Khalghat Sendhwa Tollways Private Limited

November 4, 2020

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long Term Bank Facilities	407.35 (Reduced from 408.00)	CARE A-; Stable (Single A Minus; Outlook: Stable)	Reaffirmed
Total Facilities	407.35 (Rs. Four Hundred Seven Crore and Thirty-Five Lakhs Only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The reaffirmation of ratings assigned to the of bank facilities of Khalghat Sendhwa Tollways Private Limited (KSTPL) continue to derive strength from the experience of the promoters in road projects globally and continued support from the sponsor i.e. Uniquest Infra Ventures Private Limited (UIPL rated CARE AA-; Stable) and UEM Group Berhad (promoter of UIPL and a wholly owned subsidiary of Khazanah Nasional Berhad- a Malaysian Sovereign Wealth Fund) in the form of bank guarantees (BGs) for debt service reserve account (DSRA) and major maintenance reserve account (MMRA). The ratings also factor in the strategic location of the stretch and long operational track record of more than 9.5 years.

The rating is, however, constrained by the decline in the toll income during the FY19 and FY20 leading to moderate debt coverage indicators, inherent revenue risks associated with the toll-based projects, Operation and Maintenance (O&M) risk due to absence of any fixed price O&M contract and significant dependence on commercial vehicle traffic leading to higher susceptibility of revenues to the economic downturns.

Rating Sensitivities

Positive Factors

- Growth in toll revenues by 10%-15% on a sustained basis.

Negative Factors

- Decline in toll revenue leading to fall in DSCR levels below the envisaged levels
- Deterioration in credit profile of sponsor
- Non adherence to the covenants as per Bank Facility Agreement

Detailed description of the key rating drivers

Key Rating Strengths

Experienced promoters with strong sponsor support: KSTPL is a wholly owned subsidiary of UIPL. 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 extensive experience in infrastructure segment and also has several assets under management including expressways, township & property, construction and facility management across Asia, Australia, New Zealand, Canada and the Middle East. UEM Group Berhad has provided BGs for DSRA and MMRA, which are expected to be renewed annually as per requirements envisaged in the sanction terms. Further, comfort is drawn from demonstrated track record of the sponsor- UIPL and UEM Group Berhad to support their SPVs in India.

Strategic location of the project: 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 auto ancillary, cotton, agro based etc. Further, completion of four laning of the adjoining stretch on NH3 is expected to benefit the project with the influx of traffic.

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

Key Rating Weaknesses

Decline in toll collection levels: The project stretch is operational for more than 9.5 years. However, there has been moderation in toll collection during last three years with average daily toll collections declining from Rs.31.61 lakh in FY18 to Rs.31.55 lakh in FY19 and further at Rs.30.66 lakh during the FY20. Commercial traffic constitutes around 80% of the total traffic movement on the project highway. The Gazette Notification in Sep 2018 with respect to change in the method of levying overloading penalty by the company as well as Central Government's order to increase the load carrying capacity of heavy vehicles adversely impacted the toll revenues of the company.

The Company has achieved toll collection of Rs.110.79 crore during FY20 as compared to toll collection of Rs.115.15 crore during FY19. The deviation in toll collections is primarily on account of lower movement of commercial vehicles on the project highway owing to slowdown of economic activity in Q4FY20, which was further impacted owing to Covid-19 pandemic. Steps taken to contain the spread virus resulted in nationwide lockdown, which also led to suspension of Toll as per the directions of Ministry of Road, Transport and Highway (MoRTH) vide notification dated March 25, 2020 amidst Covid-19 situation. With easing of inter-state and intrastate movement of trucks with effect from April 20 following revised directives issued by MORTH on April 17, 2020, tolling operations started across all NHAIs, including for the project stretch. The company's toll revenue has declined by 19% during H1FY21 as compared to corresponding period during last year. The traffic on the project stretch, however, has gradually picked up post easing of lockdown, with revenues reaching pre-Covid level from August 2020 onwards.

Inherent revenue risk associated with toll road projects

Being a toll-based project, KSTPL is exposed to the inherent revenue risks arising from the traffic fluctuations and annual revision of the toll rates which are indexed to the Wholesale Price Index (WPI). Also, diversion of local traffic to toll free roads/roads with lesser toll at present could lead to slightly lower toll collections in future.

Heavy commercial 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.

