

## Loha Nanded Waranga Highways Private Limited

### February 23, 2022

#### Ratings

Facilities	Amount (Rs. crore)	Rating <sup>1</sup>	Rating Action
Long Term Bank Facilities	517.68	<b>CARE BBB+; Stable (Triple B Plus; Outlook: Stable )</b>	<b>Assigned</b>
<b>Total Bank Facilities</b>	<b>517.68 (Rs. Five Hundred and Seventeen crore and Sixty Eight lakh only)</b>		

Details of instruments/facilities in Annexure-1

#### Detailed Rationale & Key Rating Drivers

The rating assigned to the bank facilities of Loha Nanded Waranga Highways Private Limited (LNWHPL) factors in the inherent strengths of hybrid annuity model (HAM) based road projects such as (i) low project funding risk with inflation-indexed annuity to be received for construction and favorable clauses introduced in the concession agreement (CA) to de-bottleneck project execution challenges (ii) lower post implementation risk on account of inflation-indexed annuity to be received for operations and maintenance (O&M) of the road and (iii) receipt of bank rate linked interest annuity. However, unlike the clauses contained in the CA, delay in de-scoping of the unavailable project land has been witnessed in some of the ongoing HAM road projects.

The rating of LNWHPL further derives comfort from the wide experience of the sponsor i.e. Kalyan Toll Infrastructure Limited (KTIL; rated CARE A-; Stable/ CARE A2+) in the infrastructure space, the demonstrated project execution & management capability of the sponsor along with the financial flexibility of the Kalyan group, strong credit quality of the project completion milestone payments and underlying annuity receivables from National Highway Authority of India (NHAI; rated 'CARE AAA; Stable') both during construction and post commencement of operations.

The rating also favorably factors in the various undertakings extended by the sponsor to fund the cost overrun during construction period and funding of incremental operations and maintenance (O&M) expenses and major maintenance (MM) expenses over and above the base case plan. The rating also factors in the envisaged liquidity support mechanisms such as the envisaged creation of debt service reserve account (DSRA) and Major Maintenance Reserve Account (MMRA) post commencement of operations.

The rating is, however, constrained by the presence of inherent construction risk associated with the project; interest rate risk as well as the operations and maintenance (O&M) risk.

#### Rating Sensitivities

**Positive:** Factors that may have positive impact on the credit profile:

- Completion of project within envisaged time frame
- Establishment of track record of timely receipt of annuities post commencement of operations

**Negative:** Factors that may have a negative impact on the credit profile:

- Significant delay in the project progress due to non-availability of the land within stipulated time frame or significant delay in the de-scoping of the unavailable land
- Increased maintenance expenses resulting in DSCR of less than 1.10x
- Deterioration in the credit profile of sponsor-KTIL or counter party (i.e. NHAI).

#### Detailed description of the key rating drivers

##### Key Rating Strengths

**Favourable clauses in model CA of HAM projects to address execution challenges:** The model CA of HAM projects includes favourable clauses such as achievement of at least 80% Right of Way (RoW) before declaring appointed date for the project and provision for granting deemed completion of the project in case 100% of the work is completed on the RoW which becomes available to it within 180 days of the appointed date. These clauses are expected to address some of the issues which were plaguing the sector primarily on account of delay in land acquisition during construction phase. However, pending de-scoping of unavailable land despite significant time having lapsed from the appointed date has been affecting the project progress in some of the projects awarded under this model which has emerged as a cause of concern from the credit perspective for the industry. Hence, timely de-scoping of unavailable project land within 180 days from appointed date by NHAI as per terms of CA will be a key monitorable for HAM-based road projects. However, during July 2020; NHAI released an SOP pertaining to the approach towards de-scoping whereby, immediately after the expiry of the period of appointed date plus 20% of the construction period, the pending RoW will be removed from the scope of work and the BPC shall be suitably reviewed.

**Low funding risk and permitted price escalation:** HAM based build-operate and transfer (BOT) projects entails lower sponsor contribution during construction period considering 40% construction support and availability of 10% mobilization advances on Bid Project Cost (BPC) at bank rate. BPC and O&M cost shall be inflation indexed (through a Price Index Multiple

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

[PIM]), which is the weighted average of Wholesale Price Index (WPI) and Consumer Price Index (CPI) in the ratio of 70:30. Inflation indexed BPC protects the developers against price escalation to an extent.

**Assured cash flow due to annuity nature of the revenue stream linked to inflation indexed O&M annuity and bank rate linked interest annuity:** Besides the construction milestone payments during construction, during operational phase, cash flow is assured in the form of annuity payments from NHAI (rated 'CARE AAA; Stable') on semi-annual basis covering 60% of the project completion cost along with interest at bank rate plus 3% on reducing balance and inflation indexed O&M annuity. However, the above feature may get diluted in cases where there exists a lag between reduction in bank rate and lending rate exposing the company to the interest rate risk.

**Low counterparty credit risk:** 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. The outlook on NHAI reflects the outlook on the sovereign, whose direct and indirect support continues to be the key rating driver.

#### **Wide experience of sponsor in road construction**

Kalyan Toll Infrastructure Limited (KTIL), the sponsor and EPC contractor, has an established presence in road construction spanning over two decades and has executed projects in Maharashtra and Madhya Pradesh. The company has a sound track record in road construction with most of its projects being completed on time without major cost overrun. KTIL is also registered as 'A' category contractor with Government of Maharashtra (GoM) and Government of Madhya Pradesh (GoMP). KTIL also owns a moderate level of fleet of construction equipment while relying on non-core work to subcontractors. Relatively asset light model resulted into relatively lower term debt providing cash flow cushion to the company.

