Khandwa Agroh Pathways Private Limited

January 06, 2020

Rating

Facilities	Amount (Rs. Crore)	Rating[1]	Rating Action
Long Term Bank Facilities @	136.08 (reduced from 138.88)	**CARE BBB+ (CE); [Triple B Plus (Credit Enhancement)] Under credit watch with developing implications**	**Placed on credit watch with developing implications**
Total Bank Facilities	**136.08 [Rupees One Hundred Thirty Six crore and Eight lakh only]**		

Details of facilities in Annexure-1

@ The above rating is backed by credit enhancement in the form of unconditional and irrevocable guarantee extended by Prakash Asphalting Toll Highways (India) Limited (PATH; rated CARE BBB+/ CARE A2; Under credit watch with developing implications) and Agroh Infrastructure Developers Private Limited (AIDPL; rated CARE BBB; Stable / CARE A3+) for timely servicing of the said bank facility.

Unsupported Rating [2]	**CARE D**

Note: Unsupported Rating does not factor in the explicit credit enhancement

Detailed Rationale & Key Rating Drivers for the credit enhanced debt

The rating of the bank facility of Khandwa Agroh Pathways Private Limited (KAPPL) is primarily based on the credit enhancement available in the form of an unconditional and irrevocable guarantee extended by PATH & AIDPL for ensuring timely debt servicing of this facility. The rating of the company has been placed under 'Credit watch with developing implications' following similar action on the ratings of the guarantor, PATH.

Detailed Rationale & Key Rating Drivers of Prakash Asphaltings and Toll Highway (India) Limited [PATH]

CARE has placed the ratings assigned to the bank facilities of PATH under 'Credit watch with developing implications' in light of the recent demise of the founder promoter and managing director of the company, Mr.Puneet Agrawal, in a recent accident. CARE shall engage with the company to seek clarity on company's plans to ensure seamless transition in business operations. CARE will resolve the watch on emergence of clarity of the impact of the above event on the credit risk profile of the company.

The ratings continue to favorably factor in its diversified segmental revenue with an established presence in construction and operations of road projects on engineering, procurement and construction (EPC), annuity and toll basis [viz. build-operate-transfer (BOT) operate-maintain-transfer (OMT) and toll collection contracts (TCC)].

The ratings also take into account healthy toll collection from OMT projects offsetting the decline in EPC income, improvement in revenue visibility with renewal / procurement of new TCCs and moderate EPC orders on hand, increased geographical presence and improvement in operating profitability; albeit same remains moderate with high share of low margin TCCs in its revenue profile.

The ratings continue to take into account its moderate capital structure and comfortable debt coverage indicators on a combined group basis [viz. including PATH and its Special Purpose Vehicles (SPVs) operating road projects] due to growing toll collection in select SPVs during FY19 (refers to period April 01 to March 31) and improvement in profitability of PATH on standalone basis.

The ratings, however, continue to be constrained by its exposure to inherent traffic, operations and maintenance (O&M) and regulatory risks associated with toll-based road projects owing to high share of the latter in the group's total revenue profile with gradual reduction in share of EPC income, increase in working capital intensity in EPC business segment resulting in largely full utilization of its working capital limits, large portion of PATH's net worth invested in SPVs having sizeable 'with recourse' (guaranteed) debt by PATH and continued funding requirement in select SPVs.

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[1] *Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications.*
[2] *As stipulated vide SEBI circular no SEBI/ HO/ MIRSD/ DOS3/ CIR/ P/ 2019/ 70 dated June 13, 2019*

Key rating drivers of KAPPL
The unsupported rating of KAPPL is based on its standalone credit assessment and takes cognizance of the fact that debt servicing of KAPPL is irregular as reflected by delays in servicing of its term loan principal and interest, as informed by the client and confirmed by the lender. The delays are mainly on account of stretch in liquidity of the company due to low toll income and non-receipt of the requisite O&M grant from the concessioning authority, viz. MPRDC [rated CARE A (Is); Stable] . The management, on account of non-receipt of this grant, has requested termination of the contract to MPRDC.

