Khalghat Sendhwa Tollways Private Limited

January 7, 2019

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long Term Bank Facilities (Term Loan)	431.80	**CARE A-; Stable (Single A Minus; Outlook: Stable)**	**Reaffirmed**
Long Term Bank Facilities (Overdraft)	31.83	**CARE A-; Stable (Single A Minus; Outlook: Stable)**	**Reaffirmed**
Total Facilities	**463.63 (Rupees Four Hundred Sixty Three Crore and Sixty Three Lakh only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings of credit facilities of KSTPL continue to derive strength from the experience of the promoters in road projects globally and support from sponsor i.e. Uniquest Infra Ventures Private Limited (UIPL, rated CARE AA-; Stable/CARE A1+) - in the form of bank guarantees for Debt Service Reserve Account (DSRA). The ratings also factor in the commercial importance of the stretch, satisfactory operations of the project for more than seven years and adequate liquidity position of the company.

The ratings continue to remain constrained by the traffic risk associated with a toll-based project and toll rate being linked to wholesale price index. The ratings are also constrained by the significant dependence on commercial vehicle traffic leading to higher susceptibility of revenues to the economic downturns and cash flows exposed to interest rate risk.

Going forward, the ability of the company to achieve envisaged traffic volume and toll revenue with effective cash flow management with respect to major maintenance activity shall be the key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Strengths

Experienced promoters with strong sponsor support

KSTPL derives strength from its parentage of UIPL group being a wholly-owned subsidiary. UIPL is a joint venture of UEM Group Berhad (a 100% subsidiary of Khazanah Nasional Berhad) through its subsidiary and IDFC Ltd to develop road projects in India**.** Khazanah is a strategic investment arm of Government of Malaysia to explore strategic investment opportunities in new markets. UEM is one of the largest engineering based infrastructure and services conglomerate in Malaysia, operating for almost three decades. It has several assets under management - expressways, township & property, construction and facility management across Asia, Australia, New Zealand, Canada and the Middle East. Comfort is drawn from envisaged sponsor support in case the actual O&M cost exceeds expenses envisaged. Further, the sponsor has also arranged BG for DSRA and MMRA.

Commercial importance of stretch being part of NH3

The project stretch is part of NH-3 from Km 84.70 near Khalghat in Madhya Pradesh (MP) to Km 167.50 Barwani district (near the MP/ Maharashtra (MH) border). The NH-3 originates at Mumbai and traverses a distance of 1,161 Kms through the states of Maharashtra, Madhya Pradesh, Rajasthan, and Uttar Pradesh and ends at Agra. The project stretch has a good catchment of industrial units like cotton, agro based etc. Moreover, completion of four-laning of the entire Gwalior to Dewas (450 kms) stretch in near future is expected to attract higher toll-able traffic. This is expected to result in net positive diversion from NH-8 to NH-3 and hence augurs well for the prospects of KSTPL.

Revenue risk associated with toll projects; however, revenue stable in last three years

As the revenue depends upon the traffic that plies on the stretch, the company is exposed to the uncertainties with respect to revenue. However, considering the location and importance of KSTPL's stretch and being operational for more than seven years, the risk associated with traffic is reduced. Tolling income was Rs. 115.38 crore in FY18, Rs. 105.35 crore in FY17 and Rs 111.01 crore in FY16. Annual average daily traffic (AADT) is improving gradually y-o-y as evident by the fact that AADT improved to 27,291 passenger car unit (PCU) in FY18 from 26,737 PCU in FY17 and 26,120 PCU in FY16.

Update on Major Maintenance

Company had initiated major maintenance activities in April'18 and is expecting to complete the same by April'19. The actual overlaying commenced in September 2018 post monsoon. The total cost envisaged is Rs 70 crore. As per management, company had adequate liquidity in form of surplus cash balance and undrawn OD limits to carry out the major maintenance. As of December 22, 2018 the physical progress on the work was more than 35%. MMRA BG had been

[1] *Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications*

reduced to Rs 2.73 crore in FY18 from Rs 38.70 crore in FY17 on account of increase in cash surplus of KSTPL generated out of operations to fund major maintenance.

