Perfect Kim Mandavi Road Project Private Limited

June 18, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	120.00	CARE BBB-; Stable	Assigned
Long Term / Short Term Bank Facilities	6.00	CARE BBB-; Stable / CARE A3	Assigned

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The ratings assigned to the bank facilities of Perfect Kim Mandavi Road Project Private Limited (PKMPL) factors demonstrated execution capability of the sponsor and engineering, procurement, and construction (EPC) contractor – Perfect Infracorp Private Limited (PIPL), majorly in road construction segment and limited counterparty credit risk for underlying fixed annuity receivables from the Gujarat State Road Development Corporation (GSRDC) post commencement of operations date (COD) under modified annuity model.

The ratings also take cognizance of availability of Right of Way (RoW) for the entire project stretch and satisfactory project progress as on May 31, 2024.

The rating also favourably factors proposed liquidity support mechanism such as creation and maintenance of Debt Service Reserve Account (DSRA) equivalent to six months of debt servicing, adequate debt coverage indicators along with unconditional and irrevocable corporate guarantee and sponsor support undertaking extended by the sponsor to meet cost overrun during construction period, funding incremental Operational and maintenance (O&M) expenses and Major maintenance (MM) expenses over and above the base case plan during operational period.

The above rating strengths are, however, constrained by inherent project execution risk, interest rate fluctuation risk and inherent (O&M) and Major maintenance (MM) risk associated with the project during the operational phase considering flexible pavement structure for the project stretch. Timely infusion of requisite equity commitment by the sponsor, scheduled disbursement of term debt along with timely receipt of construction support from GSRDC and receipt of annuities post commencement of operations shall remain crucial from credit perspective.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Completion of the project within scheduled timeline, and timely receipt of first annuity post commencement operations without significant deductions and creations of DSRA and MMRA as per sanctioned stipulations.
- Significant improvement in the credit risk profile of the sponsor.

Negative factors

- Delay in project progress including achievement of project milestones leading to levy of penalty by GSRDC.
- Deterioration in the credit risk profile of the sponsor (PIPL) and/ or counterparty (GSRDC).
- Non-receipt of need-based financial support from the sponsor for meeting project cost during construction period and/ or creation of DSRA post COD as per the sanctioned terms.

Analytical approach: Standalone, while factoring the linkages with its sponsor and EPC contractor along with sponsor support undertaking extended by PIPL.

Outlook: Stable

Stable outlook reflects CARE's expectation of satisfactory project progress backed by sponsor's experience in the road construction segment and healthy credit risk profile of the counter party.

[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

Demonstrated track record of the sponsor in executing road construction project

PIPL has demonstrated track record for more than three decades in executing small and mid- sized civil construction projects majorly roads, canals, water supply projects, etc. for various governments and semi-government departments in Gujarat, Madhya Pradesh and Rajasthan. Furthermore, PIPL, as a sponsor, has extended an un-conditional and irrevocable undertaking to fund any cost overrun, DSRA, O&M and MM expenses over and above base case business plan. PIPL has also extended corporate guarantee towards the project debt of PKMPL till entire tenor of the loan.

PIPL has total equity commitment of Rs. 75.00 crore towards the on-going project under PKMPL, out of which 66.67% of total equity commitment has been infused by the promoters till May 31,2024.

Assured cash flow due to annuity nature of the project

The project cashflows during operational period are assured in form of fixed bi-annual annuities payments of Rs.21.11 crore each over the concession period. PKMPL envisage to receive these payments irrespective of the actual traffic conditions on the road, insulating the revenue stream of the company from traffic risk.

Moderate project leverage resulting in comfortable debt coverage indicators post COD

The estimated cost of the project considered at the time of financial closure was Rs.270 crore. The total project debt envisaged at Rs.120 crore against the project cost, forming around moderate project leverage of 44.44% of the project cost. Furthermore, the project has a comfortable tail period of around 2 years (i.e. four annuities), which aids to the financial flexibility of the project.

