KCC Bethamangala Expressway Private Limited

February 28, 2022

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating[1]	Rating Action
Long Term Bank Facilities	325.00	CARE BBB+; Stable (Triple B Plus; Outlook: Stable)	Assigned
Total Bank Facilities	**325.00 (Rs. Three Hundred Twenty-Five Crore Only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The rating assigned to the bank facilities of KCC Bethamangala Expressway Private Limited (KBEPL) factors in the inherent strengths of hybrid annuity model (HAM) based road projects such as (i) lower project funding risk with inflation-indexed grants to be received from National Highways Authority of India (NHAI; rated 'CARE AAA; Stable') for construction and favourable clauses introduced in the concession agreement (CA) to mitigate project execution challenges, (ii) assured cash flow during operational period in the form of annuity payments from NHAI on semi-annual basis covering 60% of the project completion cost (iii) lower post-implementation risk on account of inflation-indexed annuity to be received for operations and maintenance (O&M) of the road and (iv) receipt of marginal cost of lending rate (MCLR) linked interest annuity.

The rating of KBEPL also derives strength from the fixed-price fixed-time engineering, procurement and construction (EPC) contract with the sponsor- KCC Buildcon Private Limited (KBPL), which has an established track record of constructing roads and highways. The rating also factors favourably the credit quality of the underlying annuity receivables from NHAI subsequent to commencement of operations. Furthermore, low project leverage, comfortable debt coverage indicators, proposed liquidity support mechanism such as creation of debt service reserve account (DSRA) and major maintenance reserve (MMR) and undertaking extended by the sponsor to fund shortfall during the construction and in case of termination of CA give comfort from credit perspective.

The above rating strengths are, however, tempered by the inherent construction risk associated with the project execution, susceptibility to changes in operations and maintenance (O&M) cost and interest rate.

Rating sensitivities:

Positive Factors - Factors that could lead to positive rating action/upgrade:

- Completion of project on or before scheduled COD, and timely receipt of first annuity.
- Timely creation of DSRA and MMRA reserves.

Negative Factors- Factors that could lead to negative rating action/downgrade:

- Deterioration in the credit profile of sponsor (KBPL) or counter party (i.e. NHAI).
- Delay in project progress including achievement of project milestones leading to levy of penalty by NHAI

Detailed description of the key rating drivers

Key Rating Strengths

Hybrid annuity structure of the project, with favourable clauses in concession agreement to address execution challenges:

The concession agreement (CA) – in line with the model CA for HAM projects – includes clauses that serve to partially secure the project and its lenders against construction risks, including delays in land acquisition. Such clauses include stipulating the achievement of at least 80% right-of-way (RoW) as a precedent condition for declaring appointed date for the project. Besides, there is a 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. In addition, stringent clauses for levy of damages, encashment of performance security as well as requirement of additional performance security in case of delay in execution due to reasons attributed to the concessionaire act as significant disincentives against slippages in execution.

Low funding risk and permitted price escalation:

The HAM model entails lower sponsor contribution during construction period considering 40% construction support from NHAI and availability of 10% mobilization advances on bid project cost (BPC). BPC and O&M cost shall be inflation indexed (through a Price Index Multiple [PIM]), which is the weighted average of Wholesale Price Index (WPI) and Consumer Price Index (CPI) in the ratio of 70:30. The inflation-indexed BPC protects the developers against price escalation to an extent.

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

Cash flow visibility due to annuity nature of the revenue stream linked to inflation indexed O&M annuity and MCLR linked interest annuity:
During operational phase, cash flow is assured in the form of annuity payments from NHAI on semi-annual basis covering 60% of the project completion cost along with interest at 'average of one-year MCLR of top 5 scheduled commercial banks plus 1.25%' on reducing balance and inflation indexed O&M annuity.

Comfortable debt coverage indicators on account of low project leverage:
The project is being financed at a debt-equity ratio of 3.15:1. The total debt envisaged stands at Rs.325 crore against the BPC of Rs.863 crore, which amounts to about 38% of the BPC leading to comfortable debt coverage indicators. The project also has a tail period of about 2 years providing financial flexibility.

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.

Demonstrated track record of KBPL in executing road projects:
KBEPL has entered into a fixed price fixed time EPC contract with KBPL. KBPL has more than two decades of track record in the execution of road projects and bridges, construction of buildings and other civil construction works. The company is promoted by Mr. Shivraj Kundu and his brother Mr. Vijay Kundu. Further the group has demonstrated its execution capabilities in the past with completion of projects within stipulated time and is supported by a team of qualified and technical personnel who have been associated with the company for many years.

Undertakings for meeting exigencies and proposed DSRA:
KBEPL as sponsor, has extended an undertaking to the lenders to fund cost overruns beyond budgeted cost, to provide additional funds in case of delay or non-receipt of construction grant from NHAI during the construction period and provide additional funds (over and above the termination payment received from NHAI in case of termination of the project).
Furthermore, as per the terms of sanction, the company shall create and maintain DSRA equivalent to debt servicing requirement of six months out of the receipt of first two annuity payments. The sponsor has an option of creating the same in the form of bank guarantee (BG).

