PNC Kanpur Highways Limited

March 25, 2021

Ratings

Facilities/Instruments	Amount (Rs. crore)	Ratings	Rating Action
Long Term Bank Facilities	147.39 (Reduced from 163.02)	CARE A; Stable (Single A; Outlook: Stable)	Revised from CARE A-; Stable (Single A Minus; Outlook: Stable)
Total Bank Facilities	**147.39 (Rs. One Hundred Forty-Seven Crore and Thirty-Nine Lakhs Only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in the ratings of bank facilities of PNC Kanpur Highways Limited (PKHL) takes into account improved toll collections during 11MFY21 despite Covid-19 pandemic, comfortable debt coverage levels resulting from healthy toll revenues that are expected to be generated from the stretch and build-up of healthy liquidity position aggregating Rs.105.22 crore, including one-quarter debt service reserve account (DSRA) maintained in the form of fixed deposits (FD). The ratings continue to derive strength from the company's experienced and resourceful promoter, PNC Infratech Limited (PIL; rated 'CARE AA'; Stable / 'CARE A1+') and about six years of operational track record of the toll road, wherein toll revenues are expected to improve further owing to increased construction works in the near-by stretches in the state of Uttar Pradesh, which would generate demand for the construction material sourced from Kabrai region on the project stretch. CARE believes, based on the company's clearly articulated stand regarding its free cash balances, that surplus liquidity available would be maintained in the company itself and would be available for project related expenses only.

The rating is, however, constrained by the risks associated with toll-based projects, viz, sustainability of traffic and acceptability of toll rate hikes, operations & maintenance (O&M) risk and volatility in interest rates.

Rating Sensitivities

Positive Factors:

- Consistent growth in toll revenue by 10-15% on a year-on-year basis leading to higher DSCR levels in excess of 1.50x on a sustained basis.

Negative Factors:

- Any change in the credit profile of sponsor (PIL) or a downgrade from their current credit ratings.
- Decrease in toll collections or adverse movement in the interest rate and O&M cost affecting the debt coverage indicators
- Non-compliance of various covenants as per sanctioned terms and concession agreement, including maintenance of debt service reserve account (DSRA).

Detailed description of the key rating drivers

Key Rating Strengths

Experienced and resourceful promoters: PKHL has been promoted by PNC Infra Holdings Ltd. (a wholly owned subsidiary of PIL). PIL has been engaged in construction activities across diverse sectors like highways, bridges, flyovers and airport runways. PIL has over two decades of experience in executing road projects and has received appreciation certificates for some of its projects in the past. The company has executed numerous infrastructure projects across 14 states across India.

Improved toll collections during 11MFY21

The toll collection for 11MFY21 (refers to period from April 1, 2020 to February 28, 2021) improved to Rs.83.16 crore (Rs. 26.48 lakh/day) as compared to Rs.76.23 crore (Rs. 21.29 lakh/day) during FY20. The revenues for 11MFY21 has surpassed the revenues during FY20 with per day collection growth of 24.38% during the said period despite the suspension of toll collection activity with effect from March 25, 2020 till April 19, 2020 on account of nation-wide lockdown to contain spread of the Covid-19 pandemic and lower traffic movement till June 2020 post lifting up of lockdown. The improvement in toll collections during 11MFY21 is on account of increased construction related traffic from under-implementation Bundelkhand Expressway awarded by UPEIDA and Lucknow Ring Road Package I awarded by NHAI. The construction activities of these projects have picked up the pace during FY21, which have generated significant demand for the construction material sourced from Kabrai region during the FY21 leading to increased traffic PCUs on the project stretch.

Further, new projects have been awarded in the near vicinity of the project stretch during the Q4FY20, including Aligarh Kanpur Package IV and V, Unnao-Lalganj section and Faizabad-Jagdishpur section in the state of Uttar Pradesh. With most of these projects receiving appointed dates (AD) during Q4FY21, the construction activities on these projects are expected to pick pace from the start of FY22. As such, construction materials- stone aggregates as well as sand, for these projects will be sourced from the Kabrai region, which happens to be one of the major sources of these raw materials in the state of Uttar Pradesh, which is expected to generate sizeable traffic on the Project Highway in the coming years.

Comfortable financial risk profile with healthy liquidity position: The company has a comfortable financial risk profile marked by a steady buildup of liquidity with cash and cash equivalents of Rs.105.22 crore as on March 12, 2020, including maintenance of DSRA covering one quarter of debt servicing requirements. The surplus generated from operations has not been withdrawn till date and is expected to be retained at PKHL's level in future, as communicated by the company, providing comfort to the company's liquidity position. Further, PKHL's debt coverage indicators are expected to remain comfortable in coming years.

