

Kalthia Bhavnagar Pipli Highway Private Limited

January 19, 2023

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long Term Bank Facilities	415.00	CARE AA; Stable	Assigned

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The rating assigned to the bank facilities of Kalthia Bhavnagar Pipli Highway Private Limited (KBPHPL) takes into consideration the operational status of the project with receipt of notional provisional completion certificate (NPCC) for 92.21% of project length during March 2021 and track record of receipt of three construction and operation and maintenance (O&M) annuities (proportionate) as well as interest annuities from National Highways Authority of India (NHAI; rated 'CARE AAA; Stable'). The rating also factors in the achievement of considerable physical progress of 98.18% with balance pending completion cost of around ₹6 crore as of October 2022, thereby mitigating the residual construction risk to a large extent.

The rating also favourably factors in KBPHPL's low project leverage and minimal counterparty credit risk associated with the NHAI as an annuity provider. Various liquidity support mechanisms such as the presence of defined cashflow mechanism by way of escrow arrangement, presence of debt service reserve account (DSRA) equivalent to six months of debt servicing requirements, proposed creation of a major maintenance reserve account (MMRA), and the inherent strengths of the hybrid annuity model (HAM) are other credit positives for KBPHPL. Furthermore, debt coverage indicators of the company are expected to remain healthy, and the interest rate risk is mitigated to a large extent given the MCLR linked structure for debt and bank rate linked interest annuities.

The above rating strengths are partially offset by short time gap between annuity due date and debt repayment date, inherent O&M and major maintenance (MM) risk associated with the project.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Track record of timely receipt of full annuities without any deductions.
- Creation of MMRA as per sanction terms.

Negative factors

- Deterioration in the credit profile of authority (i.e., NHAI).
- Non-adherence to the sanctioned debt terms.
- Significant delays or deduction in annuities resulting in moderation in debt coverage indicators.
- Any adverse movement in O&M expenses or increase in the spread of the interest rate lowering the debt service coverage ratio (DSCR) below 1.20x on a sustained basis.

Analytical approach: Standalone

Key strengths

Receipt of notional provisional completion certificate on partial length with mitigation of residual construction risk to a large extent: KBPHPL received NPCC w.e.f. March 22, 2021, vide settlement agreement entered into by NHAI dated July 5, 2022, for a completed length of 92.21%. KBPHPL had initially received PCOD in January 2022, however, owing to significant delay in allocation of land and demand for grant of PCOD from earlier date, NPCC was declared as March 22, 2021 by the Conciliation Committee of NHAI.

The physical progress of the project stood at 98.18% till October 2022 with pending completion work of ₹6 crore, which would be funded through undisbursed debt. Hence, the residual construction risk is mitigated to a large extent.

Timely receipt of annuities albeit on a proportionate basis: Pursuant to the declaration of NPCC w.e.f. March 22, 2021, vide settlement agreement dated July 5, 2022, KBPHPL has received first and second annuity payments in August 2022 on proportionate basis (i.e., for 92.21% of the completion), while it received third annuity payment on time in September 2022 at around 98.18% project completion. Going forward, receipt of full annuities on timely basis without any deductions would be important from the credit perspective.

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

Assured cash flow due to the annuity nature of the revenue stream linked to inflation-indexed BPC as well as O&M annuity and bank rate-linked interest annuity: During the operational phase, the cash flow in HAM-based projects is assured in the form of annuity payments from the NHAI on a semi-annual basis covering 60% of the project completion cost along with interest annuity at 'bank rate plus 3%' on reducing balance and inflation-indexed O&M annuity.

Low counterparty credit risk: Incorporated by the Government of India (GoI) under an Act of the Parliament as a statutory body, NHAI functions as the nodal agency for development, maintenance and management of the national highways in the country. The outlook on NHAI reflects the outlook on the sovereign, whose direct and indirect support continues to be the key rating driver.