#### **Adequacy of the bidding parameters along with low leverage for the project resulting in comfortable debt coverage indicators post COD**

The estimated cost of the project considered for the financial closure is Rs.983 crore, which is lower than the Bid Project cost of Rs.1,153.90 crore, by 14.81%. Moreover, annuities would be received on the basis of inflated BPC (i.e. Rs.1,373.14 crore), which is beneficial to the project. Hence, the project leverage stands at about 35.10% of the Bid Project Cost resulting in comfortable debt coverage indicators post the COD.

Moreover, the term loan will mature in April 2037 and the concession period will end in February 2038, resulting in a tail period of 10 months, that will include two annuities from the authority.

#### **Proposed creation of DSRA and MMRA**

As per the sanction terms of the debt, LNWHPL shall be required to create and maintain DSRA till the tenor of the debt to meet any shortfall in the debt service requirements. DSRA shall be created in funded, equivalent to the ensuing six months principal and six months interest obligations after meeting the debt service obligations during the operational phase which provides cushion for the debt servicing.

As per the sanction terms of the debt, Major Maintenance Reserve Account will also be created and maintained by LNWHPL throughout the tenure of the debt.

Moreover, the interest and O&M expenditure for the first six months post COD is proposed to be a part of the project cost.

#### **Key Rating Weaknesses**

##### **Inherent project execution risk**

LNWHPL is exposed to inherent construction risk attached to large sized Build-Operate-Transfer(BOT) road projects. The appointed date was received on March 22, 2021 and it is under nascent stage of construction marked by physical progress of 10.05% achieved up to November 2021. As on November 2021, the company has spent Rs.135.21 crore towards the execution of the project funded through promoter contribution. The project is relatively simple in scope with lower structural work.

##### **Interest Rate Risk**

LNWHPL is exposed to interest rate risk due to floating rate nature of term loan which gets offset partly by the receipt of interest annuity at bank rate plus 3%. However, there may be instances when a lag exists between the reductions in the bank rate and the lending rate to the company. Consequently, it may result in a temporary impact on the cash flow available for debt servicing.

##### **O&M risk associated with the project**

Although inflation indexed O&M annuity partly mitigates O&M risk, developers would still face the risk of sharp increase in the O&M cost due to more than envisaged wear and tear and aggressive bidding in O&M cost. However, the project stretch is to be constructed on a rigid pavement basis, and LNWHPL has to enter into fixed price and fixed time O&M contract before achievement of COD mitigating O&M risk to an extent. Also, KTIL has extended undertaking to infuse funds in case O&M expenses exceed the O&M annuity from NHAI.

##### **Liquidity: Adequate**

Post receipt of COD, liquidity shall be marked by regular annuities of Rs.85 crore against repayment obligations of ~Rs.50 crore with a T+60 repayment and proposed creation of DSRA of Rs.24.87 crore from the first annuity and maintenance of MMRA for meeting MM expenditure during the tenure of the debt.

**Analytical approach:** Standalone

**Applicable Criteria:**

[Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings](#)

[CARE's Policy on Default Recognition](#)

[Financial Ratios – Non Financial Sector](#)

[Liquidity Analysis of Non-Financial Sector Entities](#)

[Rating Methodology: Factoring Linkages in Ratings](#)

[Rating Methodology – Hybrid Annuity Road Projects](#)

**About the company**

Loha Nanded Waranga Highways Private Limited (LNWHPL) is a special purpose vehicle (SPV) incorporated by Kalyan Toll Infrastructure Limited (KTIL) in September 2020. It has entered into 17 year concession agreement (CA) (including construction period of 700 days from appointed date) with National Highway Authority of India for the build, operate and transfer (BOT) of 56.569 km (i.e., 226.276 lane km) road project on Hybrid Annuity basis.

The project under consideration aims at developing of two lane road connecting Loha-Waranga which lies on SH-361 in the state of Maharashtra. The total cost of the project is Rs.983 crore envisaged to be funded through debt of Rs.405 crore, construction grant from NHAI of Rs.477.20 crore and balance through promoter's contribution. The appointed date has been received on March 22, 2021.

**Brief Financials:** Not applicable as LNWHPL is a project stage company

**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 for this company:** Annexure 4

**Annexure-1: Details of Instruments / Facilities**

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Term Loan-Long Term	-	-	-	April 2037	405.00	CARE BBB+; Stable
Non-fund-based - LT-Bank Guarantee	-	-	-	-	112.68	CARE BBB+; Stable

**Annexure-2: Rating History of last three years**

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1	Term Loan-Long Term	LT	405.00	CARE BBB+; Stable				
2	Non-fund-based - LT-Bank Guarantee	LT	112.68	CARE BBB+; Stable				

**Annexure-3: Detailed explanation of covenants of the rated instrument / facilities:** Not Applicable

**Annexure 4: Complexity level of various instruments rated for this company**

Sr. No	Name of instrument	Complexity level
1	Non-fund-based - LT-Bank Guarantee	Simple
2	Term Loan-Long Term	Simple

**Annexure 5: Bank Lender Details for this Company**

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

**Note on complexity levels of the rated instrument:** CARE Ratings Ltd. 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](mailto:care@careedge.in) for any clarifications.

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