

Kalthia Bagodara Tarapur Highway Private Limited

January 19, 2023

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long-term bank facilities	485.00	CARE A+; Stable	Assigned

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The rating assigned to the bank facilities of Kalthia Bagodara Tarapur Highway Private Limited (KBTHPL) takes into consideration the operational state of the project with receipt of provisional commercial operations date (PCOD) for 96.10% of project length during February 2022 and timely receipt of first annuity without any deductions.

The rating also derives strength from low revenue risk on account of assured cash flows in the form of annuity receivables from Gujarat State Road Development Corporation Limited (GSRDC), a Government of Gujarat undertaking translating into limited credit counterparty risk along with presence of escrow mechanism with defined waterfall mechanism for routing of cash flows. The rating also takes into consideration achievement of considerable physical progress of 98.18% till October 2022, thereby mitigating residual project execution risk to a large extent.

The rating further derives strength from comfortable debt coverage indicators, adequate liquidity and presence of debt service reserve account (DSRA) equivalent to six months of debt service obligations along with established track record of sponsor in constructing and operating road assets. The rating also factors in the annual fixed-price operations and maintenance (O&M) contract entered with the sponsor, i.e., Kalthia Engineering and Construction Limited (KECL), thereby mitigating performance-related risks to an extent.

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

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Improvement in the credit profile of the counterparty (i.e., Government of Gujarat).
- Established track record of timely receipt of annuities without any deduction.

Negative factors

- Deterioration in the credit profile of authority (i.e., Government of Gujarat).
- 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 1.15x on sustained basis.

Analytical approach: Standalone

Key strengths

Operational status of the project with timely receipt of first annuity from GSRDC: KBTHPL received PCOD in February 2022 for a completed length of 96.10%. The project progress was 98.18% till October 2022, and as articulated by the management, KBTHPL has completed the balance work as well, thereby mitigating the residual execution risk. KBTHPL has received first annuity payment during August 2022 without any deductions.

Assured cash flow due to the annuity nature of the revenue stream: The project is executed under a modified annuity model, and the annual revenue of KBTHPL is in the form of fixed annuity receipt of ₹49.49 crore to be received semi-annually over the term of concession period. KBTHPL is envisaged to receive these payments irrespective of the actual traffic conditions on the road, insulating the revenue stream of the company from traffic risk.

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

Low counterparty credit risk: The Concessionaire, GSRDC, is a Government of Gujarat Undertaking. The annuity provider being a state government department having strong state finances has resulted in timely annuity payments and in turn low counterparty credit risk for KBTHPL.

Comfortable debt coverage indicators with presence of structured payment mechanism: The debt coverage indicators are envisaged to remain comfortable owing to assured cash flow streams in the form of bi-annual annuities and timely repayment of term debt obligations. KBTHPL has sanctioned top-up debt of ₹161 crore, which shall be passed on to the sponsor, i.e., Kalthia Engineering & Construction Limited (KECL). The project has a comfortable tail period of around 3 years.

Key weaknesses

Inherent O&M risk associated with the project: KBTHPL is exposed to the risk of any sharp increase in the O&M cost due to more-than-envisaged wear and tear, although it is in receipt of stable bi-annual annuity. The project stretch being a flexible pavement is prone to more wear and tear as compared to flexible pavements. However, CARE Ratings notes that the O&M assumptions are in lines with its peers, while MM assumptions are relatively higher, still leading to comfortable debt coverage indicators. Ensuring proper maintenance of the stretch in order to receive annuity receipts without any deductions would be important from the credit perspective.

Furthermore, the group's experience in maintaining various road projects in the past and the 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 KBTHPL to the risk of any delay in receipt of annuities from GSRDC. 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: KBTHPL is exposed to the inherent interest rate risk. The project debt is sanctioned with a floating rate of interest, while the annuity amount stands fixed. Considering fixed annuity payments for the entire concession period, any significant adverse movement in interest rates could potentially lower project return and affect the debt coverage indicators.

Liquidity: Adequate

KBTHPL is envisaged to generate adequate cash flows, backed by a steady cash flow stream of annuity payments throughout the tenor of the term loan. KBTHPL has created funded DSRA equivalent to six months of debt servicing obligations amounting to ₹21.33 crore by way of lien-marked FDs as per the sanctioned terms.

Applicable criteria

[Annuity Road Projects](#)

[Financial Ratios – Non financial Sector](#)

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

[Policy on default recognition](#)

[Policy on Withdrawal of Ratings](#)

[Rating Outlook and Credit Watch](#)

About the company

Kalthia Bagodara Tarapur Highway Private Limited (KBTHPL) was incorporated on January 07, 2019, as a special purpose vehicle (SPV) by Kalthia Engineering and Construction Limited. KBTHPL has entered into 16.50-year concession agreement (CA) (including construction period of 1.5 years from appointed date) with the Gujarat State Road Development Corporation Limited to undertake six-laning of the Bagodara Tarapur section of State Highway in the state of Gujarat with a total length of 53.80 km, though a private public partnership (PPP) on a modified annuity mode.

The project cost is envisaged at ₹649.21 crore to be funded through construction grant from GSRDC of ₹196.10 crore, debt of ₹339.83 crore and balance ₹113.28 crore through promoter's contribution. The project received Provisional COD on February 19, 2022.

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 KBTHPL 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		-	-	18/02/2034	485.00	CARE A+; 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	485.00	CARE A+; 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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About us:

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