Kalthia Dhule Chalisgaon Highway Private Limited

January 19, 2022

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	453.00	CARE A-; Stable	Assigned

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The ratings assigned to the bank facilities of Kalthia Dhule Chalisgaon Highway Private Limited (KDCHPL) factors in the inherent strengths of hybrid annuity model (HAM)-based road projects such as (i) low project funding risk with inflation-indexed annuity to be received for construction of the stretch and favorable clauses introduced in the concession agreement (CA) to de-bottleneck project execution challenges; (ii) lower post-implementation risk on account of inflation-indexed annuity to be received for operations and maintenance (O&M) of the road and (iii) receipt of marginal cost of funds-based lending rate (MCLR) linked interest annuity. However, unlike the clauses contained in the construction agreement (CA), delay in de-scoping of the unavailable project land has been witnessed in some of the ongoing HAM road projects.

The rating also derives strength from established track record of its sponsor and engineering, procurement and construction (EPC) contractor, i.e., Kalthia Engineering and Construction Limited (KECL) in executing mid-sized road projects along with satisfactory project progress in KDCHPL. Furthermore, the rating continues to remain underpinned by low counterparty risk towards annuity receivables from NHAI post commencement of operations, presence of defined cashflow mechanism by way of escrow arrangement, proposed liquidity support mechanisms such as the envisaged creation of debt service reserve account (DSRA) and major maintenance reserve account (MMRA) post commencement of operations and adequate debt coverage indicators. Furthermore, the sponsor has extended corporate guarantee for the full tenure of the debt besides undertakings to fund any shortfall during construction period as well as operational period, which provides added comfort.

The above rating strengths are, however, constrained by inherent construction risk as well as operations and maintenance (O&M) risk associated with the project.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Completion of project within scheduled project completion date
- Establishment of track record of timely receipt of annuities post commencement of operations

Negative factors

- Significant delay in the project progress impacting commercial operations date (COD) beyond 90 days from scheduled commercial operations date (SCOD).
- Deterioration in DSCR below 1.20 times due to increase in O&M expenses or annuity deductions, if any.
- Non-receipt of timely need-based support from the sponsor during construction and operational period.
- Deterioration in the credit profile of sponsor- KECL or counter party (i.e., NHAI)

Analytical approach:

CARE Ratings has adopted the Standalone while factoring execution track record of the EPC contractor along with sponsor support undertakings extended by KECL.

Key strengths

Favourable clauses in model CA of HAM projects to address execution challenges: The model CA of HAM projects includes favorable clauses such as achievement of at least 80% Right of Way (RoW) before declaring an appointed date for the project and provision for granting deemed completion of the project in case 100% of the work is completed on the RoW which becomes available to it within 180 days of the appointed date. These clauses were expected to address some of the issues which were plaguing the sector primarily on account of delay in land acquisition during the construction phase. Besides, stringent clauses for levy of damages, encashment of performance security as well as the requirement of additional

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

performance security in case of delay in execution due to reasons attributed to the concessionaire also exert some pressure on the developer for ensuring timely execution. However, pending de-scoping of unavailable land despite significant time having lapsed from the appointed date has been affecting the project progress in some of the projects awarded under this model which has emerged as a cause of concern from the credit perspective for the industry. In case of KDCHPL, the RoW available is 85.66% as on September, 2022.

Low funding risk and permitted price escalation: HAM model entails lower sponsor contribution during construction period considering 40% construction support from NHAI and availability of 10% mobilization advances on bid project cost (BPC) at MCLR-linked interest rate. Furthermore, the BPC and O&M costs shall be inflation-indexed (through a Price Index Multiple [PIM]) which is the weighted average of Wholesale Price Index (WPI) and Consumer Price Index (CPI) in the ratio of 70:30, which protects the developers against price escalation to an extent.

Assured cash flow due to annuity nature of the revenue stream linked to inflation-indexed O&M annuity and MCLR linked interest annuity: During the operational phase of the project, cash flow is largely assured in the form of annuity to be received from NHAI on semi-annual basis covering 60% of the project completion cost along with interest at '1-year MCLR of top five scheduled commercial banks plus 1.25%' 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. NHAI is vested with executive powers for developing national highways in India by the Ministry of Road Transport & Highways (MoRTH). The outlook on NHAI reflects the outlook on the sovereign, whose direct and indirect support continues to be the key rating driver.

