Khalghat Sendhwa Tollways Private Limited

April 5, 2018

Ratings

S. No	Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
(i)	Long Term Bank Facilities (Term Loan) – Senior Debt	455.03	**CARE A-; Stable (Single A Minus; Outlook: Stable)**	**Reaffirmed**
(ii)	Long Term Bank Facilities (Term Loan) – Subordinate Debt	-	-	**Withdrawn**
(iii)	Long Term Bank Facilities (Overdraft)	32.55	**CARE A-; Stable (Single A Minus; Outlook: Stable)**	**Reaffirmed**
	Total Facilities	**487.58 (Rupees four hundred eighty seven crore and fifty eight lakh only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings of credit facilities - (i) and (iii) - 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) and Major Maintenance Reserve Account (MMRA). The ratings also factor in the commercial importance of the stretch, satisfactory operations of the project for more than six years and 10 months, healthy liquidity position of the company.

The ratings continue to remain constrained by the traffic risk associated with a toll-based project, toll rate being linked to wholesale price index and absence of fixed price major maintenance contract. 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. Further, the ratings are constrained by interest rate risk on project cash flows (although mitigated in near term on account of reduction in interest rate by lenders).

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.

CARE has withdrawn the rating assigned to credit facility (ii) with immediate effect, as the company had not availed the same and the sanction validity has expired.

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, four-laning of the entire Gwalior to Dewas (450 kms) stretch by FY19 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 six years and 10 months, the risk associated with traffic is reduced. The project stretch has witnessed continuous growth in revenues since it became operational in FY12. Tolling income was Rs. 97.84 crore in FY15 and Rs. 111.01 crore in FY16. Despite 2.3% increase in traffic volume, tolling income declined by 1.97% to Rs. 108.82 crore in

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

FY17. This was due to reduction in toll rates and suspension of toll collection for 24 days during demonetization (although which was partially compensated by NHAI).

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 during the period FY14-17. 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.

Operations & Maintenance (O&M) Risk

As per the concession agreement, KSTPL is responsible for operating and maintaining the project stretch. O&M of the project is being done in house by KSTPL. For the major maintenance, KSTPL has not entered into any fixed price major maintenance agreement. Therefore the company is susceptible to price variation with respect to the key raw materials. The company has not created any reserve for meeting MMRA expenses, which is partially mitigated by the holding company (i.e UIPL) providing BG for the stipulated MMRA amount. In the current year, the company has maintained sufficient cash balance and has credit line to execute major maintenance which mitigates O&M and liquidity risk to a great extent.

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. However, the company has also benefited from refinancing in near past as witnessed from reduction in average cost of borrowings from 10.74% in FY16 to 10.40% in FY17. The company is expected to further benefit from lower interest cost (which is about 9.1% p.a currently) in FY18 as well.

Analytical approach: Standalone

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, Uniquest Infra Ventures Pvt. Ltd 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)	FY16 (A)	FY17 (A)
Total operating income	111.01	108.81
PBILDT	49.94	77.60
PAT	-48.62	-12.57
Overall gearing (times)	6.61	7.59
Interest coverage (times)	0.81	1.53

A: Audited

Status of non-cooperation with previous CRA: NA

Any other information: NA

Rating History for last three years: Refer Annexure II

Analyst Contact:
Name: Sudhir Kumar
Tel: 011-45333232
Email: sudhir.kumar@careratings.com

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.*

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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	-	-	September 2024	455.03	CARE A-; Stable
Fund-based - LT-Term Loan	-	-	-	-	Withdrawn
Fund-based - LT-Bank Overdraft	-	-	-	32.55	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	455.03	CARE A-; Stable	-	-	1)CARE A-; Stable (15-Dec-16)	1)CARE A- (12-Oct-15)
2.	Fund-based - LT-Term Loan	LT	-	-	-	-	1)CARE BBB+; Stable (15-Dec-16)	1)CARE BBB+ (12-Oct-15)
3.	Fund-based - LT-Bank Overdraft	LT	32.55	CARE A-; Stable	-	-	1)CARE A-; Stable (15-Dec-16)	1)CARE A- (12-Oct-15)