Key Rating Weaknesses

Revenue risk associated with toll projects: Being a toll-based project, PKHL is exposed to the inherent revenue risks arising from traffic fluctuations and annual revision of the toll rates which are indexed to the Wholesale Price Index (WPI). Being an MAV-dominated stretch; the reduction in mining activities directly impacted the toll income of the company during the FY20. Going forward, any enforcement of a permanent ban on mining in the state of Uttar Pradesh may further impact the traffic numbers.

Exposure to maintenance risks: The entire maintenance activity for the project is handled by an in-house team of PKHL. Going forward, completion of routine O&M and major maintenance expense within the budgeted cost estimates would be crucial.

Interest rate risks: PKHL is exposed to adverse movements in interest rates since infrastructure projects have long gestation periods. The presence of an annual reset clause in the loan agreements and linkage with base rate exposes the company to interest rate risks over the long term.

Liquidity Analysis: Strong

The company has comfortable liquidity with cash and cash equivalents of around Rs.105 crore as on March 12, 2021, including DSRA to the tune of Rs.17.10 crore, covering one quarter of debt servicing obligations, which provides sufficient credit comfort. Based on a clear communication to CARE by the company and a demonstrated track record of the group till date of maintaining available liquidity at SPV level, we believe that the free cash balances available would be maintained in the company itself and would be available for project related expenses only.

The company had availed moratorium towards repayments from April'20 to August'20 as per RBI's Covid-19 regulatory package. However, the interest for the moratorium period was paid off in September'20.

Analytical approach: Standalone while factoring linkages with the parent company- PIL.

Applicable Criteria

CARE's Criteria on assigning Outlook to Credit Ratings
CARE's Policy on Default Recognition
Rating Methodology-Factoring Linkages
Rating Methodology-Toll Roads
Liquidity Analysis of Non-financial sector entities
Financial ratios – Non-Financial Sector

About the Company

PKHL is a special purpose vehicle (SPV) promoted by PNC Infra Holdings Ltd (wholly owned subsidiary of PIL) to undertake two-laning of Kanpur-Kabrai section of National Highway - 86 from 7.43 km to 130.1 km in the state of Uttar Pradesh on design build finance operate and transfer (DBFOT) toll basis. As per the concession agreement (CA) signed between NHAI and PKHL on March 11, 2011, the concession period is 12 years (including a construction period of 540 days) from the appointed date (which is January 21, 2013). The company achieved provisional completion date (PCOD) on May 5, 2015 and tolling commenced on 98.70% of the project stretch from May 7, 2015. The company achieved final COD on December 31, 2015.

Brief Financials (Rs. crore)	FY19 (A)	FY20(A)
Total operating income	97.26	76.23
PBILDT	69.26	35.95
PAT	20.42	-4.97
Overall gearing (times)	1.71	1.44
Interest coverage (times)	3.59	2.21

A: Audited

Covenants of rated instrument/facility: Detailed explanation of the rated instruments/ facilities is given in Annexure3
Status of non-cooperation with previous CRA: Not Applicable
Any other information: Not Applicable
Rating History for last three years: Please refer Annexure-2

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Term Loan	-	-	-	147.39	CARE A; 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 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based - LT-Term Loan	LT	147.39	CARE A; Stable	-	1) CARE A-; Stable (31-Mar-20)	1) CARE A-; Stable (11-Mar-19) 2) CARE A-; Stable (05-Apr-18)	-

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities

Long term loan	Detailed explanation
A. Financial covenants	
i. DSCR	DSCR should not fall below 1.1 at any point of time
ii. Debt to Equity Ratio	The ratio of Debt to Equity shall not exceed 1.41:1 during the entire tenure of the loan
B. Non- financial covenants	
i. Project construction, operation and maintenance	The borrower shall maintain, preserve and operate the project and all its other properties necessary in the proper conduct of its business in good working condition and its business plan

Annexure 4. Complexity level of various instruments rated for this company

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

Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

Contact us

Media Contact
Name: Mr. Mradul Mishra
Contact no. – +91-22-6837 4424
Email ID – mradul.mishra@careratings.com

Analyst Contact
Name: Mr. Harish Chellani
Tel: 011-45333222
Email: harish.chellani@careratings.com

Relationship Contact
Name - Swati Agrawal
Contact no.: +91-11-45333237
Email ID – swati.agrawal@careratings.com

About CARE Ratings:
CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

****For detailed Rationale Report and subscription information, please contact us at www.careratings.com**