Khalghat Sendhwa Tollways Pvt Ltd

February 11, 2020

Ratings

Facilities	Amount (Rs. crore)	Rating1	Rating Action
Long Term Bank Facilities (Term Loan)	379.34 (reduced from 431.80)	CARE A-; Stable (Single A Minus; Outlook: Stable)	Reaffirmed
Long Term Bank Facilities (Overdraft)	28.66 (reduced from 31.83)		
Total Facilities	408.00 (Rs. Four hundred and eight crore only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The reaffirmation of the ratings assigned to the of credit facilities of Khalghat Sendhwa Tollways Pvt Ltd (KSTPL) continue to derive strength from the experience of the promoters in road projects globally and continued 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 strategic location of the stretch, long operational track record of more than 8.75 years, satisfactory track record of toll collections, moderately comfortable debt coverage indicators.

The ratings strengths are partially tempered by inherent revenue risks associated with the toll-based projects, interest rate fluctuation risk 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% for 2-3 years on sustained basis.

Negative Factors

- Non-creation of periodic major maintenance reserve or DSRA reserve as per sanctioned terms
- Decline in toll revenue leading to fall in DSCR levels below 1.15x
- Deterioration in credit profile of sponsor
- Non-maintenance of the stretch
- Non adherence to the covenants as per Bank Facility Agreement:
    - Non-maintenance of DSRA
    - If DSCR falls below 1.15x

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 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 provided BG for DSRA and MMRA.

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.

Satisfactory track record of operations

The project stretch is operational for more than 8.75 years and has witnessed stable toll collections over the years. During FY19, the company has reported total toll revenue of Rs.115.15 crore in FY18 as against Rs.115.39 crore in FY18. Further,

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

during 9MFY20, the toll collection stood at Rs.83.61 crore as against Rs.85.93 crore during 11MFY19. The average daily toll collection has remained stable at Rs.31.55 lakh/day in FY18 as against Rs.31.61 lakh/day in FY18 and Rs.30.40 lakh/day in 9MFY20. Commercial traffic constitutes to around 80% of the total traffic movement on the project highway. Due to economic slowdown, the project highway is not experiencing any growth in commercial traffic leading to stable toll collections.

Update on Major Maintenance

The company has initiated major maintenance activity on the project highway in Apr'18 and had completed the same in May 2019. The total cost incurred for the same was Rs. 72 cr (i.e. Rs. 21.74 lakh per lane Km) out of which Rs. 58.11 cr was incurred in FY19 and remaining Rs. 13.89 cr was incurred in FY20. KSTPL was not maintaining Major Maintenance Reserve(MMR), therefore the cost incurred has been met through the cash surplus available with the company (Rs. 43.40 cr as on March 2018) and internal accruals generated during the year.

Post the completion of MM on the project stretch in May'19, the MMR BG was released. The company plans to create MM reserve (funded or in BG) for the next MM activity planned in FY25 and FY26. Thus, timely creation of MM reserve as per sanctioned terms remains a key rating sensitivity.

Moderately comfortable debt coverage indicators

The debt coverage indicators during the tenor of the term loan are expected to be moderately comfortable. In addition, the company has DSRA BG of Rs.22.01 crore which is in line with the sanctioned terms.

Further, KSTPL needs to pay a percentage of revenue as premium to NHAI on a regular basis. However, the payment of the same is after debt servicing as per the waterfall mechanism and thus is not expected to adversely affect the debt servicing capacity of the company.

Key Rating Weaknesses

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 in local traffic to toll free roads/roads with lesser toll at present could lead to slightly lower toll collections in future.

As far as traffic composition is concerned, 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.

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

Liquidity: Adequate

The company has free cash and cash equivalents balance of Rs.2.79 crore and as on 17th January 2020. Further, it has created DSRA equal to 3 months of debt servicing in the form of BG for an amount of Rs. 22.10 crore. Apart from this the company has OD limits of Rs. 28.66 cr (reducing balance) which provides cushion in case of any cash flow mismatch. Average OD utilization remained at 4.55% for the past 7 months ending Dec'19. There was no OD utilization from Jan'19 to Mar'19.

Analytical approach: Standalone

Applicable Criteria

Criteria on assigning Rating Outlook and Credit Watch
CARE's Policy on Default Recognition
Criteria for Short Term Instruments
Rating Methodology-Consolidation Factoring Linkages in Ratings
Financial Ratios – Non-Financial Sector
Rating Methodology-Toll Roads

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%.

Covenants of rated instrument / facility: *Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3*

Brief Financials (Rs. crore)	FY18 (A)	FY19 (A)
Total operating income	117.17	119.84
PBILDT	94.43	89.58
PAT	6.69	-1.16
Overall gearing (times)	5.74	5.38
Interest coverage (times)	2.08	2.07

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

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	379.34	CARE A-; Stable
Fund-based - LT-Bank Overdraft	-	-	-	28.66	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 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Fund-based - LT-Term Loan	LT	379.34	CARE A-; Stable	-	1)CARE A-; Stable (07-Jan-19) 2)CARE A-; Stable (05-Apr-18)	-	1)CARE A-; Stable (15-Dec-16)
2.	Fund-based - LT-Term Loan	LT	-	-	-	1)Withdrawn (05-Apr-18)	-	1)CARE BBB+; Stable (15-Dec-16)
3.	Fund-based - LT-Bank Overdraft	LT	28.66	CARE A-; Stable	-	1)CARE A-; Stable (07-Jan-19) 2)CARE A-; Stable (05-Apr-18)	-	1)CARE A-; Stable (15-Dec-16)

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

<table>
<tr><th>Long term loan</th><th>Detailed explanation</th></tr>
<tr><td>A. Financial covenants</td><td>The borrower shall at all times during the tenor of the facility maintain DSRA
DSCR>=1.15x</td></tr>
<tr><td>B. Non-Financial Covenants</td><td>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.</td></tr>
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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.*

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