

February 27, 2023

Kashipur Sitarganj Highways Private Limited: Rating assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based – Term loan	332.17	[ICRA] BB (Stable); assigned
Long-term - Non-convertible debenture (NCD)	51.00	[ICRA] BB (Stable); assigned
Total	383.17	

*Instrument details are provided in Annexure-I

Rationale

The rating of Kashipur Sitarganj Highways Private Limited (KSHPL) favourably factors in the operational nature of the four-lane project with a toll collection track record of more than five years, and the attractiveness of the project stretch as a part of National Highway connecting important industrial areas in Uttarakhand. The rating draws comfort from the recent growth in toll collections, post achievement of provisional completion (PCOD-II) as on December 30, 2022. The average daily toll collection improved to ~Rs. 17 lakh/day in January 2023 (increase in toll rate from January 2023 by ~27%) from ~Rs. 10 lakh/day in FY2022.

However, the rating is constrained by the risks inherent in build-operate-transfer (BOT - toll) road projects, including risks arising from variation in traffic volume over the project stretch and its dependence on the economic activity in the surrounding regions, movement in WPI (for toll rate hike), political acceptability of toll rate hikes over the concession period, development or improvement of alternative routes, likelihood of toll leakages and cyclicalities in traffic. Toll rates were increased by 27-28% across vehicle categories from January 01, 2023 post completion of the entire project stretch and achievement of PCOD-II in line with the toll policy for National Highways. The sustainability of traffic and toll collections post the toll rate hikes will be important to maintain the credit profile. In this regard, ICRA notes that the alternative stretches are longer, which mitigates the risk of traffic diversion to an extent. This apart, KSHPL's ability to manage routine and periodic maintenance and major maintenance expenses within the budgeted levels will remain important. The rating is constrained by the moderate debt service coverage ratio (DSCR) in the project and exposure to interest rate risk, as the term loan carries floating interest rate. The project witnessed pressure on liquidity and irregularity in debt servicing in the past due to high leverage and lower-than-envisaged toll collections. However, the cash flow and leverage position has improved in the last one year with the receipt of the conciliation proceeds from the National Highways Authority of India (NHAI). Consequently, as confirmed by the banker, the company is timely servicing its debt obligations since April 2022. Further, the presence of funded debt service reserve account (DSRA) equivalent to one quarter's principal and interest obligations mitigates the risk of short-term cash flow mismatches.

The Stable outlook is supported by the expectation of healthy toll collections on the project stretch, which will render adequate DSCR.

Key rating drivers and their description

Credit strengths

Importance of the project stretch with low alternative route risk – The project road section of Kashipur – Sitarganj is an important arterial national highway in Uttarakhand. The project stretch is a part of NH-74 and passes through important places of Kashipur, Rudrapur, Kiccha and Sitarganj. The road is close to the industrial area developed by the State Industrial

Development Corporation of Uttarakhand Limited (SIDCUL) at Rudrapur and Integrated Industrial Estate at Pantnagar, Sitarganj and Lalkuan. The project stretch has low alternative route risk, as the alternative routes are longer by 15%-20%.

Operational four-lane National Highway project with toll collection track record of more than five years – The project was awarded by the NHAI on BOT-Toll basis. The project scope involves four laning of the stretch. KSHPL has completed the four laning-related work and achieved PCOD for the project in two parts – PCOD-I was received on August 18, 2017 for 63.5 km (~82% of the total tollable length of 77.2 km), while PCOD-II was received for the incremental 13.3 km of length on December 30, 2022, with a total tollable length of 76.8 km (~99%). The balance 0.4 km of the length is excluded from the tollable length of the highway due to land acquisition issue. The final COD is expected to be achieved once the balance works on the project highway forming part of punch list is completed by the concessionaire. KSHPL has entered into fixed-price engineering, procurement and construction (EPC) contract with Galfar (India) and no additional cost are to be borne for the punch list items. With PCOD-I achieved in August 2017, the project has been operational and collecting toll since then. It has a tolling track record of more than five years. The toll collections witnessed a healthy compound annual growth rate (CAGR) since its commencement, despite the disruptions caused by the Covid-19 pandemic in the past. The average daily toll collection has increased sharply post commencement of the entire four-laning project, as the toll rates were increased sharply from January 01, 2023 in line with the National Highway Toll Policy post the completion of entire stretch road (the toll rate has increased by 28% corresponding to entire 77.4 km as per the NHAI toll policy is applicable, instead of the 63.5 km earlier). The average daily toll collection improved to ~Rs. 17 lakh/day in January 2023 from ~Rs. 10 lakh/day and ~Rs. 0.09 lakh/day in FY2022 and FY2021, respectively.

Presence of structural features including DSRA and provision for MMR – As per the debt structure, the company is maintaining DSRA equivalent to one quarter's principal and interest obligations, which provides comfort to meet short-term cash flow mismatches. Further, the rating draws comfort from the presence of other structural features of the debt, including the presence of cash flow waterfall mechanism, provision for creation of Major Maintenance Reserve (MMR) and any surpluses (after considering the cash flow waterfall mechanism), which will be first used to create contingency reserve of Rs. 10 crore.

Credit challenges

Moderate debt service coverage indicators – The project witnessed pressure on its liquidity and irregularity in debt servicing in the past due to high leverage and lower-than-envisaged toll collections. However, the cash flow and leverage position has improved in the last one year with receipt of the conciliation proceeds from the NHAI and increase in the toll collections with the achievement of PCOD-II. Nevertheless, KSHPL's coverage metrics are projected to be moderate with cumulative DSCR at 1.20-1.25 times over the tenure of the term loans. Further, sustainability of the recent improvement in the toll collections remains to be seen.