Rating Sensitivities of PATH
Positive factors
- Improvement in working capital intensity in EPC business with reduction in collection and inventory days and improvement in EPC operating cycle to around 80-90 days
- Sustained increase in share of EPC and OMT revenue with timely order execution and continued efficient toll collection
- Improvement in PBILDT margin to over 13-14% on a sustained basis
- Maintenance of standalone overall gearing at below unity

Negative Factors
- Significant underachievement in toll collection resulting in moderation in debt coverage indicators of the company and the group.
- Dip in PBILDT margin to below 10%
- Increase in standalone overall gearing to above unity with additional working capital / capex debt.

Detailed description of the key rating drivers of PATH
Key Rating Strengths
Established presence in road construction, operations and toll collection alongwith segmentally diversified revenue profile: PATH has an established presence of more than two decades in road construction and toll collection in the state of Madhya Pradesh (MP). It is registered as an 'A' class EPC contractor for civil construction with Government of Madhya Pradesh (GoMP). Apart from EPC activities, the company collects toll from toll collection contracts (TCC) and OMT & BOT projects structured in its own books. PATH also has 10 SPVs operating road projects on annuity and toll (BOT and OMT) basis. PATH, together with its SPVs, is referred to as PATH group.
PATH has a segmentally diversified revenue profile with 45% of company's income originating from TCC (36% in FY18), 36% from BOT and OMT toll projects (38% in FY18) and 17% from EPC segment (26% in FY17).
Till recent date, operations of the company were managed by its founder promoters viz. late Mr. Puneet Agrawal, Managing Director, and his brother Mr. Nitin Agrawal, Director, both having an experience of over two decades in the industry. They were also ably assisted by the second line of management viz. Mr. Nipun Agrawal and Mr. Saksham Agrawal, who have around four-five years of experience in this business, alongwith select other family members and a team of professionals. The impact of the recent demise of Mr. Puneet Agrawal on the business operations of the company remains to be seen and shall be crucial from credit perspective. CARE shall monitor further developments in this regard.

Improvement in geographic presence and revenue visibility with moderate profitability; albeit gradual decline in EPC income: Total operating Income (TOI) of the company grew by around 7% y-o-y in FY19 to Rs.996.37 crore with growth in toll income partially offset by tepid EPC order execution which has witnessed a gradual dip in company's overall revenue profile from around 42% in FY16 to 17% in FY19. During H1FY20, PATH registered a TOI of Rs.765.64 crore, comprising 17% from EPC and balance from toll collection.
Revenue visibility of PATH improved to Rs.1,905 crore (as against Rs.1,228 crore during last review) with an EPC order book of Rs.774 crore as on March 31, 2019 and estimated toll collection of Rs.1,130 crore from the OMT and TCC projects structured in its own books. Company has renewed existing / procured new TCCs during FY19-FY20 including a five year medium term TCC for Vidyasagar Setu in Kolkata, resulting in improvement in revenue visibility to 1.91x of PATH's FY19 TOI.
PBILDT margin of the company improved to around 13.55% in FY19 (11.47% in FY18) on account of growth in toll collection and higher share of revenues from OMT projects which have healthy operating profitability. However, TCCs inherently yield thin profitability on account of fixed payment obligations to the concessioning authority, which restricts the overall operating profitability.

Furthermore, company's geographic presence has improved with around 76% of present revenue visibility being from outside Madhya Pradesh, in states such as Gujarat, Maharashtra, Uttar Pradesh, Uttarakhand, Rajasthan, Punjab and Haryana.