Low counterparty credit risk

The Concessioning Authority, GSRDC, a GoG undertaking. The annuity provider being a state government department having strong state finances translates into low counterparty credit risk for the company.

Key weaknesses

Inherent project execution risk

PKMPL remains exposed to the inherent execution risk attached to BOT road projects. PKMPL has received appointed date on December 12, 2023, and the project stretch is to be constructed with flexible pavement with no major terrain challenges indicating low execution challenges. Further, the company RoW for the entire project stretch.

As on May 31, 2024, the cumulative project progress was around 50.00%, well ahead of scheduled project progress. Also, the project has achieved third milestone as per IE report dated May 23, 2024. Completion of the project within scheduled cost and time parameters would remain a key rating monitorable.

Inherent interest rate risk

PKMPL is exposed to the inherent interest rate risk since the sanctioned project debt is linked to Overnight Marginal Cost of Fund-based Lending Rate (MCLR) while the annuity amount stands fixed, while the annuity receipts stand 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 of the company.

Inherent O&M risk associated with the project

The project stretch being a flexible pavement is prone to more wear and tear as compared to rigid pavements. Ensuring proper maintenance of the stretch in order to receive annuity receipts without any deductions would be important from the credit perspective.

PKMPL has not entered into fixed price EPC contract for O&M and MM, however, the same will be done by the principal sponsor i.e. Perfect Infracorp Private Limited throughout the concession period

Liquidity: Adequate

PKMPL liquidity is adequate characterised by achievement of financial closure for the entire project debt and infusion of 66.67% of total equity commitment of Rs.75.00 crore by the sponsor till May 31, 2024. Further, the liquidity of the company also remains underpinned from the fact that it has access to timely need-based support from the sponsor. Further, PIPL has unconditional and irrevocable corporate guarantee and sponsor support undertaking for the project debt and to fund cost overrun during the construction period, incremental O&M and MM expenses respectively.

Furthermore, as per the sanctioned conditions, the company shall require to create and maintain DSRA post COD out of 1st and 2nd annuity receipts, equivalent to six months of debt servicing, providing liquidity cushion to the company during the operational phase of the project.

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

Applicable criteria

- Definition of Default
- Factoring Linkages Parent Sub JV Group
- Liquidity Analysis of Non-financial sector entities
- Rating Outlook and Rating Watch
- Financial Ratios – Non financial Sector
- Road Assets-Annuity
- Infrastructure Sector Ratings
- Short Term Instruments

About the company and industry

Industry classification

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

About the Company

Incorporated in December 2022, PKMPL is a special purpose vehicle (SPV) promoted by Mehsana based, PIPL for 'Upgradation and strengthening of Kim-Mandvi Road (SH-65) on Design Build Finance Operate Maintain & Transfer on Modified Annuity basis awarded by GSRDC. The project has a concession period of 12 years incl. construction period of 730 days from the appointed date. Total estimated cost of the project considered for financial closure was Rs. 270 crore (incl. GST of Rs. 36.90 crore), to be funded through term loan of Rs.120 crore, construction support from GSRDC of Rs.75 crore and balance through promoter's contribution.

Brief Financials: Not applicable being project phase company.

Status of non-cooperation with previous CRA: None

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
Fund-based - LT-Term Loan		-	-	31/10/2033	120.00	CARE BBB-; Stable
Non-fund-based - LT/ ST-Bank Guarantee		-	-	-	6.00	CARE BBB-; Stable / CARE A3

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 2024-2025	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
1	Fund-based - LT-Term Loan	LT	120.00	CARE BBB-; Stable				
2	Non-fund-based - LT/ ST-Bank Guarantee	LT/ST	6.00	CARE BBB-; Stable / CARE A3				

LT: Long term; LT/ST: 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
2	Non-fund-based - LT/ ST-Bank Guarantee	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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