

March 16, 2023

KNR Srirangam Infra Private Limited: Rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. Crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Fund-based/term loan	382.00	382.00	[ICRA]AAA (Stable); reaffirmed
Total	382.00	382.00	

*Instrument details are provided in Annexure I

Note: ICRA had earlier assigned rating for the proposed term loan of KNR Srirangam Infra Private Limited (KSIPL) which was to be used to refinance the debt. KSIPL has recently completed the debt refinancing.

Rationale

The rating for KNR Srirangam Infra Private Limited (KSIPL) continues to derive comfort from the robust debt coverage metrics and the operational nature of the project. A track record of receipt of the first three semi-annual annuities without any deductions (other than TDS), which primarily eliminates the uncertainty around the completion cost (for the provisional completion) with which the future annuities will be linked, also provides comfort. ICRA notes that KSIPL received provisional completion for 96% of the project (project achieved provisional completion I and II on May 30, 2021, and June 24, 2022, respectively) and the balance work is in the advance stage of execution with the completion timeline as on March 31, 2023. ICRA notes that there were procedural delays in finalising the completion cost for PCOD I and, consequently, the receipt of the first annuity got delayed by nearly 1.5 months. However, the repayment obligations have been met in a timely manner, aided by support from the company's former sponsor– KNR Constructions Limited (KNR). The second and third annuities were received within 24 days from the due date. ICRA does not expect any material delays in receipt of annuities going forward, and the availability of a two-month buffer between the scheduled annuity receipt date and the scheduled principal repayment date, along with the upfront creation of six-month debt service reserve (DSRA), provide comfort. KSIPL's projected debt coverage indicators are likely to be robust with a cumulative debt servicing coverage ratio (DSCR) of over 1.35 times during the debt tenure. The rating takes comfort from the various reserves created as a part of the debt structure, such as the funded DSR equivalent to six months of debt servicing obligations, creation of a major maintenance reserve (MMR) and restricted payment clause with a minimum DSCR of 1.10 times.

The rating draws strength from the operational nature of the project, with 60% of the final completion cost to be paid out as semi-annual annuities (along with the interest on the residual annuities payable, at the Bank Rate + 3%). Further, KSIPL will receive inflation-adjusted operations and maintenance (O&M) cost over the 15-year operations period from the project owner, the National Highways Authority of India [NHAI, rated [ICRA]AAA(Stable)], which is a strong counterparty.

KSIPL's cash flows and returns will be sensitive to the spread between the Reserve Bank of India's (RBI) Bank Rate and the lender's MCLR, as the interest earned on the outstanding annuities are linked to the Bank Rate, while the interest payable on the project loan is linked to lender's MCLR. Further, KSIPL's cash flows are exposed to the inflation risk as O&M receipts, though linked to inflation index (70% WPI and 30% CPI), may not be adequate to compensate for the actual increase in O&M/periodic maintenance expenses. The company will have to undertake O&M of the project stretch as per the Concession Agreement to avoid any deductions from annuities. Any significant deductions from the annuities or increase in routine and major maintenance (MM) from the budgeted level could impact its DSCR. The O&M and MM assumptions are comparable with ICRA's benchmarks and have adequate cushion available. ICRA notes that achievement of the final commercial operations date (CoD) is yet to be attained, primarily due to pending completion of a service road stretch, which is likely to be completed shortly.

The debt structure remains moderate due to the presence of the put option at the end of two years. However, the lenders confirmed that if such a clause is exercised by the lender, the company will get an advance notice of 90 - 270 days, depending on whether the asset is moved to the InvIT. Given its favourable operational and robust financial profiles, if such a clause is exercised by the lender, the company is expected to be able to refinance its debt within the available time, thereby mitigating the risk related to the put option to a major extent.

The Stable outlook on the rating reflects ICRA's opinion that KSIPL will continue to benefit from the operational status of the project, strong counterparty, robust debt coverage metrics and the presence of structural features.

Key rating drivers and their description

Credit strengths

Robust coverage indicators and presence of structural features – KSIPL is expected to have robust debt coverage indicators, with a cumulative DSCR of 1.35 times during the debt tenure as per ICRA's base-case projections. This provides the special purpose vehicle (SPV) adequate cushion to withstand any adverse movements in the Bank Rate and inflation to a major extent. The credit profile is supported by the presence of various structural features in the term loan facility, such as the presence of escrow, cash flow waterfall mechanism, upfront creation of DSR equivalent to six-month debt servicing obligations and provision for creation of MMR. Further, the presence of a cash trap mechanism if the DSCR falls below 1.1 times provides comfort.

Operational nature of project – KSIPL achieved provisional completion on May 30, 2021, for the length of 27.3 km, PCC II on June 24, 2022, for completion of an additional length of 9.830 km, and is in the advance stages of completion of the 1.57-km balance stretch. The inflation-adjusted bid project cost, till the progress achieved as of PCOD II, has been finalised at Rs. 1,130.3 crore and the same is expected to increase further, once the pending work is completed by March 2023. The company has received three semi-annual annuities as of December 2022, without any major deductions. However, there were procedural delays of nearly 1.5 months in receipt of the first annuity, such as delays in finalisation of the completion cost as of PCOD I and other related calculations/parameters.

