Thrissur Expressway Limited

May 03, 2017

Ratings

Facilities	**Amount (Rs. crore)**	**Rating[1]**	**Rating Action**
Long-term Bank Facilities	505.18	**CARE BB-; Stable [Double B Minus; Outlook: Stable]**	Assigned
Total Facilities	**505.18 (Rs. Five hundred Five crore and Eighteen lakh only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The rating assigned to the bank facilities of Thrissur Expressway Limited (TEL), are constrained by delay in project execution resulting in cost and time overrun, funding risk on account of further delay in project, inherent traffic risk associated with toll road projects coupled with presence of alternate route parallel to project stretch, interest rate risk and operations and maintenance (O&M) and major maintenance risk (MM) post project implementation, and delay in receipt of grant. The rating is however underpinned by advanced stage of project progress backed by significant financial and physical progress, approval of Extension of Time (EOT) till March 31, 2017, further recommendation of Independent Engineer (IE) for 2nd EOT till December 31, 2017 and Provisional Completion Certificate (PCC) which is under consideration with National Highways Authority of India (NHAI) and release of grants due from NHAI. The rating also factors in proven track record of the promoter in road segment with good project execution abilities, sponsor's undertaking for shortfall in Debt Service Reserve Account (DSRA)/ Major Maintenance Reserve Account (MMRA), fixed price construction contract with the sponsor and location of the project with moderate traffic potential.

Receipt of PCC as envisaged along the ability of the company to complete the project within the revised timelines and receive timely support from the sponsors towards cost overrun over and above the revised project cost are the key rating sensitivities.

Detailed description of the key rating drivers

Key rating weakness

Delay in project execution due to socio-political disturbances resulting in cost and time overrun

Owing to delay in handing over of Right Of Way (RoW) on account of social disturbances by project affected parties, the appointed date and SCOD of the project was revised to xx and yy respectively. Post that, the company was sanctioned EOT till March 31, 2017. Delay in project completion has led to cost overrun with project cost being revised from Rs.910.28 crore against Rs.873.72 crore primarily on account of increase in Interest. During Construction (IDC) which has been funded by the sponsors. However, the project is likely to get further delayed and be completed by December, 2017.

Funding risk with respect to further delay in project completion

Given that project progress has been further delayed and is likely to be completed by December 31, 2017, as against March 31, 2017, coupled with pending NHAI grant, timely funding of any further cost overrun in the project will be critical from the rating perspective. However, comfort is drawn from the sponsor support agreement which provides for the sponsor undertaking to meet any cost overrun.

Inherent traffic and revenue risk associated with toll based nature of the project coupled with presence of alternate route

Revenue in a toll based road project is primarily dependent on the extent of tollable traffic and rate of traffic growth, which is an estimate based on surveys carried out at the time of bidding and thereafter adjusted for seasonal factors. Being a toll based project, TEL is associated with the inherent revenue risks arising out of such projects and various macro-economic factors beyond the control of the company.

There is one alternate route available to avoid the toll plaza which starts from Palakkad passes through Ottarpalam, Shoranur, Vadakkanchery ends at Thrissur. This alternate route is 82 km long in 2 lanes in configuration with good condition. This road is currently being used by car commuters as the project road's condition is bad.

Interest rate risk

TEL shall remain exposed to variations in interest rate on the project debt availed during the concession period, owing to floating interest rates.

O&M and MM risk

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

TEL is mandated to operate and maintain the road as per the specification set out in the CA, non-compliance of which could result in penalties being levied by NHAI, thereby exposing TEL to O&M and MM risk. With absence of fixed price O&M and major maintenance contract, the project is exposed to risks arising from price variation with respect to key raw materials.

Key rating strengths

Established track record of the group and sponsors as a developer of various BOT-based roads

KMC Constructions Limited (KMCCL) of the KMC group is an integrated construction, infrastructure development and management company headquartered in Hyderabad, India. The company is engaged in the business of construction and development of road projects. The group has more than four decades of track record in building large infrastructure projects in road sector and execution track record of more than 15,000 km of road. The group has experience in road projects and owns around eight road projects, out of which four are fully operational, three are partly operation and balance are under construction.

China Railway 18th Bureau (Group) Co., Ltd (CR18G) is one the largest enterprises in the construction industry globally. It has executed EPC contracts and managed infrastructure assets across the world.

For TEL, CR18G is a technical partner to KMC and is not involved in obtaining sponsor undertakings. KMCCL and KMCIL together are the sponsors for TEL.

Advance stage of project progress backed by significant financial and physical progress coupled with recommendation of PCC

The project is in its advance stage of completion with financial progress achieved at the end of February 2017 is 74.33% (30.27% at the end of March 2016) coupled with cumulative physical progress achieved at the end of January 2017 is 70.23% (29.63% at the end of March 2016). Meanwhile, the company has also proposed for issuance of Provisional Completion Certificate (PCC) for 20.180 km out of xx km. IC has recommended for 2nd EOT till December 31, 2017 and issuance of PCC for 20.180 km.

Favourable location of the stretch with moderate traffic potential

NH 47 is an inter-state highway that serves as a link between Kerala and Tamil Nadu stretching from Salem to Kanyakumari. NH-47 is one of the important highways for both Kerala and Tamil Nadu. With a total length of 659 km, the highway starts from Salem (Tamil Nadu) and ends at Kanyakumari and passes through important cities/districts. Airport traffic is also driver of traffic growth on the project road as it leads to two major international airports namely Cochin and Coimbatore.

Release of grant albeit delayed

Around 26.80% of total revised project cost is proposed to be funded by way of NHAI grant amounting to Rs.243.99 crore. As on March 02, 2017, the company has received grant of Rs.158.27 crore (64.87% of total grant). There has been delay is receipt of grant. Timely release of grant continues to be critical from credit risk perspective.

Analytical approach: Standalone

Applicable Criteria

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

About the company

Incorporated on April 08, 2009, Thrissur Expressway Ltd (TEL) is a Special Purpose Vehicle [SPV, (incorporated as Thrissur Expressway Private Limited and subsequently changed to public limited company)] for the purpose of 6-laning of the Vadakancherry-Thrissur section of NH-47 design chainage from km 236.135 to km 264.490 km (28.355 km length) in the state of Kerala on Design-Build-Finance-Operate (DBFO) basis, under the Concession Agreement (CA) from NHAI.

NHAI has selected the consortium of KMC Constructions Limited and China Railway 18th Bureau Group Corporation Limited (CR18G) based on their bid for a positive grant of Rs.243.99 crore to execute the project in the shareholding ratio of 74:26 as the SPV for implementing the project. Subsequently, KMC Group increased its stake in the project and also transferred its share to its wholly owned subsidiary and road holding company viz. KMC Infratech Limited (KMCIL). Currently, KMCIL hold around 90% equity stake in TEL and CR18G holds the balance 10%.

At the end of February 2017, TEL has achieved financial progress of 74.33% (against 30.27% at the end of March 2016) and cumulative physical progress achieved at the end of January is 70.23% (against 29.63% at the end of March 2016).

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

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

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In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

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 31, 2028	505.18	CARE BB-; 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 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015
1.	Fund-based - LT-Term Loan	LT	505.18	CARE BB-; Stable	-	-	-	-

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