Khandwa Agroh Pathways Private Limited

September 17, 2021

Ratings

Facilities	Amount (Rs. Crore)	Rating[1]	Rating Action
Long Term Bank Facilities	133.79	**CARE A (CE); Stable [Single A (Credit Enhancement); Outlook: Stable]**	**Revised from CARE A- (CE); Stable [Single A Minus (Credit Enhancement); Outlook: Stable]**
Total Bank Facilities	**133.79 (Rs. One Hundred Thirty-Three Crore and Seventy-Nine Lakhs Only)**		

Details of facilities in Annexure-1

@ The above rating is backed by credit enhancement in the form of joint and several, unconditional and irrevocable guarantee extended by Prakash Asphalting Toll Highways (India) Limited (PATH) for debt servicing of the said bank facility.

Unsupported Rating [2]	**CARE B+ [Revised from CARE D]**

Note: Unsupported Rating does not factor in the explicit credit enhancement

Detailed Rationale & Key Rating Drivers for the credit enhanced debt

The rating of the bank facility of Khandwa Agroh Pathways Private Limited is primarily based on the credit enhancement available in the form of an unconditional and irrevocable guarantee extended by PATH & AIDPL for ensuring timely debt servicing of this facility.

Detailed Rationale & Key Rating Drivers of Prakash Asphaltings and Toll Highway (India) Limited

The revision in ratings assigned to the bank facilities of Prakash Asphaltings and Toll Highways (India) Limited (PATH) factors in, significant improvement in margins under toll collection contracts (TCC) during FY21 owing to higher than envisaged toll collection, significant increase in toll collection under a Special Purposes Vehicle (SPV) and resultant healthy cash surplus generation thereof for the PATH. PATH, together with its SPVs, is referred to as PATH group. Positive diversion on a project stretch due to four laning of entire NH-3, increase in pace of construction activity and implementation of FASTag are the prominent factors driving toll roads performance despite Covid-19 pandemic. Generation of healthy cash surplus on combined basis led to improvement in capital structure & liquidity profile of the company marked by rationalization of debt at standalone level, healthy free cash & bank balance and low utilization of fund-based limits.

The ratings continue to favorably factor in its diversified segmental revenue with an established track record as a road developer. The ratings continue to derive strength from the geographically diversified toll collection revenue profile of the group and healthy toll collection under Toll-Operate-Transfer (TOT) and Operate-Maintain-Transfer (OMT) projects along with their low leverage aiding healthy cash surplus generation and financial flexibility for the PATH.

The rating strengths however, continue to remain tempered by exposure to inherent traffic risk, operations and maintenance (O&M) risk and regulatory risk associated with toll-based road projects; the prime contributor to the group's revenue profile besides inherent execution risk associated with Hybrid Annuity Model (HAM) project. The ratings also remained constrained on account of high exposure to group SPVs and shortfall funding requirement in two SPVs and modest performance in one SPV whose debt is backed by a corporate guarantee from PATH.

The ratings also take cognizance of fund-raising plans of the National Highways Authority of India (NHAI, rated CARE AAA; Stable) through TOT and InvIT which may moderate the TCC revenue visibility for PATH in the medium term. The ratings continue to factor in the adverse impact of toll suspension in one of the OMT projects triggered by farmer agitation in the state of Haryana.

Key rating drivers of Khandwa Agroh Pathways Private Limited (KAPPL)

The revision in the unsupported rating of KAPPL factors in the establishment of a delay-free track record by KAPPL in servicing its debt obligations for six months on the back of timely infusion of funds from the guarantor; PATH.The

[1]*Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications.*
[2]*As stipulated vide SEBI circular no SEBI/ HO/ MIRSD/ DOS3/ CIR/ P/ 2019/ 70 dated June 13, 2019*

ratings continue to remain constrained on account of the weak debt coverage indicators due to low toll income on the project stretch resulting in reliance on financial support from the guarantor; PATH for operational expenses and servicing debt obligations.
The management, on account of non-receipt of this grant and citing various other reasons, has requested termination of the contract to MPRDC. However, MPRDC has started releasing O&M grant from FY21 onwards. Significant growth in the toll collection of KAPPL shall be the key rating sensitivity.

Rating Sensitivities of PATH
Positive factors
- Enhanced revenue diversification in a segment other than TCC while securing cash-generating TOT or OMT projects.
- Maintenance of overall gearing below 0.50 times.
- Significant improvement in three underperforming SPVs

Negative Factors
- Significant decline in toll collection or increase in major maintenance expenditure adversely impacting combined debt service coverage ratio below 1.75 times.
- Increase in overall gearing beyond 1x.
- Exposure to large sized HAM projects adversely impacting the funding requirement of the group.
- Change in management stance in supporting underperforming SPVs.