Healthy toll collection in OMT projects structured in own balance sheet: PATH has two operational OMT projects structured in its own balance sheet viz., Pathankot – Jalandhar (PJ-OMT) which commenced toll collection in March 2017 and Jhansi – Orai (JO-OMT) which commenced toll collection in October 2016. During FY19, both OMT projects reported healthy toll collection largely offsetting the lower execution of orders from EPC segment. Further, these OMT projects have reported revenues of Rs.160.98 crore in H1FY19 with sustainable performance in medium term.
PJ-OMT has a concession period till March 2026 and has major maintenance in FY20-21 while JO-OMT has a concession period till October 2025 and has major maintenance in FY22-23.

Moderate capital structure and comfortable group debt coverage indicators: PATH's capital structure remains moderate with a comfortable standalone overall gearing of 0.63x as on March 31, 2019 (0.69x as on March 31, 2018). However, adjusted overall gearing including guaranteed debt of SPVs continues to remain high at 2.20x as on March 31, 2019, though the same has improved from 2.83x as on March 31, 2018 with reduction in guaranteed debt on account of scheduled debt repayments in select SPVs.
Furthermore, debt coverage indicators on a standalone level remained moderate with a Total Debt to Gross Cash Accruals (GCA) of below 2.5x and interest coverage of over 4.80x.
Debt coverage indicators of PATH on a combined basis, viz. considering PATH and its road project SPVs, also remained comfortable with improvement in toll collection in SPVs and improvement in profitability of PATH on standalone basis.
The company has not availed any debt for completion of one of its OMT projects viz. JO-OMT and construction of the project facilities was completed in FY18 through internal accruals of PATH and surplus generation from SPVs. Availment of this debt in future shall remain a key rating monitorable.

Stable demand outlook for road construction industry; albeit with execution challenges: Outlook for Indian road construction sector is expected to be stable in medium term on account of increased thrust of Government on development of road infrastructure to support economic growth. However, the road construction sector is highly fragmented and involves tendering process for order procurement, which results in intense competition. Additionally, execution challenges including delays in land acquisition, regulatory clearances and elongated working capital cycle due to longer gestation period of the projects beleaguer the industry.

Key Rating Weaknesses
Exposure of toll projects to traffic, O&M risks and regulatory risks; along with sizeable guaranteed debt and continued funding requirement in select SPVs: PATH has over 81% of income in its own books originating from toll projects, apart from eight toll-based SPVs in the group. This exposes the company to risks associated with adverse variation in traffic growth, changes in government regulations pertaining to toll collection and increase in O&M costs for project stretch.
Furthermore, company has guaranteed debt of its eight out of 10 SPVs, out of which six are toll-based. This results in significant off-balance sheet exposure. Around 57% of PATH's net worth was invested in its SPVs as on March 31, 2019 (reduced from over 75% as on March 31, 2018). With a trend of improvement in toll collection in select SPVs, propensity of PATH to support their operations and meet their debt servicing in the medium term is expected to reduce to an extent. However, debt servicing in some SPVs where there is shortfall is still being largely met through sponsor support of PATH and other JV partners like Agroh Infrastructure Developers Pvt Ltd (rated CARE BBB; Stable / CARE A3+) and Oriental Structural Engineers Private Limited (rated CARE A-; Stable / CARE A2+). Further, PATH has applied for termination of concession in two of its SPVs incurring cashflow shortfalls viz. Mhow Agroh Pathways Private Limited and Khandwa Agroh Pathways Private Limited on account of delay in disbursal of O&M grant by MPRDC.

Liquidity Analysis: Adequate at group level, however with increased working capital intensity of EPC business
PATH's liquidity at a group level remained adequate with select surplus cash flow generating toll and annuity based SPVs, aiding the financial flexibility of the group.

