

Patel KNR Infrastructures Limited

September 06, 2023

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Non-convertible debentures	142.92 (Reduced from 156.34)	CARE AA+; Stable	Reaffirmed

Details of instruments in Annexure-1.

Rationale and key rating drivers

The rating assigned to the long-term non-convertible debenture (NCD) issued by Patel KNR Infrastructures Limited (PKIL) continues to derive strength from the long track record of timely receipt of annuity payments and structured payment mechanism, whereby biannual annuity is received from National Highways Authority of India (NHAI, rated 'CARE AAA; Stable') in an escrow account for servicing of the NCDs. The rating also derives strength from the fixed rate of coupon eliminating the interest rate risk, strong credit profile and significant experience of operations and maintenance (O&M) contractor (i.e., KNR Constructions Limited), maintenance of debt-service reserve account (DSRA) as per the terms of the debenture trust deed (DTD), strong liquidity profile and sponsors undertaking for infusion of funds for any shortfall in meeting major maintenance (MM) expenses over and above the budgeted expenses as well as non-withdrawal of surplus cash from the special purpose vehicle (SPV).

The rating also factors in timely receipt of 28th semi-annuity payments (in March 2023) without any deductions and receipt of arbitration claim (₹24.20 crore) for higher cost incurred during first MM cycle (in FY15-16) from the authority which has provided additional cushion to cashflows.

PKIL continues to remain exposed to the risks arising out of possibility of lower disbursement of annuity than stipulated due to non-adherence to clauses in concession agreement (CA) pertaining to maintenance of project stretch, absence of MM reserves and absence of suitable amendments in fixed MM contract in line with the revised MM estimates. Hence, the timely maintenance of the road stretch as per CA to ensure adequate cash flows without any deduction by the authority would be important from the credit perspective.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Minimum debt-service coverage ratio (DSCR) should be more than 1.10x for every year for the projected period (post factoring all the requisite provisions and excluding interest income).

Negative factors

- Non-receipt or delayed or reduced receipt of annuities.
- Non-adherence to the structured payment mechanism.
- Non-payment or a significant delay in the pay-out of the Goods and Services Tax (GST) component by the NHAI, impacting the DSCR.
- Withdrawal of cash balance lying in the escrow account.

Analytical approach: Standalone

Outlook: Stable

The stable outlook reflects the expectation of timely receipt of annuities from the authority without any deduction and maintenance of liquidity in the SPV, thereby supporting the debt coverage metrics.

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

Detailed description of the key rating drivers:**Key strengths****Timely receipt of annuity from NHAI**

PKIL is an annuity project and is not exposed to any traffic risk. The revenue source for PKIL is the bi-annual annuity (i.e., due on March 26th and September 24th of every year) of ₹32.94 crore receivable from NHAI up to March 26, 2027. PKIL has a track record of timely receipt of annuity payments from NHAI and has received 28 semi-annual payments from the Concessioneing Authority without any deduction (except TDS). PKIL has received its 28th annuity on March 28, 2023 as against due date of March 26, 2023, without any deductions except TDS. NHAI has also released GST component on annuities.

Strong financial risk profile of the annuity provider, i.e., NHAI

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. CARE Ratings notes that the outlook on NHAI reflects the outlook on the sovereign, whose direct and indirect support continues to be the key rating driver.

Presence of structured payment mechanism

PKIL maintains an escrow account with defined waterfall for payments in an order of priority. A 'T+20' structure has been provided for NCD repayment with 'T' being the NHAI annuity receipt date to take care of any operational delay in receipt of annuity from NHAI. PKIL continues to maintain DSRA as per the terms of the DTD of ₹15 crore as on August 15, 2023, in the form of fixed deposits, which covers about 60% of next six month's debt servicing.

There is no restricted payment condition in the Debenture Trust Deed (DTD); however, comfort is derived from the sponsor undertaking to not withdraw the surplus funds in the escrow account. CARE Ratings expects the surplus funds in the escrow to provide support to the debt coverage metrics during the years of MM.

Receipt of arbitration claim amount for first MM cycle

During FY15-16, NHAI had passed a mandate whereby the overlaying of renewal layer thickness increased from 30mm bituminous concrete (BC) to 40mm which had impacted the MM expenses significantly for the first as well as second cycle. Hence, PKIL had filed a claim with NHAI for increased thickness of renewal coat during the first MM cycle, which was awarded to the company, however, NHAI has appealed in high court against the award. The high court has ordered the judgement in the company's favour and the company has also received the payment of ₹24.20 crore which has built-up the liquidity further. PKIL has also filed claim against the additional expenses for second MM cycle which continues to remain under arbitration.

Strong credit profile of the O&M contractor-cum-sponsor

The sponsors have established track record of project execution with O&M of large portfolio of infrastructure assets. KNR Constructions Limited (KNRCL – holding 40% stake in the company) was set up in 1995 and provides engineering, procurement, and construction (EPC) services across sectors, such as roads and highways, irrigation, and urban water infrastructure management. KNRCL had a strong outstanding order book of ₹6,265.30 crore as on June 30, 2023. The other sponsor, Patel Engineering Limited (PEL – holding 60% stake), has vast experience in the construction segment, although the credit profile has relatively moderated over the years.