Detailed description of the key rating drivers of PATH
Key Rating Strengths
Established presence in toll collection and maintenance of road assets along with vast experienced of promoters: PATH has an established track record of 25 years in toll collection and maintenance of roads. It is mainly engaged in undertaking TCC, Toll-OMT contracts and TOT contracts for NHAI and various state authorities. It is also registered as an 'A' class EPC contractor for civil construction with Government of Madhya Pradesh (GoMP). The company also undertakes EPC work of small to mid-sized roads projects. Furthermore, PATH has 10 operational special purpose vehicles (SPV) and one under construction HAM project as on March 31, 2021. Total toll collection of PATH group during FY21 remained spread across Uttar Pradesh (43%), Madya Pradesh (25%) and Haryana (11%).
The execution and operations of PATH are being looked after by Mr. Nitin Agarwal who has experience of over 22 years in the industry. He is ably assisted by the second line of management viz. Mr. Nipun Agrawal and Mr. Saksham Agrawal, who have around five-six years of experience in this business, along with few family members and a team of professionals.

Healthy toll collections despite Covid induced moderation leading to improvement in profitability
Total operating Income (TOI) of the company declined moderately by 10.51% during FY21 and remained better than expectations to Rs.1386 crore from Rs.1546 crore during FY20. It was mainly on account of disruption caused by the Covid-19 pandemic and toll suspension in one OMT projects and few TCC projects due to farmers' agitation. However, cash flow of PATH is partly protected due to waiver of premium as well as installment payment to NHAI in its TCC and OMT projects. PATH continued to have a segmentally diversified revenue profile during FY21 with 53% of the company's income originating from TCC (54% in FY20), 20% from OMT toll projects (21% in FY20), 21% from the EPC segment (19% in FY20) and 4% from TOT segment (3% in FY20). PATH has achieved a healthy TOI of Rs.408.53 crore i.e. 29% of FY21 TOI; during 4MFY22 despite the disruption caused by the second wave of COVID-19. For the PATH group, toll collecton witnessed marginal de-growth of 0.38% during FY21 as compared to FY20 on account of healthy toll collection in Agra Gwalior Pathways Private Ltd (AGPPL; rated CARE A; Stable) attributed to four laning of NH-3.
The PBILDT margin improved from 11.78% during FY20 to 15.36% during FY21 despite significant write off of outstanding receivables. It is mainly on account of better than envisaged toll performance.

Healthy toll collection in OMT projects structured in own balance sheet; albeit toll suspension in one OMT project: PATH has two operational OMT projects structured in its balance sheet viz., Pathankot – Jalandhar (PJ-OMT) in the state of Punjab which commenced toll collection in March 2017 and Jhansi – Orai (JO-OMT) in the state of Uttar Pradesh which commenced toll collection in October 2016.
Total toll collection during FY21 from both OMT projects declined to Rs.278.96 crore from Rs.328.57 crore during FY20 mainly on account of the adverse impact of COVID and toll suspension from September 2020 onwards under PJ-OMT project due to farmer agitation. The company is not required to pay concession fees for the toll suspension period. It is

eligible for an extension of the concession period as well as reimbursement of cost as per the terms of the concession agreement.
PJ-OMT has a concession period till March 2026 and JO-OMT has a concession period till October 2025 while aggregate debt against both of these projects was Rs.51.22 crore as on March 31, 2021 rendering strong financial flexibility and generation of healthy cash surplus for PATH. Average Daily Toll collection (ADTC) for JO-OMT grew significantly and remained healthy at Rs.72.39 lakh for the period September 2020 to March 2021 providing a strong cash flow cushion for funding of upcoming major maintenance obligations.

Improvement in the capital structure and strengthening of debt coverage indicators on account of improved performance under one of the operational SPV: PATH's capital structure remains comfortable with a low standalone overall gearing of 0.20x as on March 31, 2021 (0.49x as on March 31, 2020). Adjusted overall gearing including guaranteed debt of SPVs and excluding investments in SPV which rely on shortfall funding from PATH has significantly improved to 0.79x as on March 31, 2021 from 1.26x as on March 31, 2020.
Debt coverage indicators also remained comfortable during FY21 with PBILDT interest coverage of 6.49x (5.25x during FY20) and Total debt/ Gross Cash Accruals (GCA) of 1 year as on March 31, 2021 (1.89 years as on March 31, 2020).
Debt coverage indicators of PATH on a combined basis, viz. considering PATH and its project SPVs, also improved significantly on account of the generation of healthy cash surplus after creating required reserves and debt servicing from its operational SPVs; mainly AGPPL. Three operational SPVs with a balance concession period of 3-4 years are debt free which augurs well for the upstreaming of their cash surplus to the parent.

