HKR Roadways Limited

January 02, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	177.50 (Reduced from 200.00)	CARE AA; Stable	Revised from CARE AA-; Stable

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The revision in the rating assigned to the bank facilities of HKR Roadways Limited (HKR) takes into account the operational track record of more than nine years with significant improvement in the toll collections during FY23 (refers to the period April 1 to March 31) and H1FY24 (refers to the period April 1 to September 30) coupled with strong debt coverage indicators. The average daily toll collections (ADTC) have witnessed a compounded annual growth rate (CAGR) of 10% since its inception in 2015. Led by passenger car unit (PCU) growth of 15% and toll revision, the toll collections grew significantly by 26% during FY23 as compared with FY22.

The rating also factors in completion of large part of the pending capex and major maintenance (MM) undertaken with available cash balance (approximately ₹50 crore as on December 21, 2023) comfortably covering the balance capex (including negative change of scope) and MM of approximately ₹42 crore to be incurred in Q4FY24. The company has Debt Service Reserve account (DSRA) in the form of fixed deposit receipts (FDRs) of ₹12.47 crore equivalent to one quarter of debt servicing.

The rating continues to take comfort from seniority of the rated facilities and built-in cash trap mechanism with restrictions for withdrawal of funds by the sponsors. Any repayment towards interest or principal on loans availed from the sponsor, Kotak Special Situations Fund (KSSF), shall be based on availability of free cash flows post maintenance of all stipulated reserves and minimum debt-service coverage ratio (DSCR) of 1.50x for senior debt in line with the terms of sanction. The rating continues to derive strength from low leverage marked by debt/toll collection of around one year, long residual tail period of around eight years and strong debt coverage indicators.

The rating continues to factor in the financial flexibility by virtue of change in ownership and management with acquisition of majority shareholding in the company by KSSF during May 2021.

The rating strengths are, however, tempered by inherent traffic risk associated with toll projects, regulatory risk of toll exemption being a state highway, continued delay in completion of pending capex and funding of same from project accruals and exposure to the risks of volatility in interest rates and operations and maintenance (O&M) expenses.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Increase in yearly toll revenue by more than 20% on a sustained basis.

Negative factors

- Degrowth in toll collection or increase in leverage impacting DSCR below 1.75x.
- Adverse movement in the interest rate and O&M cost significantly affecting the debt coverage indicators.
- Imposition of penalty by authorities for non-completion of construction beyond extension of time granted or significant cost overruns adversely affecting project cashflows significantly.
- Any regulatory impositions by the Government of Telangana impacting the project cashflows.

Analytical approach: Standalone

Outlook: Stable

The Stable outlook reflects the established track record of healthy toll collections, low leverage, availability of debt service reserve account (DSRA) and adequate liquidity, thereby supporting the debt coverage metrics.

[1]Complete 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

Track record of more than nine years of operations and favourable traffic composition
HKR has commenced toll collection from June 01, 2014, and has operational track record of more than nine years. The ADTC levels have witnessed a CAGR growth of 10% since its inception. The total average traffic (PCU per day) of the project registered a growth of 16% in FY23 on Y-o-Y basis and the overall collections grew by 26% during FY23. The total average traffic (PCU per day) grew by 4% during H1FY24 vis-à-vis H1FY23. HKR received a toll hike of around 25% in June 2022. Led by the increased toll charges and traffic, the average daily collections grew by 17% from ₹52.89 lakh per day in H1FY23 to ₹62.13 lakh in H1FY24. The growth in toll collections and low external debt (senior debt) have resulted in continued comfortable debt coverage for the project. As against the external debt of ₹193 crore, the toll collection during FY23 stood at ₹209 crore providing a comfortable debt to toll collections ratio of 0.92x. Average DSCR (for tenor of rated debt) is estimated to remain comfortably above 2.0x during the project tenor. Besides, the concession is valid till 2036 and the external term debt is expected to be repaid by FY28. This results in a tail period of eight years, which imparts strong refinancing ability.

Significant completion of balance capex and MM
The project achieved provisional COD on May 30, 2014, and started collecting toll from the next day upon completion of 190.194 km (91.94%). Out of the total project stretch of 206.86 km, construction of 205.25 km has been completed up to August 2021. Although work on main carriageway is almost completed, majorly construction work on service road and certain structures (including 1 ROB, 1 RUB and 1 flyover) is underway due to pending land acquisition and delay in approval from railways. However, as the work on the main carriageway is almost completed, completion of balance work is not likely to augment toll collection significantly.
As on November 30, 2023, balance capex to be incurred is ₹10 crore. Besides this, Independent Engineer has recommended a negative change of scope (COS) of ₹19.92 crore with final approval pending with the R&B department of the Govt of Telangana. The company has maintained sufficient liquidity for the above-mentioned capex/negative COS, and the same is expected to be completed by March 2024 (in line with Extension of Time received).
The company has undertaken first MM cycle since FY21. During the current fiscal, works amounting to around ₹32 crore (76% of total envisaged) have been done up to November 30, 2023, and balance is expected to be done by March 2024 thereby minimising the maintenance-related risks.