Demonstrated track record of KECL in executing road projects: KECL has a demonstrated track record of successfully operating and maintaining build-operate and transfer (BOT) projects for more than a decade. KECL has a presence in multiple states such as Gujarat, Maharashtra, Karnataka, Rajasthan, etc. with major execution capabilities in roads & bridges, followed by sewage and irrigation. The order book position of KECL stood at Rs.2,198 crore as on July 31, 2022. KECL has currently portfolio of 8 BOT road projects, of which 7 projects are operational and 1 is NHAI under construction HAM projects. The operational asset portfolio consists of 2 NHAI HAM projects, 3 GoG annuity projects and 2 Maharashtra State HAM projects. KDCHPL has entered into fixed-price EPC contract with KECL for execution of the project.

Interest annuities linked to MCLR, mitigating the interest rate risk to a large extent: Both the interest annuities and the interest on debt are linked to MCLR. Interest annuities are linked to 1-year average MCLR of top five scheduled commercial banks plus 1.25% and interest on term loan is also linked to the MCLR which mitigates the interest rate risk to a large extent.
Moreover, as per the proposed sanction terms, KDCHPL shall be required to create and maintain DSRA till the tenor of the debt to meet any shortfall in the debt service requirements. DSRA shall be created in funded, equivalent to the ensuing two quarter principal and interest obligations after meeting the debt service obligations during the operational phase which provides cushion for the debt servicing.

Key weaknesses

Inherent execution risk: KDCHPL is exposed to inherent construction risk attached to BOT road projects. The company has received appointed date on January 29, 2022 and has 85.66% land available. Project stretch is to be constructed with flexible pavement. Total structural work constitutes around 35% of the EPC cost which indicates a moderately simple nature of the project stretch. The project is adequately bid with bid project cost (BPC) being ~4% above NHAI cost. KDCHPL has achieved physical progress of 15.53% as on September, 2022 which was in line the planned progress. Furthermore, demonstrated execution capability of KECL as an EPC contractor in executing mid-sized road projects is expected to mitigate the execution risk to an extent.

Inherent O&M risk: Although, receipt of inflation-indexed O&M annuity partly mitigates O&M risk, developers would still face the risk of a sharp increase in the O&M cost due to more than envisaged wear and tear and aggressive bidding in O&M cost. In case of KDCHPL, the project stretch is to be constructed on a flexible pavement basis which is prone to higher wear and tear resulting in higher O&M and M&M cost. However, as per the sanctioned terms, KDCHPL is required to create major maintenance reserve account (MMRA) out of the project cash flow to conduct major maintenance of the project stretch. Furthermore, KDCHPL plans to enter into fixed price and fixed time O&M contract with the sponsor prior to the achievement of COD, thereby mitigating the O&M risk to an extent.

Liquidity: Adequate
KDCHPL's liquidity is underpinned from the fact that it has access to timely need-based support from KECL. Furthermore, KECL has extended sponsor support undertakings and corporate guarantee till the tenure of the debt. Also, as per the terms of sanction of the project debt, KDCHPL shall create and maintain DSRA equivalent to the ensuing two quarters months principal and interest obligations after meeting the debt service obligations during the operational phase which provides cushion for the debt servicing.

Applicable criteria

Policy on default recognition
Factoring Linkages Parent Sub JV Group
Liquidity Analysis of Non-financial sector entities
Financial Ratios - Non Financial Sector
Rating Outlook and Credit Watch
Hybrid Annuity Model based road projects
Policy on Withdrawal of Ratings

About the company

KDCHPL is a special purpose vehicle (SPV) incorporated and owned by Kalthia Engineering and Construction Limited to undertake four/six laning of Bodhre to Dhule Section from km 390.00 to km 457.231 (Design Chainage) of NH-211 (New NH-52) (Design Length-67.231 kms) in the State of Maharashtra under Bharatmala Pariyojana through Public private partnership on HAM basis. It has entered into 17.5-year concession agreement (CA) (including construction period of 910 days from appointed date) with NHAI.
The bid project cost for the project is Rs.1007 crore as against NHAI project cost Rs.971.12 crore. The project is to be funded through debt of Rs.453.00 crore, construction grant from NHAI of Rs.402.8 crore and balance Rs.151.20 crore through promoter's contribution. KDCHPL has achieved appointed as January 29, 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 it is 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 the covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of the various instruments rated: Annexure-4

Lender details: 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
Fund-based-Long Term	-	-	-	28-02-2038	453.00	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	Fund-based-Long Term	LT	453.00	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 the various instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based-Long Term	Simple

Annexure-5: Lender details

To view the lender wise details of bank facilities please click here

Note on the 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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