Khalghat Sendhwa Tollways Private Limited

September 17, 2021

Rating

Facilities/Instruments*	Amount (Rs. crore)	Rating[1]	Rating Action
Long-term Bank Facilities	354.54 (Reduced from 407.35)	CARE A-; Stable (Single A Minus; Outlook: Stable)	Reaffirmed
Total Bank Facilities	**354.54 (Rs. Three hundred fifty four crore and fifty four lakh only)**		

* Details of instruments in Annexure-1

Detailed Rationale & Key Rating Drivers

The reaffirmation of the rating assigned to the bank facilities of Khalghat Sendhwa Tollways Private Limited (KSTPL) continues to derive strength from the experience of the promoters in road projects globally and continued support from the sponsor, i.e., Uniquest Infra Ventures Private Limited (UIPL) and UEM Group Berhad (UEM, promoter of UIPL and a wholly-owned subsidiary of Khazanah Nasional Berhad (Khazanah), a Malaysian Sovereign Wealth Fund), in the form of bank guarantees (BGs) for debt service reserve account (DSRA) and major maintenance reserve account (MMRA). The rating also factors in the strategic location of the stretch and long operational track record of more than 10 years.

The rating is, however, constrained by the decline in the toll income in recent years leading to moderate debt coverage indicators, inherent revenue risks associated with the toll-based projects, operation and maintenance (O&M) risk and significant dependence on commercial vehicle traffic leading to higher susceptibility of revenues to the economic downturns.

Rating Sensitivities

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

- Growth in toll revenues by 10%-15% on a sustained basis resulting in improved debt-service coverage ratio (DSCR) levels of over 1.30x times.

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

- Decline in toll revenue leading to fall in DSCR levels below the envisaged levels.
- Deterioration in the credit profile of the sponsor or non-receipt of timely need-based support from sponsor to meet debt repayments.
- Non-adherence to the covenants as per bank facility agreement:
  - Non-maintenance of DSRA and MMRA.
  - DSCR falls below 1.15x.

Detailed description of the key rating drivers

Key Rating Strengths

Experienced promoters and strong support from the sponsors

KSTPL is a wholly-owned subsidiary of UIPL. UIPL is a joint venture of UEM (a 100% subsidiary of Khazanah) through its subsidiary and IDFC Ltd to develop road projects in India. Khazanah is a strategic investment arm of the Government of Malaysia to explore strategic investment opportunities in new markets. UEM is one of the largest engineering-based infrastructure and services conglomerates in Malaysia, operating for more than five decades. It has extensive experience in infrastructure segment and also has several assets under management including expressways, township & property, construction and facility management across Asia, Australia, New Zealand, Canada and the Middle East.

The rating derives comfort from the strong track record of sponsor support to its special purpose vehicles (SPVs) in India. Based on clear articulation by the sponsor, CARE Ratings expects that UIPL and UEM would support the debt repayment obligations of KSTPL owing to any shortfall in toll revenues. UEM has also provided BGs for DSRA and MMRA, which are expected to be renewed annually as per requirements envisaged in the sanction terms.

Strategic location of the project

The project stretch is part of National Highways-3 (NH-3) from Km 84.70 near Khalghat in Madhya Pradesh (MP) to Km 167.50 in Barwani district (near the MP/ Maharashtra (MH) border). The NH-3 originates at Mumbai and traverses a distance of 1,161 Kms through the states of MH, MP, Rajasthan, and Uttar Pradesh ending at Agra. The project stretch has a good catchment of industrial units like auto ancillary, cotton, agro-based, etc. Furthermore, completion of four-laning of the major stretches on NH3 is expected to benefit the project with the influx of traffic.

[1] *Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications.*

Key Rating Weaknesses

Decline in toll collection levels

The project stretch is operational for more than 10 years now, though the tolling revenues have declined since FY20 (refers to the period April 1 to March 31). Commercial traffic constitutes around 80% of the total traffic movement on the project highway. The Gazette Notification during FY19 with respect to change in the method of levying overloading penalty by the company as well as Central Government's order to increase the load carrying capacity of heavy vehicles adversely impacted the toll revenues of the company. Furthermore, during FY21, the toll revenue of KSTPL decreased to Rs.106.17 crore (Prov.) as compared with Rs.110.79 crore during FY20. The same has been on account of closure of operations during the month of April 2020 as per order of Ministry of Road, Transport and Highway (MoRTH) vide notification dated March 25, 2020, amidst Covid-19 situation. The traffic on the project stretch, however, gradually picked up post easing of lockdown, with revenues reaching pre-Covid level from August 2020 onwards.

The toll revenues were again impacted during Q1FY22 owing to the second wave of COVID-19 resulting in state-wise restrictions in traffic movement. The traffic volumes, however, have now recovered post June 2021. Furthermore, with the completion of four-laning of NH-3 and improvement in network condition, traffic on NH-3 is expected to improve going forward being shorter route than NH-8.

Inherent revenue risk associated with toll road projects

Being a toll-based project, KSTPL is exposed to the inherent revenue risks arising from the traffic fluctuations and annual revision of the toll rates which are indexed to the Wholesale Price Index (WPI). Additionally, any diversion of local traffic to toll free roads/roads with lesser toll could lead to lower toll collections in future. Furthermore, as the traffic composition of the project stretch is dominated by heavy commercial vehicles like trucks and multi-axle vehicles (MAVs), which constitute around 80% of the total traffic, the traffic is highly linked to the state of the economy and macroeconomic conditions. This can have an adverse impact during times of economic downturn.