Adequate liquidity

The liquidity profile of KSTPL is adequate considering the surplus cash generation from the project and existence of DSRA. UIPL on behalf of KSTPL has provided bank guarantee for DSRA maintenance equivalent to one quarter of debt servicing, which largely mitigates the traffic fluctuation. Moreover, the company had cash balance of Rs. 43.40 crore as on March 31, 2018 and undrawn OD limit of Rs 31.83 crore. The aggregate fund arrangement is sufficient to meet the liquidity needs of the current major maintenance exercise, as envisaged.

Key rating weaknesses

High dependence on commercial vehicle traffic

As far as traffic composition is concerned, heavy vehicles like trucks and multi-axle vehicles constituted around 80% of the total traffic on the project stretch. The high mix of commercial vehicle traffic indicates higher linkage to the state of economy and macroeconomic condition which can have an adverse impact during times of economic downturn.

Exposure to variations in interest rate

KSTPL shall remain exposed to variations in interest rate on the project debt as the loans are subject to interest rate resets. As a result, steep increases in the interest rate will subject the SPV to cash flow risk. Consequently, any adverse movement in the interest rate may impact the debt coverage indicators of the company

Analytical approach: The assessment of KSTPL's bank facilities on standalone basis which factors in the company's ability to generate requisite cash flow. The assessment of ratings also based on the strong profile of sponsors i.e. Uniquest Infra Ventures Private Limited (UIPL) to provide any necessary financial support as and when required.

Applicable Criteria

Criteria on assigning Outlook to Credit Ratings
CARE's Policy on Default Recognition
Rating Methodology - Infrastructure Sector Ratings
Rating Methodology – Toll Road Projects
Financial ratios – Non-financial sector
Rating Methodology – Factoring Linkages in Ratings

About the Company

Khalghat Sendhwa Tollways Pvt. Ltd. (erstwhile SEW Navayuga Barwani Tollways Pvt. Ltd.) is a Special Purpose Vehicle (SPV) which was initially promoted by SEW Infrastructure Ltd. (SEW) and Navayuga Engineering Company Limited (NECL) to lay four lanes from Khalghat to Madhya Pradesh/Maharashtra border under NHDP Phase IIIA on BOT toll basis. The Concession Agreement (CA) was executed between KSTPL and National Highways Authority of India (NHAI) on April 16, 2008 for a concession period of 18 years. The project was implemented and achieved COD on April 4, 2011. The final project cost was Rs. 786.39 crore as against envisaged project cost of Rs. 790.02 crore. In June 2016, UIPL had acquired 26% of the stake holding in KSTPL from SEW and NECL, through cash consideration of Rs. 58 crore. This has increased UIPL's shareholding in KSTPL to 100%.

Brief Financials (Rs. crore)	FY17 (A)	FY18 (A)
Total operating income	108.81	117.17
PBILDT	77.60	94.43
PAT	-12.57	6.69
Overall gearing (times)	7.59	5.73
Interest coverage (times)	1.53	2.08

A: Audited

About UIPL

UIPL is a joint venture of UEM Group Berhad through its subsidiary and IDFC Ltd to develop road projects in India. Ghir Investment (Mauritius) Ltd holds 80.10% and IDFC Ltd and its nominees hold the balance 19.90% equity stake in UIPL. The UEM group is a wholly owned subsidiary of Khazanah Nasional Berhad (the Malaysian Sovereign Wealth Fund).

Status of non-cooperation with previous CRA: NA

Any other information: NA

Rating History for last three years: Refer Annexure 2

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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.*

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

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	-	-	Sep 2024	431.80	CARE A-; Stable
Fund-based - LT-Bank Overdraft	-	-	-	31.83	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 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Fund-based - LT-Term Loan	LT	431.80	CARE A-; Stable	1)CARE A-; Stable (05-Apr-18)	-	1)CARE A-; Stable (15-Dec-16)	1)CARE A- (12-Oct-15)
2.	Fund-based - LT-Term Loan	LT	-	-	1)Withdrawn (05-Apr-18)	-	1)CARE BBB+; Stable (15-Dec-16)	1)CARE BBB+ (12-Oct-15)
3.	Fund-based - LT-Bank Overdraft	LT	31.83	CARE A-; Stable	1)CARE A-; Stable (05-Apr-18)	-	1)CARE A-; Stable (15-Dec-16)	1)CARE A- (12-Oct-15)

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CIN - L67190MH1993PLC071691