Patel KNR Infrastructures Limited

September 05, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Non-convertible debentures	107.42 (Reduced from 142.92)	CARE AA+; Stable	Reaffirmed

Details of instruments in Annexure-1.

Rationale and key rating drivers

The rating assigned to long-term non-convertible debentures (NCD) of Patel KNR Infrastructures Limited (PKIL) continues to derive strength from the long track record of timely receipt of annuity payments and structured payment mechanism, where biannual annuity is received from National Highways Authority of India (NHAI, rated 'CARE AAA; Stable') in an escrow account for servicing NCDs.

The rating also derives strength from fixed rate of coupon eliminating interest rate risk, strong credit profile and significant experience of operations and maintenance (O&M) contractor (KNR Constructions Limited), maintenance of debt-service reserve account (DSRA) per the terms of the debenture trust deed (DTD), strong liquidity profile and sponsors undertaking for infusion of funds for shortfalls in meeting major maintenance (MM) expenses above budgeted expenses and non-withdrawal of surplus cash from the special purpose vehicle (SPV).

The rating also factors in timely receipt of 29th (September 2023) and 30th semi-annuity payments (in March 2024) without deductions. in FY24, the company has received arbitration claims related to additional MM expense in first MM cycle (in FY15-16) and second MM cycle (in FY20-21). Apart from the arbitration claims related to MM, PKIL has received for disputes related to cost overruns due to delayed COD (~₹133 crore). The arbitration award receipt pertaining to cost overrun has been passed on to sponsors in form of dividends/buybacks, while the balance has been retained in the SPV.

PKIL continues to remain exposed to the risks arising out of possibility of lower disbursal 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 per CA to ensure adequate cash flows without deductions by the authority would be important from a 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 / significant delays / reduced receipt of annuities and increase in O&M and MM than envisaged.
- Non-adherence to the structured payment mechanism.

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.

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

Detailed description of key rating drivers:

Key strengths

Timely receipt of annuity from NHAI

PKIL is an annuity project and is not exposed to traffic risk. PKIL's revenue source is bi-annual annuity (due on March 26th and September 24th every year) of ₹32.94 crore receivable from NHAI till March 26, 2027. PKIL has a track record of timely receipt of annuity payments from NHAI and has received 30 semi-annual payments from the Concessioning Authority without deductions (except taxes deducted as source [TDS]). PKIL received its 30th annuity on March 27, 2024, as against due date of March 26, 2024, without deductions except TDS. NHAI has also released GST component on annuities.

Strong financial risk profile of annuity provider; 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 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 operational delays in receipt of annuity from NHAI. PKIL continues to maintain DSRA per the terms of the debenture trust deed (DTD) of ₹15 crore as on June 30, 2024, which covers about 44% of next six month's debt servicing.

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

Receipt of arbitration claim amount

In FY15-16, NHAI passed a mandate for overlaying renewal layer thickness increased from 30mm bituminous concrete (BC) to 40mm, which impacted MM expenses significantly for the first and second cycles. This resulted in higher-than-expected MM expenses and PKIL had filed a claim with NHAI towards it. PKIL received ₹94.20 crore under the Vivad se Vishwas scheme for disputes related to cost overruns due to delayed COD. Of the proceeds (for cost overrun on delayed COD and additional cost incurred for MM), ₹93.73 crore has been transferred to sponsor in form of dividends and buybacks as the additional cost on project was borne by the engineering, procurement, and construction (EPC) contractor-cum-sponsor. Rest of the amount (₹32.11 crore) has been retained in the SPV, which would support the third MM.

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

Sponsors have an 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 EPC services across sectors, such as roads and highways, irrigation, and urban water infrastructure management. The other sponsor, Patel Engineering Limited (PEL – holding 60% stake), has vast experience in the construction segment, although its credit profile has relatively moderated over the years.

Fixed interest rate

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

Key weaknesses

Moderate debt service coverage indicators considering 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 periodic maintenance. The SPV incurred higher MM expenses for first and second MM against 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 per the agreement. Accordingly, the company revised estimates for the third MM cycle, which is 79% higher than initial estimates of respective maintenance cycles. The estimate for third cycle has been further revised upwards, which is expected to result in tightly matched cashflow for MM during the year. The higher MM expenses above the fixed-price contract already executed led to moderate debt service coverage indicators.

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 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 in 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. CARE Ratings also expects surplus liquid reserves as maintained till April 2027 to be available.

Liquidity: Strong

PKIL's liquidity profile is strong with the timely receipt of annuities and a 'T+20' day structure, providing cushion to delays. The company has been maintaining stipulated reserves comprising DSRA of ₹15 crore, which covers 44% of ensuing six months' debt servicing. The company had surplus funds of ₹72.56 crore as on July 31, 2024. All stipulated reserves and liquid funds are maintained by way of investments in mutual funds and fixed deposits per the terms of 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

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

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

Brief Financials (₹ crore)	March 31, 2023 (A)	March 31, 2024 (A)	Q1FY25(Provisional)
Total operating income	44.80	133.40	15.38
PBILDT	13.48	75.36	5.85
PAT	(3.17)	51.40	2.64
Overall gearing (times)	3.24	2.11	-
Interest coverage (times)	0.86	5.80	2.24

A: Audited, 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	107.42	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 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	Debentures-Non Convertible Debentures	LT	107.42	CARE AA+; Stable	-	1)CARE AA+; Stable (06-Sep-23)	1)CARE AA+; Stable (09-Dec-22)	1)CARE AA+; Stable (05-Jan-22)

LT: Long 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	Debentures-Non-convertible debentures	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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