Bounce back of toll collection to Pre-covid levels in TOT Project: PATH has 1 TOT project structured onto its balance sheet viz., Vidyasagar Setu in the state of West Bengal. PATH commenced toll collection under the said TOT project from October 01, 2019 onwards and the total toll collection for FY20 remained healthy at Rs.44.63 crore. The toll collection, however, remained subdued at Rs.75.63 crore during FY21 mainly on account of the adverse impact of COVID-19 pandemic.
Total toll collection during 4MFY21 also remained low at Rs.27.13 crore on account of the adverse impact of the second wave of COVID-19 pandemic during May and June 2021 before gradual recovery to pre-COVID levels in July 2021.

Various initiatives undertaken by the Government of India (GOI) to improve the prospects of the road construction sector: GOI through the National Highways Authority of India (NHAI; rated 'CARE AAA; Stable') has taken various steps to improve the prospects of the road sector. These include bidding of tenders only after 80% of land has been acquired for the project, release of 75% of an arbitration award against submission of bank guarantee and 100% exit for developers after six months of COD as against two years. NHAI has made favourable changes in the clauses of the model concession agreement of HAM projects in November 2020 and linked interest annuities to the average MCLR of the top five schedule commercial banks in place of bank rate. This move is expected to resurrect investor confidence and improve the bidding appetite for HAM projects. However, competition has increased in the sector since October 2020 due to the relaxation of norms by NHAI and improved bidding appetite owing to aforesaid initiatives.

Stable outlook for toll roads and NHAI thrust on midsized TOT segment augur well for the growth prospects of PATH: Toll roads have outperformed in FY22 and remained COVID resilient even during the second wave. The same has also been reflected from Electronic Toll Collection (ETC) reaching 95% of Q4FY21 level in June 2021 and registering 16% growth over Q4FY21 in July 2021. Implementation of FASTag, increase in the pace of road construction activity, increasing penetration of E-commerce and shift of some of the public transport traffic to cars are the prominent reasons for the toll growth. CARE Ratings expects toll growth of 10.50% in FY22 due to the aforementioned reasons on the lower base of FY21. Moreover, NHAI's thrust on TOT has also gained momentum with the strategy to award single stretches under TOT in place of offering it under a bundle. This is likely to benefit midsized players including PATH.

Key Rating Weaknesses

Inherent traffic risk, regulatory risk and O&M risk associated with toll projects

PATH derived over 79% of its TOI from toll projects in FY21. Toll road projects are exposed to inherent traffic risk due to errors in the estimation of traffic at the time of bidding, threat from alternate routes, competing facility and economic slowdown. Further, state highways projects are also exposed to inherent regulatory risk due to past instances of toll exemption of cars announced by some of the states. Concessionaire is also required to undertake O&M and MM activity on the stretch for maintaining good riding quality. This exposes the company to the inherent O&M risk of higher than envisaged cash outflow towards the maintenance of project stretches. Under EPC business, PATH is exposed to inherent project execution risk apart from challenges in managing working capital requirements.

Exposure to group SPVs and continued funding requirement in three operational SPVs:
PATH has extended corporate guarantee towards the debt of most of its SPVs; resulting in significant off-balance sheet exposure. Furthermore, around 33% of PATH's net worth remained invested in its SPVs as on March 31, 2021 (reduced from over 41% as on March 31, 2020) in the form of investments and loan & advances. Exposure to weak BOT projects increases the propensity to support the SPVs due to inherent traffic risk and regulatory risk associated with such projects. CARE expects PATH to fund the shortfall in two operational SPV's namely Mhow Agroh Pathways Private Limited (MAPPL) and Khandwa Agroh Pathways Private Limited (KAPPL) on account of significantly low toll collection in these SPVs. And moderate level of support requirement is expected in Allahabad Bypass Pathways Private Limited (ABPPL). There were delays under KAPPL & MAPPL in the past on account of joint ownership; however; delay-free track record for past six months has been established under both these SPVs as confirmed by the lenders.
However, PATH has applied for termination of concession under MAPPL and KAPPL on account of delay in disbursal of O&M grant by Madhya Pradesh Road Development Corporation Ltd (MPRDC). Although MPRC has started releasing O&M grants to these SPVs, timely support to these joint venture SPVs from PATH is until the emergence of clarity on termination is crucial from the credit perspective.

Liquidity Analysis: Adequate
The liquidity profile of PATH derives comfort from significant surplus cash flow generation in select SPVs, aiding the financial flexibility of the group. Average utilization of its fund-based working capital limits also remained low at 25% during the trailing 12 months ended June 2021. Against scheduled debt repayments obligation of Rs.23.42 crore for FY22, PATH had free cash and bank balance of Rs.56.17 crore as on July 31, 2021. However, reliance on non-fund based limits is higher considering the nature of the business marked by almost full utilization of the limits.

