vehicle (SPV) promoted by PNC Infra Holdings Ltd (wholly owned subsidiary of PIL) to undertake two-laning of Kanpur-Kabrai section of National Highway - 86 from 7.43 km to 130.1 km in the state of Uttar Pradesh on design build finance operate and transfer (DBFOT) toll basis. As per the concession agreement (CA) signed between NHAI and PKHL on March 11, 2011, the concession period is 12 years (including a construction period of 540 days) from the appointed date (which is January 21, 2013). The company achieved provisional completion date (PCOD) on May 5, 2015 and tolling commenced on 98.70% of the project stretch from May 7, 2015. The company achieved final COD on December 31, 2015.

Brief Financials (Rs. crore)	31-03-2020 (A)	31-03-2021 (A)	9MFY22(UA)
Total operating income	76.23	92.11	82.91
PBILDT	35.95	41.56	49.44
PAT	-4.97	1.17	13.75
Overall gearing (times)	1.44	1.33	NA
Interest coverage (times)	2.21	3.14	6.12

A: Audited; UA: Un-Audited; NA: Not Available
Note: Financials classified as per CARE's internal benchmarks

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 / Facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Term Loan	NA	-	-	**June'24**	109.88	CARE A+; Stable

NA: Not Applicable

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	Fund-based - LT-Term Loan	LT*	109.88	CARE A+; Stable	-	1)CARE A; Stable (25-Mar-21)	1)CARE A-; Stable (31-Mar-20)	1)CARE A-; Stable (11-Mar-19) 2)CARE A-; Stable (05-Apr-18)

*Long Term

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

Name of the Instrument	Detailed explanation
A. Financial covenants	
i. DSCR	DSCR should not fall below 1.1 at any point of time
ii. Debt to Equity Ratio	The ratio of Debt to Equity shall not exceed 1.41:1 during the entire tenure of the loan
B. Non financial covenants	
i. Project construction, operation and maintenance	The borrower shall maintain, preserve and operate the project and all its other properties necessary in the proper conduct of its business in good working condition and its business plan

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 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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About CARE Ratings Limited:
Established in 1993, CARE Ratings Ltd. is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India (SEBI), it has also been acknowledged as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). With an equitable position in the Indian capital market, CARE Ratings Limited provides a wide array of credit rating services that help corporates to raise capital and enable investors to make informed decisions backed by knowledge and assessment provided by the company.
With an established track record of rating companies over almost three decades, we follow a robust and transparent rating process that leverages our domain and analytical expertise backed by the methodologies congruent with the international best practices. CARE Ratings Limited has had a pivotal role to play in developing bank debt and capital market instruments including CPs, corporate bonds and debentures, and structured credit.

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