Risks inherent to toll road projects – The project is exposed to risks inherent in BOT (toll) road projects, including risks arising from variation in traffic volume over the project stretch and its dependence on the economic activity in the surrounding regions, movement in WPI (for toll rate hike), political acceptability of toll rate hikes over the concession period, development/improvement of alternative routes and likelihood of toll leakages. Further, ICRA notes that as the toll rates for the users will increase sharply in line with the toll policy for National Highways with the entire project stretch becoming operational, which can result in some diversion of traffic to alternative routes. However, the existing alternative stretches are longer, which mitigates the risk to an extent.

O&M related and interest rate risk – The company, like any road project, is exposed to the operations and maintenance (O&M) risk associated with the project, including its ability to undertake routine and periodic maintenance within the stipulated time and budget. ICRA notes that the major maintenance (MM) will be carried out through a fixed-price contract with Galfar India, which will mitigate the risk to an extent. However, the ability to complete the MM within the budgeted cost would be crucial to maintain the coverage and liquidity profile. ICRA expects KSHPL to maintain reserves for the MM. Further, it is exposed to the interest rate risk on account of the floating nature of interest rates on the term loan.

Liquidity position: Adequate

KSHPL's cash flows from operations are expected to be adequate to meet the debt servicing obligations. This apart, it has a funded DSRA of Rs. 7.0 crore as of December 2022, which is equivalent to cover one quarter's principal and interest, along with unencumbered cash and additional liquid investments of ~Rs. 12.00 crore as of December 2022, of which Rs. 5.85 crore is planned to be used towards prepayment of non-convertible debentures (NCDs).

Rating sensitivities

Positive factors – The rating could be upgraded if there is a significant growth in toll collections, on a consistent basis, resulting in an improvement in the cumulative DSCR on a sustained basis.

Negative factors – Downward pressure on the rating could emerge in case of lower-than-expected toll collection growth on a sustained basis, or if the O&M expenditure is significantly above the budgeted costs resulting in compression of the cumulative DSCR to less than 1.15 times.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology for BOT (Toll) Roads
Parent/Group support	Not Applicable
Consolidation/Standalone	Standalone

About the company

Kashipur Sitarganj Highways Private Limited (KSHPL) is a special purpose vehicle (SPV), promoted by Galfar Engineering & Contracting (India) Private Limited and Galfar Engineering & Contracting SAOG, for implementing the four laning of Kashipur - Sitarganj Section of NH-74 from Km 175.000 to Km 252.200 in Uttarakhand and Uttar Pradesh under NHDP Phase IV on design, build, finance, operate and transfer (DBFOT) toll basis. The project highway covers a length of 72.266 km in Uttarakhand and a length of 4.934 km in Uttar Pradesh. The project road traverses through the built-up areas of Khanpur, Danpur, Rudrapur, Rampura, Lalpur, Kichha, Uttam Nagar, Bara, Sisaiya and bypasses Bazpur Doraha, Kelakhera and Gadarpur. The concession period is 21 years from the appointed date of March 05, 2014.

PCOD-I was issued on August 18, 2017 and the commercial operations started with effect from August 18, 2017, while PCOD-II was issued on December 30, 2022.

Key financial indicators (audited)

	FY2021	FY2022
Operating income	93.3	42.4
PAT	14.6	-19.3
OPBDIT/OI	90.6%	71.5%
PAT/OI	15.6%	-45.4%
Total outside liabilities/Tangible net worth (times)	11.3	10.9
Total debt/OPBDIT (times)	5.5	15.2
Interest coverage (times)	1.3	1.0

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs. crore

Status of non-cooperation with previous CRA:

India Ratings and Research (Ind-Ra) has issued a press release dated November 28, 2022, where they have maintained Kashipur Sitarganj Highways Pvt Ltd's bank loan's rating in the non-cooperating category. Ind-Ra had mentioned in its press release that "the issuer did not participate in the surveillance exercise despite continuous requests and follow-ups by the agency".

Brickwork Ratings (BWR) has issued a press release dated January 19, 2023, where they have migrated the rating for bank loan facilities of Kashipur Sitarganj Highways Pvt Ltd in the Issuer Not Cooperating category. The reason mentioned by BWR in their press release is "issuer did not cooperate".

Any other information: None

Rating history for past three years

Instrument	Type	Current rating (FY2023)		Chronology of rating history for the past 3 years			
		Amount rated (Rs. crore)	Amount outstanding as of Dec 31, 2022 (Rs. crore)	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021	Date & rating in FY2020
				Feb 27, 2023	-	-	-
1	Term loans	332.17	332.17	[ICRA] BB (Stable)	-	-	-
2	NCD	51.00	51.00	[ICRA] BB (Stable)	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term Fund-based – Term loan	Simple
Long-term - Non-convertible debenture	Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: [Click Here](#)

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term Loan	FY2014-FY2015	-	FY2033	332.17	[ICRA]BB (Stable)
INE445P07014	NCD	FY2022	0.01%	FY2035	51.00	[ICRA]BB (Stable)

Source: Company

[Please click here to view details of lender-wise facilities rated by ICRA](#)

Annexure II: List of entities considered for consolidated analysis – Not Applicable

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