O&M Risk

The company is exposed to the risk of any increase in O&M cost as the company has not entered into any fixed price O&M contract for major maintenance of the project stretch. The company, however, has entered into a fixed price O&M contract with local contractor, during the CY21 (refers to period from May 2021 to December 2021) for undertaking routine maintenance expenses which mitigates the risk to an extent. Timely renewal of O&M contract at base case levels and maintenance of project stretch in good condition would remain a key rating monitorable.

The company completed its first cycle of MM activity on the project highway during the FY19 and FY20, out of internal accruals and available cash surplus. The company now plans to undertake the second major maintenance activity in FY26, for which BG has been provided by the UEM, which is expected to be renewed on annual basis by topping up the MMRA amount in subsequent years in line with the sanctioned terms. Timely renewal of the same, in compliance to the sanction terms, would continue to remain a key rating monitorable.

Moderate debt coverage indicators

The company has moderate debt coverage indicators and remains exposed to the risk of declining toll collections and any adverse change in the interest rates in future due to floating nature of the interest on term loans availed by the company. However, comfort can be derived by the presence of DSRA BG, which is a liquidity buffer covering debt obligation of one quarter and presence of strong sponsor, who has demonstrated track record of providing need-based support to its SPVs.

Liquidity: Adequate

The liquidity position of the company is adequate with free cash and cash equivalents of Rs.26.99 crore as on June 30, 2021. The company, further, has unutilized overdraft limits with HDFC Bank of Rs.10.00 crore, which provides additional liquidity buffer. Furthermore, the company has maintained DSRA of Rs.24.11 crore in the form of BGs, which covers three months of debt servicing obligation and is maintaining MMRA of Rs.11.08 crore in the form of BG. DSRA and MMRA BGs have been provided by the sponsor.

Analytical approach: Standalone, while factoring in linkages with the sponsor, UIPL, which is a part of the UEM Berhad group.

Applicable criteria

Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings
CARE's Policy on Default Recognition
Liquidity Analysis of Non-Financial Sector Entities
Rating Methodology: Notching by factoring linkages in Ratings
Financial ratios – Non-Financial Sector
CARE's Policy on Curing period
Rating Methodology - Toll Road Projects
Liquidity Analysis of Non-Financial Sector Entities

About the Company

Khalghat Sendhwa Tollways Pvt. Ltd. (erstwhile SEW Navayuga Barwani Tollways Pvt. Ltd.) is a SPV which was initially promoted by SEW Infrastructure Ltd. (SEW) and Navayuga Engineering Company Limited (NECL) to lay four lanes from Khalghat to Madhya Pradesh/Maharashtra border under NHDP Phase IIIA on BOT toll basis. The Concession Agreement (CA) was executed between KSTPL and National Highways Authority of India (NHAI) on April 16, 2008, for a concession period of 18 years. The project was implemented and achieved COD on April 4, 2011. The final project cost was Rs.786.39 crore as against envisaged project cost of Rs.790.02 crore. In 2014, UIPL acquired 74% of the stake in KSTPL from SEW and NECL. Furthermore, in June 2016, UIPL acquired the remaining 26% of the holding in KSTPL from SEW and NECL. This has increased UIPL's shareholding in KSTPL to 100%, making it a wholly-owned subsidiary.

Brief Financials (Rs. crore)	FY20 (A)	FY21 (Prov.)
Total operating income	111.35	106.94
PBILDT	72.05	79.87
PAT	-27.08	-19.52
Overall gearing (times)	7.56	13.00
Interest coverage (times)	1.76	1.81

A: Audited; Prov.: Provisional

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	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Term Loan	-	-	March 2025	344.54	CARE A-; Stable
Fund-based - LT-Bank Overdraft	-	-	-	10.00	CARE A-; 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.	Fund-based - LT-Term Loan	LT	344.54	CARE A-; Stable	-	1)CARE A-; Stable (04-Nov-20)	1)CARE A-; Stable (11-Feb-20)	1)CARE A-; Stable (07-Jan-19) 2)CARE A-; Stable (05-Apr-18)
2.	Fund-based - LT-Term Loan	LT	-	-	-	-	-	1)Withdrawn (05-Apr-18)
3.	Fund-based - LT-Bank Overdraft	LT	10.00	CARE A-; Stable	-	1)CARE A-; Stable (04-Nov-20)	1)CARE A-; Stable (11-Feb-20)	1)CARE A-; Stable (07-Jan-19) 2)CARE A-; Stable (05-Apr-18)

LT: Long Term

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

Long-term loan	Detailed explanation
A. Financial covenants	• The borrower shall at all times during the tenor of the facility maintain DSRA • DSCR>=1.15x
B. Non-Financial Covenants	• The borrower shall not, except with the prior written consent of the security trustee o Except as otherwise specifically provided in the Annual Operations Budget, pay any remuneration to its directors whether in the form of sitting fees, commission etc. other than any remuneration payable to Nominee Directors appointed by the Security Trustee o Take any action/commit any omission and /or allow any action to be taken/ any omission to be committed which would result in termination of any project documents o Undertake any augmentation, diversification, modernization or expansion or otherwise make any material change to the scope of the project • The borrower shall not provide guarantees to or for the benefit of any entity or person including any affiliates of the borrower, provided that the borrower shall be permitted to procure bank guarantees in favor of any statutory authority, in respect of any demand made by such statutory authority on the borrower in normal course of business • The borrower shall not enter into any O&M agreement with any project participant to discharge operation and maintenance obligations of the borrower at the project site except on proper commercial terms negotiated at arm's length.

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

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based-LT-Bank Overdraft	Simple
2.	Fund-based-LT-Term Loan	Simple

Annexure-5: Bank Lender Details for KSTPL: Click here to view Bank Lender Details

Note on complexity levels of the rated instrument: *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@careratings.com for any clarifications.*

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About CARE Ratings:
CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

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