Favourable location of project stretch with non-viable alternate routes
The traffic on the project stretch is primarily driven by construction activities in Hyderabad and other commercial centres along the project highway, especially Sircilla, Siddipet and Gadwal. The project highway is a key link road connecting north-east part of state with its capital as well as major sources of minerals in Karimnagar, Peddapalli, Jaya Shankar districts with other parts of the state. It facilitates natural goods movement towards Hyderabad, which includes sand, granite, crushed stone, etc. Siddipet and Karimnagar districts through which the Project Highway passes, are the agricultural areas with rice (paddy), spices and cotton as major farm products. Majority of the sand brought from the Godavari to Hyderabad is transported through this road. Traffic is expected to remain high due to captive traffic of industries and sand mining.
While there are certain alternate routes present for the project stretch, either the road condition of the alternate stretch is not good or not affordable as the length of alternate route is more.

Cash trap by way of control over restricted payments and upfront DSRA creation
The senior debt is backed by structural features such as debt service reserve account (DSRA) creation, restricted payments towards sponsor. The senior debt specifies restricted payment to sponsors if DSCR for senior debt is less than 1.50x and other financial covenants are not met. Furthermore, all the reserves as required are to be funded adequately to the satisfaction of the lenders before making any restricted payments.
The company maintains a DSRA in funded form with ₹12.47 crore available as on November 22, 2023, which is equivalent to the next one quarter of principal and interest due, required as per the sanction terms.

Strong sponsor and experienced management
HKR was initially promoted by Gayatri Projects Ltd, and later on was taken over by KSSF. As on September 30, 2022, 74% is held by KSSF, and balance stake held by Gayatri Highways Ltd. (GHL). The shareholding of GHL is also pledged to KSSF. Thus, effectively, entire 100% shareholding is controlled by KSSF. Majority of directors in HKR are representatives from KSSF. The

investment team of KSSF comprises 11 members with four Directors representing KSSF (including CEO and ED of KSSF). KSSF has demonstrated its support by infusing funds in the form of debt, which is subordinated to the senior debt.
KSSF is a special situation, credit and distressed asset fund launched by Kotak Investment advisors (KIAL) with an initial corpus of USD 1 billion, in February 2019. KIAL, incorporated in 1994, is a subsidiary of Kotak Mahindra Bank Limited (KMBL) and is involved in fund management and advisory services. It acts as a fund manager for domestic funds and currently manages 14 such funds. Gayatri Highways Ltd is a listed entity, with around 61% shares being held by the Gayatri group and remaining around 39% held by public.

Key weaknesses

Inherent revenue risk considering toll-based revenue model

For any toll project, there is an inherent risk associated with the sustainability and growth of traffic. As the revenue depends upon the traffic that plies on the stretch, the company is exposed to the uncertainties with respect to the revenue. Also, the project is eligible for a toll rise once in every two years linked to WPI.

Regulatory risk associated with state highway project

Being part of the state highway, the project is exposed to the regulatory risk related to toll exemption and any other regulatory imposition. Any exemption granted by the state w.r.t toll collection and/or any adverse imposition impacting the project cash flows would be a rating sensitivity.

O&M risk

HKR is mandated to operate and maintain the road as per specifications set out in the CA, non-compliance of which could result in penalties being levied by Authority and thereby exposing HKR to operations and maintenance (O&M) risk. The regular O&M activity is undertaken in-house by the company by appointing third-party agencies vendors/contractors/suppliers.
With respect to MM activity, HKR is required to maintain the project stretch as per the maintenance requirement set forth in the schedules of concession agreement and no specific timeline is stipulated. The company has undertaken first MM cycle since FY21 and is expected to get completed in FY24. The next MM activity is expected in FY31-FY32 post repayment of rated debt. However, low project leverage provides cushion to absorb higher O&M and MM costs.

Interest rate risk on the bank debt

HKR shall remain exposed to variations in interest rate on the project debt, owing to interest rate resets which will be carried out by the lenders periodically every 12 months.

Liquidity: Adequate

HKR has funded DSRA to the tune of ₹12.47 crore has also been created, which is equivalent to one quarter debt servicing, required as per the sanction terms. The senior debt specifies restricted payment to sponsors if DSCR for senior debt is less than 1.50x and other financial covenants are not met.

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
Infrastructure Sector Ratings
Toll Road Projects

About the company and industry

Industry classification

Macro-economic Indicator	Sector	Industry	Basic Industry
Services	Services	Transport infrastructure	Road assets–Toll, annuity, hybrid-annuity

HKR (the company) is a special purpose vehicle (SPV) incorporated on August 9, 2010, for design, construction, finance, operation and maintenance of existing two-lane road to four-lane divided highway (206.858 km) of existing Hyderabad-Karimnagar-Ramagundam road (SH-1) in the state of Telangana (erstwhile United Andhra Pradesh) under DBFOT (Toll) basis. The concession agreement (CA) between HKR and Andhra Pradesh Road Development Corporation (Authority) was signed on August 20, 2010. The concession is for a period of 25 years commencing from the appointed date, i.e., February 16, 2011. The envisaged project cost was ₹2,209 crore. The company received PCOD on May 30, 2014, and started toll collection from June 01, 2014.
In May 2021, there has been change in ownership with 74% stake acquired by KSSF and balance stake held by Gayatri Highways Ltd

Brief Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)
Total operating income	177.51	225.39
PBILDT	140.21	162.03
PAT	773.96	-96.91
Overall gearing (times)	4.13	6.60
Interest coverage (times)	0.78	0.81

A: Audited UA: 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 (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Term loan	NA	-	-	December 31, 2027	177.50	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	Fund-based - LT-Term loan	LT	177.50	CARE AA; Stable	-	1)CARE AA-; Stable (05-Jan-23)	1)CARE AA-; Stable (20-Dec-21)	-

*Long term/Short term.

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	Fund-based - LT-Term loan	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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