Annuity nature of project with strong counterparty – The annuity nature of the project eliminates the traffic risk in the hybrid-annuity-model (HAM) road projects. As per the Concession Agreement, KSIPL will be receiving 30 semi-annual annuities starting six months from completion (or provisional completion) totalling 60% of the final project completion cost. In addition, it will receive the interest on the residual annuities payable (at Bank Rate + 3%), and the inflation-adjusted O&M cost bid over the 15-year operations period from the project owner and authority, the NHAI, a key Central Government entity. High certainty of cash flows (except for the Bank Rate and inflation) from a strong counterparty (NHAI) is a key strength for the company.

Credit challenges

Exposed to interest rate and refinancing risks – The project's cash flows and returns are exposed to the interest rate risk and are dependent on the spread between the RBI's Bank Rate and the interest rate charged by lenders. However, the risk is mitigated to a major extent by the healthy DSCR, which is expected to withstand any adverse movements, if any, in the spread. Besides, the debt structure is moderate due to the presence of the put option at the end of two years or when the asset is moved to the Cube Highways Trust (whichever is earlier), which exposes KSIPL to the refinancing risk. Nevertheless, as per the terms of the sanction, if the put option is exercised by the lender, the company will get a notice period of 90 - 270 days, depending on whether the asset is moved to the InvIT.

O&M undertaken as per concession requirement – KSIPL's sources of income are the annuity, interest on outstanding annuities and the annual O&M payments from the NHAI. Hence, undertaking regular as well as periodic maintenance of the project as per specifications of the Concession Agreement will be necessary to get full annuity receipts, and any lapses in

carrying out the maintenance activities will impact the O&M payments. Nonetheless, the risk is mitigated to a large extent, as the O&M and MM activities will be undertaken by Cube Highways (in terms of O&M, key O&M activities will be undertaken in-house by Cube and ancillary services such as ambulance, route patrolling horticulture etc., will be outsourced by Cube and in term of MM, while design, strategy and procurement of material will be done by Cube, the execution at site will be outsourced), which has a proven track record of managing O&M for various road projects and proactively taking steps to strengthen the road quality. The O&M and MM assumptions of the company factor in adequate cushion compared to ICRA's benchmarks of such expenses pertaining to flexible and rigid pavements (the project stretch configuration is a combination of rigid and flexible pavements). Further, given that the traffic across the stretch is relatively lighter, the wear and tear is expected to be limited, and maintenance-related expenses are anticipated to remain within the budgeted levels.

Liquidity position: Adequate

The cash flow from operations is expected to be sufficient to meet the debt servicing obligations with a cumulative DSCR of 1.35 times during the tenure of the rated instrument. The company's liquidity position is supported by the upfront creation of DSRA and adequate surplus funds available. As of February 2023, the company had DSRA balance of Rs. 23.6 crore and surplus funds of Rs. 35.9 crore.

Rating sensitivities

Positive factors – Not Applicable

Negative factors – Pressure on the rating could arise, if there are major deductions or delays in the receipt of semi-annual annuities or O&M payments, or if the O&M expenses significantly exceed the estimates, or if there is any additional debt availed by the SPV that impacts its coverage indicators. The rating could also come under pressure if there is any non-adherence to the debt structure.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology for Roads - Hybrid Annuity
Parent/Group support	Not Applicable
Consolidation/Standalone	Standalone

About the company

KSIPL is an SPV formed by KNR Constructions Ltd (KNRCL), in March 2018, to undertake four laning of the Trichy (0.00 km) to Kallagam (38.70 km) section of the NH-227 in Tamil Nadu, under Bharatmala Pariyojna (residual projects under the NHDP) on a HAM basis. The project SPV was initially sponsored by KNRCL, which later entered into an agreement with Cube Highways and Infrastructure III Pte Limited (Cube Highways) to sell the entire stake in the SPV, subject to approval from the NHAI. In October 2022, the entire stake of the asset was acquired by Cube Highways. KSIPL is expected to be shortly moved to Cube Highways Trust (Cube InvIT/ the Trust, rated Provisional [ICRA]AAA/Stable) – an Infrastructure Investment Trust floated by the Cube Group.

The total length of the project stretch is 38.70 km. The Concession Agreement was signed on April 10, 2018, and the appointed date for the project was received on March 01, 2019. The scheduled completion date for the project was February 28, 2021 (considering construction period of 730 days), and the provisional completion was achieved on May 30, 2021 (for 27.30 km, 71% of the project length). The project achieved provisional completion II on June 24, 2022, for 9.830 km. For the rest of the project stretch, the scheduled completion timeline is March 31, 2023, and, as of now, the company is in the advance stages of execution of the same. The company had received three annuities as of December 2022.

Key financial indicators

Key financial indicators are not applicable as KSIPL was a project-stage company till FY2022.

Status of non-cooperation with previous CRA: Not Applicable

Any other information: None

Rating history for past three years

Instrument	Current rating (FY2023)					Chronology of rating history for the past 3 years		
	Type	Amount rated (Rs. crore)	Amount outstanding as on March 09, 2023 (Rs. crore)	Date & rating on		FY2022	FY2022	FY2021
				March 16, 2023	December 30, 2022			
1 Term loan	Long-term	382.00	315.00	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	-	-	-

Complexity level of the rated instrument

Instrument	Complexity Indicator
Fund-based facility – Term loan	Moderately Complex

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 / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term loan	January 2023	NA	July 2035	382.00	[ICRA]AAA (Stable)

Source: KSIPL and ICRA

[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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