

## HKR Roadways Limited

January 02, 2025

Facilities/Instruments	Amount (₹ crore)	Rating <sup>1</sup>	Rating Action
Long-term bank facilities	139.98 (Reduced from 177.50)	CARE AA+; Stable	Upgraded from CARE AA; Stable

Details of instruments/facilities in Annexure-1.

### Rationale and key rating drivers

Revision in the rating assigned to bank facilities of HKR Roadways Limited (HKR) factors in the established track record of operations of over 10 years with consistent growth in collections and mitigation of residual project risk with receipt of final completion certification. Average daily toll collections (ADTC) have witnessed a compounded annual growth rate (CAGR) of 8.5% since its inception in 2015. In FY24 (refers to April 01 to March 31), toll collections grew by 13% y-o-y to ₹235.70 crore. Toll collections growth remained muted in 7MFY25 (₹133 crore). CARE Ratings Limited (CARE Ratings) notes that the company achieved final commercial operations date (COD) on August 16, 2024, with completion of balance work, which mitigates risk associated with residual capex.

The rating continues to factor in low leverage marked by debt/toll collection of ~one year, long residual tail period of ~eight years and strong debt coverage indicators, completion of major portion of major maintenance (MM) cycle and maintenance of funded debt service reserve account (DSRA) in the form of fixed deposit receipts (FDRs) of ₹16.20 crore over one quarter of debt servicing.

The rating continues to take comfort from seniority of rated facilities and built-in cash trap mechanism with restrictions for withdrawal of funds by sponsors. 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.

However, rating strengths are tempered by inherent traffic risk associated with toll projects, regulatory risk of toll exemption being a state highway, exposure to risks of volatility in interest rates and operations and maintenance (O&M) expenses.

CARE Ratings takes note of the Share purchase agreement of HKR's promoters with Global Infrastructure Partners (GIP) India Vinci Highways for acquisition of 100% stake. The transaction is subject to requisite approval from regulatory authorities and fulfilment of conditions precedent. CARE Ratings does not foresee change in management to impact the credit profile for the rated debt. However, CARE Ratings would closely monitor further developments related to this event.

### Rating sensitivities: Factors likely to lead to rating actions

#### Positive factors

- Increase in yearly toll revenue by over 20% on sustained basis.

#### Negative factors

- Degrowth in toll collection impacting DSCR below 2x.
- Adverse movement in the interest rate and O&M cost affecting debt coverage indicators.
- Regulatory impositions by Govt of Telangana, impacting 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 strong liquidity, supporting debt coverage metrics.

<sup>1</sup>Complete definition of ratings assigned are available at [www.careedge.in](http://www.careedge.in) and other CARE Ratings Limited's publications.

**Detailed description of key rating drivers:****Key strengths****Track record of a decade of operations with improvement in toll collections**

HKR has commenced toll collection from June 01, 2014, and has operational track record of over 10 years. ADTC levels grew at a CAGR of 8.5% since its inception. Average passenger car unit (PCU) registered a growth of 9% in FY24 over FY23 and 2% in 7MFY25 against 7MFY24. Led by increased toll charges and traffic, ADTC improved to ₹64.40 lakh per day in FY24 (y-o-y growth of 12.5%) from ₹57.21 lakh per day in FY23. ADTC was stable at ₹62.46 lakh per day in 7MFY25 against ₹62.33 lakh per day for 7MFY24 (0.21% growth on y-o-y basis). Toll collections growth remain muted in current fiscal. On an overall basis, toll collections remained stable and satisfactory.

**Comfortable debt coverage metrics**

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 ₹139.98 crore, the toll collection in FY24 stood at ₹236 crore providing a comfortable debt to toll collections ratio of 0.59x. Average DSCR (for tenor of rated debt) is expected to remain comfortably above 3.0x in the project tenor. The concession is valid till 2036 and external term debt is expected to be repaid by FY28. This results in a tail period of eight years, which imparts strong refinancing ability.