CONTACT

Head Office Mumbai

Ms. Meenal Sikchi
Cell: + 91 98190 09839
E-mail: meenal.sikchi@careratings.com

Mr. Ankur Sachdeva
Cell: + 91 98196 98985
E-mail: ankur.sachdeva@careratings.com

Ms. Rashmi Narvankar
Cell: + 91 99675 70636
E-mail: rashmi.narvankar@careratings.com

Mr. Saikat Roy
Cell: + 91 98209 98779
E-mail: saikat.roy@careratings.com

CARE Ratings Limited

(Formerly known as Credit Analysis & Research Ltd.)

Corporate Office: 4th Floor, Godrej Coliseum, Somaiya Hospital Road, Off Eastern Express Highway, Sion (East), Mumbai - 400 022

Tel: +91-22-6754 3456 | Fax: +91-22-6754 3457 | E-mail: care@careratings.com

AHMEDABAD
Mr. Deepak Prajapati
32, Titanium, Prahaladnagar Corporate Road,
Satellite, Ahmedabad - 380 015
Cell: +91-9099028864
Tel: +91-79-4026 5656
E-mail: deepak.prajapati@careratings.com

BENGALURU
Mr. V Pradeep Kumar
Unit No. 1101-1102, 11th Floor, Prestige Meridian II,
No. 30, M.G. Road, Bangalore - 560 001.
Cell: +91 98407 54521
Tel: +91-80-4115 0445, 4165 4529
Email: pradeep.kumar@careratings.com

CHANDIGARH
Mr. Anand Jha
SCF No. 54-55,
First Floor, Phase 11,
Sector 65, Mohali - 160062
Chandigarh
Cell: +91 85111-53511/99251-42264
Tel: +91- 0172-490-4000/01
Email: anand.jha@careratings.com

CHENNAI
Mr. V Pradeep Kumar
Unit No. O-509/C, Spencer Plaza, 5th Floor,
No. 769, Anna Salai, Chennai - 600 002.
Cell: +91 98407 54521
Tel: +91-44-2849 7812 / 0811
Email: pradeep.kumar@careratings.com

COIMBATORE
Mr. V Pradeep Kumar
T-3, 3rd Floor, Manchester Square
Puliakulam Road, Coimbatore - 641 037.
Tel: +91-422-4332399 / 4502399
Email: pradeep.kumar@careratings.com

HYDERABAD
Mr. Ramesh Bob
401, Ashoka Scintilla, 3-6-502, Himayat Nagar,
Hyderabad - 500 029.
Cell : + 91 90520 00521
Tel: +91-40-4010 2030
E-mail: ramesh.bob@careratings.com

JAIPUR
Mr. Nikhil Soni
304, Pashupati Akshat Heights, Plot No. D-91,
Madho Singh Road, Near Collectorate Circle,
Bani Park, Jaipur - 302 016.
Cell: +91 – 95490 33222
Tel: +91-141-402 0213 / 14
E-mail: nikhil.soni@careratings.com

KOLKATA
Ms. Priti Agarwal
3rd Floor, Prasad Chambers, (Shagun Mall Bldg.)
10A, Shakespeare Sarani, Kolkata - 700 071.
Cell: +91-98319 67110
Tel: +91-33- 4018 1600
E-mail: priti.agarwal@careratings.com

NEW DELHI
Ms. Swati Agrawal
13th Floor, E-1 Block, Videocon Tower,
Jhandewalan Extension, New Delhi - 110 055.
Cell: +91-98117 45677
Tel: +91-11-4533 3200
E-mail: swati.agrawal@careratings.com

PUNE
Mr.Pratim Banerjee
9th Floor, Pride Kumar Senate,
Plot No. 970, Bhamburda, Senapati Bapat Road,
Shivaji Nagar, Pune - 411 015.
Cell: +91-98361 07331
Tel: +91-20- 4000 9000
E-mail: pratim.banerjee@careratings.com

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