Key Rating Weaknesses
Inherent project execution risk albeit partly offset demonstrated capability of the sponsor cum EPC contractor:
KBEPL is exposed to the inherent construction risk attached with road projects given the construction on the project has not commenced yet as the appointed date (AD) has not been declared by NHAI. As per articulation from the management, as on January 31, 2022, NHAI has handed over 96.22% of the land to the concessionaire, thereby reducing land availability risk. Nevertheless, demonstrated track record of KBPL as an EPC contractor in executing large sized projects mitigates the execution risk to an extent. Furthermore, the sponsor, KBPL has recently won six new HAM projects, which are under nascent stage and exposes the company to underlying project implementation risks, wherein the total equity requirement towards these projects is around Rs.700 crore, which is to be infused over FY22-24. While KBPL has already infused the envisaged upfront equity requirement for two of its HAM projects during FY22, the balance equity requirement for remaining projects shall be infused over the next two years i.e. FY23 and FY24 through internal accruals along with surplus funds from release of retention money and top-up loans in its operational projects. Going forward, timely infusion of equity and implementation of project, without any cost and time overrun would be critical.

Inherent O&M risk associated with project:
While the inflation-indexed O&M annuity partly mitigates O&M risk, the disparate movement in inflation index (70% WPI; 30% CPI) and the O&M cost heads poses a risk. Besides, the company could face the risk of a sharp increase in the O&M cost in the event, wear and tear on the road is more than the extent envisaged during bidding and aggressive bidding in O&M cost. However, presence of sponsor undertaking to fund O&M and MM cost in excess of base case assumptions gives comfort from credit perspective.

Inherent interest rate risk:
KBEPL is exposed to inherent interest rate risk considering floating rate of interest with reset clause linked to the reset of spread every year post completion of the project. Although reimbursement of the interest cost in the form of interest annuity payable by NHAI biannually at an interest rate equal to the average of one-year MCLR of top 5 scheduled commercial banks plus spread of 125 bps on 60% of the project completion cost (on the reducing balance), mitigates the risk arising in earlier concession agreements due to the lag effect between bank rate and MCLR.

Liquidity: Adequate
The financial closure for the project has been achieved and appointed date (AD) is awaited from the authority. The total debt envisaged of Rs.325 crore has been sanctioned and the sponsor shall infuse the upfront equity requirement before taking the disbursal of debt from the lender. Further, the various undertakings to fund any cost overrun for project completion, operation and maintenance have been executed by the sponsor.

Analytical approach: Standalone while factoring sponsor's undertaking and track record of sponsor cum EPC contractor.

Applicable Criteria
[Criteria on assigning Outlook to Credit Ratings]
[CARE's Policy on Default Recognition]
[Financial Ratios – Non-Financial Sector]
[Rating Methodology - HAM Road Projects]
[Rating Methodology - Factoring Linkages in Ratings]
[Liquidity Analysis of Non-financial sector entities]

About the Company
KCC Bethamangala Expressway Private Limited (KBEPL), a special purpose vehicle (SPV) promoted by KCC Buildcon Private Limited (KBPL) has entered into a 15-year concession agreement (CA; excluding construction period of 730 days from Appointed Date) with National Highways Authority of India (NHAI, rated 'CARE AAA; Stable) for four laning of expressway from km 53.50 to km 71.00 (17.50 km) of Bangarpet to Bethamangala Section of Bangalore Chennai Expressway on Hybrid Annuity Mode under Bharatmala Pariyojna in the state of Karnataka (Phase-I; Package-III).
The project is scheduled to be completed within 730 days from the appointed date at a total cost of Rs.773.52 crore; being funded through debt of Rs.325.00 crore, construction grant from NHAI of Rs.345.20 crore and balance through promoter's contribution of Rs.103.32 crore (Debt equity ratio of 3.15x).

Brief Financials: Not applicable as the project is yet to receive the appointed date.

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

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		-	-	March 2037	325.00*	CARE BBB+; Stable

** Includes Mobilization advance Bank Guarantee of Rs.94.93 crore as a sub-limit of term loan facility*

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	325.00	CARE BBB+; Stable				

* Long Term / Short Term

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

Name of the Facility- RTL	Detailed explanation
A. Financial covenants	
i. Debt service coverage ratio (DSCR)	DSCR shall, at any point of time shall not fall below 1.10x
ii. Debt Equity ratio (DER)	DER shall not exceed 3.15:1
iii. Interest coverage ratio (ICR)	ICR shall not be less than 1.50:1
B. Non-financial covenants	
i. Audited Annual Financial Statement	The borrower shall furnish Audited Annual Financial Statement as soon as available and with-in 180 days after the end of Financial Year
ii. Unaudited Half Yearly Statements	The borrower shall furnish unaudited Half yearly Financial Statement as soon as available and with-in 90 days after the end of half year

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

Sr. No	Name of instrument	Complexity level
1	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 for any clarifications.

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About CARE Ratings Limited:
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With an established track record of rating companies over almost three decades, we follow a robust and transparent rating process that leverages our domain and analytical expertise backed by the methodologies congruent with the international best practices. CARE Ratings Limited has had a pivotal role to play in developing bank debt and capital market instruments including CPs, corporate bonds and debentures, and structured credit.

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