**Achievement of COD and significant major maintenance work completed**

The company achieved provisional completion on May 30, 2014, and commenced toll collection from the public effective June 01, 2014. Of the total project stretch of ~206.86 Km, construction for 205.25 Km has been completed till August 2021. Delay in completion of construction has been due to delay in obtaining Right of Way (RoW), approvals from railway authorities for railway over bridges (ROB) and railway under bridges (RUB). The company completed the balance work and positive COS, made payments for negative COS and has received completion certificate on August 16, 2024, for length of 206.948 km. With the receipt of final COD, risk related to residual capex is mitigated.

The company has undertaken first MM cycle since FY21 and has completed MM work largely in line with envisaged level, minimising maintenance-related risks.

**Favourable location of project stretches with non-viable alternate routes**

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 and 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, and crushed stone, among others. Siddipet and Karimnagar districts, through which the Project Highway passes, are agricultural areas with rice (paddy), spices and cotton as major farm products. Majority 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 for the project stretch, either the road conditions are not good or not affordable as the length of alternate route is more.

**Cash trap through control over restricted payments and upfront DSRA creation**

Senior debt is backed by structural features such as debt service reserve account (DSRA) creation, restricted payments towards sponsor. Senior debt specifies restricted payment to sponsors, if DSCR for senior debt is less than 1.50x and other financial covenants are not met. All reserves, as required, are to be funded adequately to the satisfaction of lenders before making restricted payments. The company maintains a DSRA in funded form with ₹16.80 crore available as on October 31, 2024, which is equivalent to next one quarter of principal and interest due, required per sanction terms.

**Strong sponsor and experienced management**

HKR was initially promoted by Gayatri Projects Limited, and later taken over by KSSF. As on September 30, 2024, 74% is held by KSSF, and balance stake held by Gayatri Highways Limited (GHL). GHL's shareholding is also pledged to KSSF. Thus, effectively, entire 100% shareholding is controlled by KSSF. Majority directors in HKR are representatives from KSSF. KSSF has demonstrated its support by infusing funds in the form of debt, which is subordinated to the senior debt. KSSF and GHL have entered SPA with GIP for acquiring 100% stake in company.

Existing sponsors have entered a Share Purchase Agreement with GIP India for acquisition of 100% stake in the company. GIP India, through its GIP Emerging Markets Fund and Vinci Highways have entered a binding agreement with KSSF and GHL to acquire 100% stake in the company. The transaction is subject to requisite approval from regulatory authorities and fulfilment of conditions precedent. CARE Ratings does not foresee change in management to impact the credit profile for the rated debt.

**Key weaknesses****Inherent revenue risk considering toll-based revenue model**

For toll projects, there is an inherent risk associated with sustainability and traffic growth. As the revenue depends on traffic that plies on the stretch, the company is exposed to uncertainties with respect to revenue. 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 other regulatory imposition. Exemption granted by the state for toll collection and/or adverse imposition impacting project cash flows would be a rating sensitivity.

**O&M risk**

HKR is mandated to operate and maintain the road per specifications set out in the CA, non-compliance of which could result in penalties being levied by Authority and 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 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 FY25. 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 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 lenders periodically every 12 months.

**Liquidity: Adequate**

HKR has funded DSRA to the tune of ₹16.80 crore (as on October 31, 2024) has also been created, which is over the one quarter debt servicing, required per sanction terms. Senior debt specifies restricted payment to sponsors, if DSCR for senior debt is less than 1.50x and other financial covenants are not met. Apart from the DSRA, HKR has cash and cash equivalents of ₹121 crore as on October 31, 2024

**Assumptions/Covenants:** Not applicable

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

### Applicable criteria

[Definition of Default](#)

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

[Rating Outlook and Rating Watch](#)

[Financial Ratios – Non financial Sector](#)

[Infrastructure Sector Ratings](#)

[Road Assets-Toll](#)

### About the company and industry

#### Industry classification

Macroeconomic 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 09, 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 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 25 years commencing from the appointed date, February 16, 2011. The envisaged project cost was ₹2,209 crore. The company received Final COD for completion of the project on August 16th, 2024, and had obtained 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 Limited. Final COD for completion of the project has been obtained on August 16th, 2024