Fixed interest rate

The NCD repayment and coupon payment are made on semi-annual basis (i.e., due on October 14th and April 14th every year) with a fixed interest rate of 9.57% per annum throughout the tenure of the NCDs, thereby eliminating interest rate risk.

Key weaknesses

Moderate debt service coverage indicators on account of upward estimates of MM

KNRCL is the O&M contractor for the project and Patel-KNR joint venture (JV) (Patel: KNR in the ratio 60: 40) is undertaking the periodic maintenance. The SPV has incurred higher MM expenses for first & second MM vis-à-vis envisaged despite having a fixed price contract for MM, due to instructions from NHAI for overlaying the renewal coat on the road with 40 mm BC as against 30 mm BC overlay as per the agreement. Accordingly, the company had revised the estimates for its second and third MM cycles, which is 120% and 79% higher than the initial estimates of the respective maintenance cycles. The estimate for third cycle has been further revised upwards which thereby is expected to result in tightly matched cashflow during the year of MM. The higher MM expenses over and above the fixed-price contract already executed has led to moderate debt service coverage indicators of the company.

The receipt of annuity from NHAI is fixed and is not linked to the toll revenue on the project road. However, CARE Ratings notes that the receipt thereof in full is linked to the maintenance of the road in line with the clauses stipulated in CA, and the same would remain important from the credit perspective.

Absence of tail period

The last principal instalment of ₹16.94 crore and coupon payment of NCD is due on April 14, 2027, whereas the concession end date is March 25, 2027. The last annuity of ₹32.94 crore will be received during the month of March 2027 and DSRA of ₹15 crore is maintained till the tenor of the NCD, which together would be sufficient to repay the last principal instalments and coupon payments. In addition, CARE Ratings also expects the surplus liquid reserves as maintained till April 2027 to be available.

Liquidity: Strong

The liquidity profile of PKIL is strong with the timely receipt of annuities and a T+20 day structure providing cushion to any delays w.r.t the same. The company has been maintaining stipulated reserves comprising DSRA of ₹15 crore, which covers 60% of ensuing six months' debt servicing. This apart, the company had surplus funds of ₹49.43 crore as on August 15, 2023. All the stipulated reserves and liquid funds are maintained by way of investments in mutual funds and fixed deposits as per the terms of the restricted payment covenants.

Assumptions/Covenants: Not applicable

Environment, social, and governance (ESG) risks: Not applicable

Applicable criteria

[Policy on default recognition](#)

[Financial Ratios – Non financial Sector](#)

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

[Rating Outlook and Credit Watch](#)

[Annuity Road Projects](#)

[Infrastructure Sector Ratings](#)

[Policy on Withdrawal of Ratings](#)

About the company and industry

Industry classification

Macro Economic Indicator	Sector	Industry	Basic Industry
Services	Services	Transport Infrastructure	Road Assets–Toll, Annuity, Hybrid-Annuity

PKIL is a special purpose vehicle (SPV) incorporated on June 26, 2006, for developing four-laning of national highways section "Km 463.6 (AP/Karnataka border) to Km 524.0 (Avathi Village), covering 60.42 Kms" on NH-7 in the state of Karnataka on build-operate-transfer (BOT) annuity basis. The concession was awarded to the consortium, Patel-KNR JV, based on its quote for lowest semi-annual annuity of ₹32.94 crore. The concession agreement (CA) between PKIL and National Highways Authority of India

(Authority) was signed on September 28, 2006. The concession is for a period of 20 years including a construction period of 24 months.

The company is jointly promoted by Patel Engineering Limited with 60% shareholding and KNR Constructions Limited with 40% shareholding. The provisional commercial operations date (PCOD) was achieved in December 2009 with final COD received in March 2017.

Brief Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)	Q1FY24 (U/A)
Total operating income	43.08	44.80	24.34
PBILDT	16.24	13.48	17.03
PAT	(2.32)	(3.17)	11.18
Overall gearing (times)	3.63	3.24	NA
Interest coverage (times)	0.90	0.86	4.93

A: Audited, U/A: Unaudited, NA: Not available, Note: 'the above results are latest financial results available'

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: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Non-convertible debentures	INE057L07016	23-Oct-2010	9.57	14-Apr-2027	142.92	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 2023-2024	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
1	Debentures-Non-convertible debentures	LT	142.92	CARE AA+; Stable	-	1)CARE AA+; Stable (09-Dec-22)	1)CARE AA+; Stable (05-Jan-22)	1)CARE AA+; Stable (06-Jan-21)

Annexure-3: Detailed explanation of 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	Debentures-Non-convertible debentures	Simple

Annexure-5: Lender details: Not applicable

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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