However, on a standalone basis, utilization of company's fund and non-based working capital limits remained high averaging at 92% during trailing 12 months ended September 30, 2019 with full utilization during select months. This is on account of increase in receivables and inventory cycle in the EPC business due to deterioration in credit profile of select major clients, alongwith slower project execution, which resulted in an EPC business operating cycle of over 200 days in FY19 (over 100 days in FY18).
PATH's overall gross current asset days remained moderate at around 100 in FY19 owing to high share of toll collection in its overall revenue profile. It also had free cash and bank balance of Rs.19.78 crore as on March 31, 2019 as against its own scheduled debt repayments of Rs.16 crore in FY20. Nevertheless, improvement in the working capital intensity in the EPC business alongwith tie-up of additional working capital limits in a timely manner in light of growing toll order book and a challenging fund raising scenario shall remain crucial from credit perspective.

Analytical approach:
Unsupported rating: Standalone alongwith factoring in linkages with and track record of the sponsor PATH
Credit Enhancement (CE) rating: Assessment of the guarantor Prakash Asphalting Toll Highways (India) Limited
CARE has analyzed KAPPL's credit profile by considering credit enhancement provided by an irrevocable and unconditional guarantee deed by PATH & AIDPL to the lenders of KAPPL for the rated bank facilities.
Standalone financials of PATH, along with combined cash flows of PATH group are considered for assessment.
PATH, apart from the initial equity infusion in the project funding of its 10 SPVs, has given corporate guarantee to the bank facilities of 8 of the 10 SPVS and has also invested funds in few SPVs to support operations.

Applicable Criteria
Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings
CARE's Policy on Default Recognition
CARE's methodology for Toll Road Projects
Rating Methodology – Factoring Linkages of Group companies in Ratings
Financial ratios – Non-Financial Sector
Rating Methodology - Infrastructure Sector Ratings

About the Company (PATH)
Promoted in 1996 by Agrawal family of Indore, PATH is engaged in road construction activities, along with collection of toll through TCC and BOT & OMT projects. Furthermore, PATH has 10 SPVs as on September 30, 2019, all of which are fully operational. These are a mix of toll (BOT), annuity and OMT projects.

Brief financials of PATH (Standalone): **(Rs. crore)**

Brief Financials	FY18 (A)	FY19 (A)
Total operating income	929.89	996.37
PBILDT	106.64	135.05
PAT	44.62	78.57
Overall Gearing (times)	0.69	0.63
Interest Coverage (times)	4.34	4.85

A: Audited
Further, as per provisional results for H1FY20, PATH reported a PBT of Rs.51.82 crore on a total operating income of Rs.765.64 crore.

About the Company (KAPPL)
Incorporated in July 2011, KAPPL is an SPV sponsored mainly by PATH group (60% stake of PATH group in KAPPL) and AIDPL (40% stake) to undertake two-laning of the 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; Stable)] 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 Dehthalai on June 27, 2014 and 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. Toll collection of the company has remained inadequate, resulting in stressed liquidity. Consequently, KAPPL is dependent on the financial support from its sponsors for meeting its operational expenses and debt servicing

obligations. 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.

Brief Financials of KAPPL (Rs. Crore)	FY18 (A)	FY19 (A)
Total Operating Income	9.69	6.24
PBILDT	8.48	5.13
PAT	(14.92)	(20.38)
Overall Gearing (times)	4.98	5.19
Interest Coverage (times)	0.52	0.28

A: Audited

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History (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	-	-	March 2027	136.08	CARE BBB+ (CE) (Under Credit watch with Developing Implications)
Un Supported Rating-Un Supported Rating (Long Term)	-	-	-	0.00	CARE D

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	136.08	CARE BBB+ (CE) (Under Credit watch with Developing Implications)	-	1)CARE BBB+ (SO); Stable (24-Dec-18)	1)CARE BBB+ (SO); Negative (04-Jan-18)	1)CARE BBB+ (SO) (02-Nov-16)
2.	Non-fund-based - LT-Bank Guarantees	LT	-	-	-	1)Withdrawn (24-Dec-18)	1)CARE BBB+ (SO); Negative (04-Jan-18)	1)CARE BBB+ (SO) (02-Nov-16)
3.	Un Supported Rating-Un Supported Rating (Long Term)	LT	0.00	CARE D	-	-	-	-

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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