Brief Financials (₹ crore)	March 31, 2023 (A)	March 31, 2024 (A)
Total operating income	222.81	240.58
PBILDT	159.42	176.80
PAT	-96.91	-91.28
Overall gearing (times)	-1.00	-0.97
Interest coverage (times)	0.81	0.85

A: Audited UA: Unaudited; Note: these are latest available financial results

**Status of non-cooperation with previous CRA:** Not applicable

**Any other information:** Not applicable

**Rating history for last three years:** Annexure-2

**Detailed explanation of covenants of rated instrument / facility:** Annexure-3

**Complexity level of 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 and Rating Outlook
Fund-based - LT-Term Loan	-	-	-	December 31, 2027	139.98	CARE AA+; Stable

**Annexure-2: Rating history for 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	139.98	CARE AA+; Stable	-	1)CARE AA; Stable (02-Jan-24)	1)CARE AA-; Stable (05-Jan-23)	1)CARE AA-; Stable (20-Dec-21)

LT: Long term

**Annexure-3: Detailed explanation of covenants of rated instruments/facilities:** Not applicable

**Annexure-4: Complexity level of instruments rated**

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

**Annexure-5: Lender details**

To view lender-wise details of bank facilities please [click here](#)

**Note on complexity levels of rated instruments:** CARE Ratings has classified instruments rated by it based on complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for clarifications.

## Contact us

<p><b>Media Contact</b></p> <p>Mradul Mishra Director <b>CARE Ratings Limited</b> Phone: +91-22-6754 3596 E-mail: <a href="mailto:mradul.mishra@careedge.in">mradul.mishra@careedge.in</a></p> <p><b>Relationship Contact</b></p> <p>Saikat Roy Senior Director <b>CARE Ratings Limited</b> Phone: 912267543404 E-mail: <a href="mailto:saikat.roy@careedge.in">saikat.roy@careedge.in</a></p>	<p><b>Analytical Contacts</b></p> <p>Rajashree Murkute Senior Director <b>CARE Ratings Limited</b> Phone: +91-22-6837 4474 E-mail: <a href="mailto:Rajashree.Murkute@careedge.in">Rajashree.Murkute@careedge.in</a></p> <p>Puja Jalan Director <b>CARE Ratings Limited</b> Phone: 914040020131 E-mail: <a href="mailto:puja.jalan@careedge.in">puja.jalan@careedge.in</a></p> <p>Tej Kiran Ghattamaneni Assistant Director <b>CARE Ratings Limited</b> Phone: 914040020131 E-mail: <a href="mailto:tej.kiran@careedge.in">tej.kiran@careedge.in</a></p>
--	---

### About us:

Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

### Disclaimer:

The ratings issued by CARE Ratings are opinions on the likelihood of timely payment of the obligations under the rated instrument and are not recommendations to sanction, renew, disburse, or recall the concerned bank facilities or to buy, sell, or hold any security. These ratings do not convey suitability or price for the investor. The agency does not constitute an audit on the rated entity. CARE Ratings has based its ratings/outlook based on information obtained from reliable and credible sources. CARE Ratings does not, however, guarantee the accuracy, adequacy, or completeness of any information and is not responsible for any errors or omissions and the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE Ratings have paid a credit rating fee, based on the amount and type of bank facilities/instruments. CARE Ratings or its subsidiaries/associates may also be involved with other commercial transactions with the entity. In case of partnership/proprietary concerns, the rating/outlook assigned by CARE Ratings is, inter-alia, based on the capital deployed by the partners/proprietors and the current financial strength of the firm. The ratings/outlook may change in case of withdrawal of capital, or the unsecured loans brought in by the partners/proprietors in addition to the financial performance and other relevant factors. CARE Ratings is not responsible for any errors and states that it has no financial liability whatsoever to the users of the ratings of CARE Ratings. The ratings of CARE Ratings do not factor in any rating-related trigger clauses as per the terms of the facilities/instruments, which may involve acceleration of payments in case of rating downgrades. However, if any such clauses are introduced and triggered, the ratings may see volatility and sharp downgrades.

**For detailed Rationale Report and subscription information,  
please visit [www.careedge.in](http://www.careedge.in)**