

NOVEMBER 02, 2016

CARE REVISES THE RATINGS ASSIGNED TO THE BANK FACILITIES OF KHANDWA AGROH PATHWAYS PVT LTD

Rating

Facilities	Amount (Rs. crore)	Rating ¹	Remarks
Long Term Bank Facilities	152.41	CARE BBB+ (SO) [Triple B Plus (Structured obligation)]	Revised from CARE BBB (SO) [Triple B (Structured obligation)]
Total facilities@	152.41 [Rupees One Hundred Fifty Two crore and Forty One lakh only]		

@ backed by joint and several, unconditional and irrevocable corporate guarantee extended by Prakash Asphaltings and Toll Highways (India) Limited and Agroh Infrastructure Developers Private Limited.

Rating Rationale

The rating assigned to the bank facilities of Khandwa Agroh Pathways Pvt Ltd (KAPPL) is based on the credit enhancement in the form of a joint and several, unconditional and irrevocable corporate guarantee extended by Prakash Asphaltings and Toll Highways (India) Limited (PATH; rated 'CARE BBB+ / CARE A2') and Agroh Infrastructure Developers Private Limited (AIDPL; rated 'CARE BBB / CARE A3+'). The revision in the rating of KAPPL takes into account similar revision in the ratings of PATH.

The revision in the ratings assigned to the bank facilities of PATH take into account significant scale up of its operations along with diversification of its revenue profile with commencement of toll collection contracts (TCC); albeit with sharp moderation in its profit margins due to inherently low operating margins associated with TCC business.

The revision in the ratings also factor its healthy revenue visibility and expected near-term commissioning of two predominantly debt-funded operate-maintain-transfer (OMT) projects structured in PATH's own balance sheet, which albeit has led to an increase in leverage.

The ratings continue to be underpinned by PATH's established presence in construction and operation of road projects on toll, annuity and OMT basis and its moderate overall gearing.

The ratings, however, continue to be constrained by PATH's exposure to inherent traffic and operations and maintenance (O&M) risks associated with toll projects, large amount of 'with recourse' nature of debt in its special purpose vehicles (SPVs) with almost entire net worth of PATH being invested in its SPVs and PATH's working capital intensive operations with geographical concentration. The ratings are also constrained due to the fact that PATH's leverage is expected to further increase in the medium term on account of disbursement of debt for construction of project facilities of its OMT projects.

PATH's ability to further increase its scale of operations, attain geographical diversification, timely commence its OMT projects and improve its profit margins amidst changing revenue profile, along with improvement in its capital structure shall be the key rating sensitivities. Furthermore, extent of borrowings, adequacy of cash flows in its SPVs, and nature and funding pattern of future projects undertaken by PATH shall also be key rating monitorables.

Background

Incorporated in July 2011, KAPPL is a SPV sponsored jointly by PATH group (42% stake) and AIDPL (40% stake), to undertake two-laning of Khandwa-Dehtalai-Burhanpur section of State Highway 50 in the state of Madhya Pradesh (MP), under concession from Madhya Pradesh Road Development Corporation [MPRDC; rated CARE A (Issuer Rating)] on design, build, finance, operate and transfer (DBFOT) – toll basis. The project comprises two road stretches. KAPPL achieved commercial operations date (COD) for section-I of the project from Khandwa to Dehtalai on June 27, 2014 and

¹Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications.

started toll collection on this section from this date. Section-II of the project achieved COD on June 30, 2016 and toll collection also began from this date. Overall, there was a delay of around 27 months in the completion of stretch-II from its scheduled COD due to various reasons including excessive rainfall, non-availability of adequate land including forest land, encroachments and hindrances such as walls, shops, places of worship and electric utilities, delays in approvals for tree cutting, environmental permits and raw material quarries and delays in issuance of fee notification. The total project cost as on June 30, 2016 was Rs.250 crore, funded through term loan of Rs.141 crore, equity of Rs.45 crore, grant from MPRDC of Rs.41 crore and balance through unsecured loans from promoters and project creditors of Rs.23 crore.

As per the audited results for FY16 (refers to the period April 1 to March 31), KAPPL registered a total operating income (TOI) of Rs.3.22 crore with net loss of Rs.8.92 crore, as against a TOI of Rs.2.59 crore with net loss of Rs.5.23 crore in FY15.

About Guarantors

PATH

Promoted in 1983 by Agrawal family of Indore and presently managed by Mr Puneet Agrawal and Mr Nitin Agrawal, PATH is presently engaged in engineering, procurement and construction (EPC) of roads and undertaking TCC. It also has two OMT projects which are likely to commence toll collection in FY17.

Furthermore, PATH has 12 SPVs, 11 of which were fully operational and one was partly operational as on June 30, 2016. These are a mix of BOT (build-operate-transfer on toll and annuity) and OMT projects. PATH, with its 12 SPVs, together is referred to as 'PATH group'.

As per the audited results for FY16 (refers to the period April 1 to March 31), PATH registered a total operating income (TOI) of Rs.832.74 crore with a profit after tax (PAT) of Rs.33.79 crore, as against a TOI of Rs.282.82 crore with a PAT of Rs.20.54 crore in FY15.

AIDPL

AIDPL was originally incorporated as a SPV promoted by Singhal family of Indore and entered into a concession agreement (CA) with MPRDC in November 2001 for the strengthening, widening and rehabilitation of UAJ road project (SH-27) on BOT basis. As on March 31, 2015, apart from one operational BOT project structured in its balance sheet, AIDPL has seven BOT based road projects (five in joint venture SPVs and two in wholly owned SPV) in its portfolio, of which four are operational, two are partly operational while the remaining one is at the stage of execution. AIDPL also has minority stake in three OMT based projects as on September 30, 2015.

As per the audited results for FY15, AIDPL registered a TOI of Rs.225.32 crore with a PAT of Rs.27.27 crore, as against a TOI of Rs.269.61 crore with PAT of Rs.38.18 crore in FY14.

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