Analytical approach:
Unsupported rating: Standalone; alongwith factoring in linkages with and track record of the sponsor PATH
Credit Enhancement (CE) rating: Assessment of the guarantor Prakash Asphalting Toll Highways (India) Limited.
CARE has analyzed KAPPL's credit profile by considering credit enhancement provided by an irrevocable and unconditional guarantee deed by PATH & AIDPL to the lenders of KAPPL for the rated bank facilities.
Combined cash flows of PATH group SPVs, along with standalone financials of PATH are considered for assessment.

Applicable Criteria
Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings
CARE's Policy on Default Recognition
Rating Methodology - Toll Road Projects
Financial ratios – Non-Financial Sector
Liquidity Analysis of Non-Financial Sector Entities
Rating Methodology - Factoring linkages in rating
Criteria for Rating Credit Enhanced Debt

About the Company (PATH)
Promoted in 1996 by Agrawal family of Indore, PATH is engaged in road construction activities, along with collection of toll through TCC, TOT, BOT & OMT projects. Furthermore, PATH has 10 operational SPVs and 1 under construction SPV as on March 31, 2021. Operational SPV's constitute a mix of toll (BOT), annuity and OMT projects.

Brief standalone financials of PATH:

Brief Financials (Rs. crore)	FY20 (A)	FY21 (Prov.)
Total operating income	1545.54	1386.08
PBILDT	182.12	212.96
PAT	113.07	99.15
Overall Gearing (times)	0.49	0.20
Interest Coverage (times)	5.25	6.49

A: Audited; Prov.: Provisional

Further, as per provisional results for 4MFY22, PATH reported TOI of Rs.408.53 crore.

About the Company (KAPPL)

Incorporated in July 2011, KAPPL is an SPV sponsored mainly by PATH group (60% stake of PATH group in KAPPL) and AIDPL (40% stake) to undertake two-laning of the Khandwa-Dehtalai-Burhanpur section of State Highway 50 in the state of Madhya Pradesh (MP), under concession from Madhya Pradesh Road Development Corporation [MPRDC; rated CARE A (Issuer Rating; Stable)] on design, build, finance, operate and transfer (DBFOT) – toll basis.

The project comprises two road stretches. KAPPL achieved commercial operations date (COD) for section-I of the project from Khandwa to Dehthalai on June 27, 2014 and started toll collection on this section from this date. Section-II of the project achieved COD on June 30, 2016 and toll collection also began from this date. Toll collection of the company has remained inadequate, resulting in stressed liquidity. Consequently, KAPPL is dependent on the financial support from its sponsors for meeting its operational expenses and debt servicing obligations. Overall, there was a delay of around 27 months in the completion of stretch-II from its scheduled COD due to various reasons including excessive rainfall, non-availability of adequate land including forest land, encroachments and hindrances such as walls, shops, places of worship and electric utilities, delays in approvals for tree cutting, environmental permits and raw material quarries and delays in issuance of fee notification. The total project cost as on June 30, 2016 was Rs.250 crore, funded through term loan of Rs.141 crore, equity of Rs.45 crore, grant from MPRDC of Rs.41 crore and balance through unsecured loans from promoters and project creditors of Rs.23 crore.

(Rs. Crore)

Brief Financials of KAPPL (Rs. Crore)	**FY20 (A)**	**FY21 (Prov.)**
Total Operating Income	17.57	5.22
PBILDT	15.15	3.77
PAT	(9.52)	(22.24)
Overall Gearing (times)	NM	NM
Interest Coverage (times)	0.87	0.20

A: Audited; NM: Not meaningful

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History (Last three years): Please refer Annexure-2

Covenants of rated facility: Detailed explanation of covenants of the rated facilities is given in Annexure-3

Complexity level of various facilities 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 2027	133.79	CARE A (CE); Stable
Un Supported Rating-Un Supported Rating (Long Term)	-	-	-	0.00	CARE B+

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	133.79	CARE A (CE); Stable	1)CARE A- (CE); Stable (05-Apr-21)	-	1)CARE BBB+ (CE) (CWD) (06-Jan-20)	1)CARE BBB+ (SO); Stable (24-Dec-18)
2.	Non-fund-based - LT-Bank Guarantees	LT	-	-	-	-	-	1)Withdrawn (24-Dec-18)
3.	Un Supported Rating-Un Supported Rating (Long Term)	LT	0.00	CARE B+	1)CARE D (05-Apr-21)	-	1)CARE D (06-Jan-20)	-

Annexure-3: Covenants of the rated facilities- Not applicable

Annexure-4: Complexity of the instruments

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based - LT-Term Loan	Simple
2.	Un Supported Rating-Un Supported Rating (Long Term)	Simple

Annexure 5: Bank Lender Details

Click here to view Bank Lender Details

Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

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