O&M Risk

The company remains exposed to the risk of any increase in O&M cost, as the company has not entered into any fixed price O&M contract. Presently, the O&M is being done by in-house team of KSTPL.

The company completed its first cycle of major maintenance activity on the project highway during the FY19 and FY20, out of internal accruals and cash surplus available with the company. The company now plans to undertake the second major maintenance activity in FY26, for which BG has been provided by the UEM Group Berhad, in line with the sanctioned terms.

Moderate debt coverage indicators

The company has moderate debt coverage indicators and remains exposed to the risk of declining toll collections and any adverse change in the interest rates in future due to floating nature of the interest on term loans availed by the company. However, comfort can be derived by the presence of DSRA BG, which is a liquidity buffer covering debt obligation of one quarter.

Liquidity: Adequate

The company has cash and cash equivalents of Rs.31.60 crore as on October 14, 2020. Further, the company has Overdraft limit of Rs.10 crore, which is currently un-utilized and provides cushion in case of any cash flow mismatch. Additionally, the Company has created DSRA of Rs.24.11 crore representing three months of debt servicing obligation and is maintaining MMRA of Rs.11.08 crore in the form of BG.

The company had availed moratorium for its debt obligations under the COVID-19 - Regulatory Package announced by the RBI on March 27, 2020 and May 22, 2020, w.e.f. from March 2020 to August 2020.

Analytical approach: Standalone while factoring in linkages with Sponsor- UIPL, which is a part of UEM Berhad Group.

Applicable criteria

Criteria on assigning Outlook to Credit Ratings
CARE's Policy on Default Recognition
CARE's Policy on Liquidity analysis for Non-Financial Sector Entity
Rating Methodology-Consolidation Factoring Linkages in Ratings

[Financial Ratios – Non-Financial Sector](#)
[CARE's Policy on curing period](#)
[CARE's methodology for Toll Road Projects](#)

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 2014 UIPL had acquired 74% of the stake in KSTPL from SEW and NECL. Further, in June 2016, UIPL had acquired remaining 26% of the stake holding in KSTPL from SEW and NECL. This has increased UIPL's shareholding in KSTPL to 100%, making it a wholly owned subsidiary.

Brief Financials of KSTPL (Rs. crore)	FY19 (A)	FY20 (A)
Total operating income	119.84	111.35
PBILDT	89.58	72.05
PAT	-1.18	-27.08
Overall gearing (times)	5.38	7.56
Interest coverage (times)	2.07	1.76

A: Audited

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*

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

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	397.35	CARE A-; Stable
Fund-based - LT-Bank Overdraft	-	-	-	10.00	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	397.35	CARE A-; Stable	-	1)CARE A-; Stable (11-Feb-20)	1)CARE A-; Stable (07-Jan-19) 2)CARE A-; Stable (05-Apr-18)	-
2.	Fund-based - LT-Term Loan	LT	-	-	-	-	1)Withdrawn (05-Apr-18)	-

3.	Fund-based - LT-Bank Overdraft	LT	10.00	CARE A-; Stable	-	1)CARE A-; Stable (11-Feb-20)	1)CARE A-; Stable (07-Jan-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	• The borrower shall at all times during the tenor of the facility maintain DSRA • DSCR>=1.15x
B. Non-Financial Covenants	• The borrower shall not, except with the prior written consent of the security trustee ○ Except as otherwise specifically provided in the Annual Operations Budget, pay any remuneration to its directors whether in the form of sitting fees, commission etc. other than any remuneration payable to Nominee Directors appointed by the Security Trustee ○ Take any action/commit any omission and /or allow any action to be taken/ any omission to be committed which would result in termination of any project documents ○ Undertake any augmentation, diversification, modernization or expansion or otherwise make any material change to the scope of the project • The borrower shall not provide guarantees to or for the benefit of any entity or person including any affiliates of the borrower, provided that the borrower shall be permitted to procure bank guarantees in favor of any statutory authority, in respect of any demand made by such statutory authority on the borrower in normal course of business • The borrower shall not enter into any O&M agreement with any project participant to discharge operation and maintenance obligations of the borrower at the project site except on proper commercial terms negotiated at arm's length.

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

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based - LT-Bank Overdraft	Simple
2.	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. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

Contact us

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

Analyst Contact
Name – Harish Chellani
Contact No: +91-11-45333222
Email ID –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.

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