Satisfactory debt coverage indicators: The debt coverage indicators of KBPHPL are envisaged to remain comfortable. KBPHPL has sanctioned top-up debt of ₹76 crore to be passed on the sponsor, i.e., Kalthia Engineering and construction Ltd (KECL). Debt (including top-up debt) to adjusted bid project cost (BPC) stands comfortable at around 40%. The project has a healthy tail period of 2.5 years comprising five semi-annuities.

Key weaknesses

Inherent O&M risk associated with the project: Although the receipt of inflation-indexed O&M annuity partly mitigates the O&M risk, KBPHPL is still exposed to the risk of any sharp increase in the O&M cost due to more-than-envisaged wear and tear. However, the project stretch being a rigid pavement is less prone to wear and tear as compared to flexible pavements. Though the maintenance obligations are expected to be lower being a rigid pavement design for the project stretch, timely creation of MMRA and sufficient built-up of liquidity at the company level to take care of any exigencies with respect to MM would be critical from the credit perspective and a key rating monitorable.

Furthermore, the group's experience in maintaining various road projects in the past and presence of sponsor undertakings to fund the shortfall in O&M and MM expense over and above the base case scenario, are additional positives.

Shorter time gap between annuity due date and debt repayment date: The time gap between annuity due date and the date of repayment is short at around 12 days, which exposes KBPHPL to the risk of any delay in receipt of annuities from NHAI. However, the risk is mitigated to an extent owing to low counterparty risk of annuity provider along with presence of funded DSRA.

Inherent interest rate risk: KBPHPL is exposed to inherent interest rate risk. The project debt is sanctioned with a floating MCLR linked rate of interest, which is reset periodically. The risk is mitigated to a large extent on account of receipt of the interest annuity at the applicable 'bank rate plus 3%'. Therefore, KBPHPL remains exposed to the interest rate risk owing to the difference in the MCLR rate and bank rate and non-linear transmission of change in the bank rates to lending rates.

Liquidity: Strong

KBPHPL is envisaged to generate adequate cash flows, backed by a steady cash flow stream of annuity payments throughout the tenor of the term loan. KBPHPL has created funded DSRA equivalent to six months of debt servicing obligations amounting to ₹29.50 crore as per the sanctioned terms. Furthermore, favourable restricted payment covenants linked to the maintenance of the stipulated DSCR are expected to provide a cash flow cushion.

Applicable criteria

[Policy on default recognition](#)

[Financial Ratios – Non financial Sector](#)

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

[Rating Outlook and Credit Watch](#)

[Hybrid Annuity Model based road projects](#)

[Policy on Withdrawal of Ratings](#)

About the company

Kalthia Bhavnagar Pipli Highway Private Limited (KBPHPL) was incorporated on April 20, 2018, as a special purpose vehicle (SPV) by Kalthia Engineering and Construction Limited. KBPHPL has entered into 17.50-year concession agreement (CA) (including construction period of 910 days from appointed date) with National Highways Authority of India (NHAI, rated 'CARE AAA; Stable') to undertake four-laning of the Pipli-Bhavnagar stretch, near Adhelai village to Nari Junction from the existing 10-metre wide road, in Gujarat, through a private public partnership (PPP) on a hybrid annuity mode.

The bid project cost (BPC) for the project is ₹820 crore. Adjusted BPC for the project is ₹1,041.40 crore. The project received Provisional Completion Certificate w.e.f. March 22, 2021.

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	9MFY2023 (UA)
Total operating income	NA	NA	NA
PBILDT	NA	NA	NA
PAT	NA	NA	NA
Overall gearing (times)	NA	NA	NA
Interest coverage (times)	NA	NA	NA

A: Audited; UA: Unaudited; NA: Not applicable, as KBPHPL was a project stage entity.

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: Please refer Annexure-4

Lender details: Please refer Annexure-5

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
Term loan-Long term	-	-	-	30/09/2033	415.00	CARE AA; Stable

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	Term loan-Long term	LT	415.00	CARE AA; Stable	-	-	-	-

*Long term/Short term.

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

Not applicable

Annexure-4: Complexity level of various instruments rated

Sr. No.	Name of Instrument	Complexity Level
1	Term loan-Long term	Simple

Annexure-5: Lender details

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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