

February 27, 2024

Kashipur Sitarganj Highways 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	332.17	326.71	[ICRA] BB (Stable); reaffirmed
Long-term – Non-convertible debenture (NCD)	51.00	51.00	[ICRA] BB (Stable); reaffirmed
Total	383.17	377.71	

*Instrument details are provided in Annexure-I

Rationale

The rating reaffirmation for Kashipur Sitarganj Highways Private Limited (KSHPL) factors in the operational nature of the four-lane project with a toll collection track record of more than six years, and the attractiveness of the project stretch as a part of the national highway network connecting important industrial areas in Uttarakhand. The rating draws comfort from the healthy growth in toll collections in Q4 FY2023 and YTD FY2024, post achievement of provisional completion (PCOD-II) as on December 30, 2022. Toll rates were increased by ~28% across vehicle categories from January 01, 2023 post completion of the entire project stretch, in line with the toll policy for national highways. As a result, the average daily toll collection improved to ~Rs. 17 lakh/day in January 2023 from the average of Rs. 10 lakh/day in FY2022. The same improved further to ~Rs. 21 lakh/day in December 2023, buoyed by increase in traffic and revision in toll rate, effective from July 1, 2023, by 4-5% across vehicle categories. ICRA expects the company to report revenues of over Rs. 65 crore in FY2024 (viz. YoY growth of over 30%). The toll collection is likely to subsequently moderate to 5%-8% growth in FY2025.

The rating, however, remains constrained by the modest debt coverage metrics, with near-term debt service coverage ratio (DSCR) likely to remain muted owing to cash outflow towards ongoing major maintenance (MM) capex. The rating factors in 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 cyclicity in traffic. 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. The company commenced its first MM cycle in FY2024 on 63.5 km stretch (operational since August 2027) and the exercise is expected to be completed in FY2025. Its ability to manage routine and periodic maintenance and MM expenses within the budgeted levels will remain a key monitorable in the near-to-medium term. The credit profile remain exposed 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 over the last two years with the receipt of the conciliation proceeds from the National Highways Authority of India (NHAI). 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 on the rating reflects ICRA's expectation that the company would witness a steady increase in toll collections on the project stretch such that the ongoing MM expenses will be adequately funded in a manner and it is able to durably maintain its debt protection metrics commensurate with the existing rating.

Key rating drivers and their description

Credit strengths

Operational four-lane National Highway project with toll collection track record of more than six years – The Kashipur-Sitarganj section is an important arterial national highway in Uttarakhand. The project stretch has low alternative route risk, as the alternative routes are longer by 15%-20%. The project, which involved four-laning of the stretch, was awarded by the NHAI on BOT-Toll basis. KSHPL completed the 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 still awaited. With PCOD-I achieved in August 2017, the project has been operational and collecting toll for more than six years. The toll collections witnessed a healthy compound annual growth rate (CAGR) since its commencement in FY2018, 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 substantially (by ~28%) from January 01, 2023 in line with the National Highway Toll Policy, post the completion of the entire stretch of road. The average daily toll collection improved to ~Rs. 21 lakhs/day in December 2023 from ~Rs. 17 lakh/day in January 2023 and ~Rs. 10 lakh/day in FY2022.

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 a contingency reserve of Rs. 10 crore.

Credit challenges

Moderate debt 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 over the last two years, 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 remain moderate, with cumulative DSCR within 1.15-1.25 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. 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 may 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. The company is currently undertaking its first MM exercise on 63.5 km stretch (operational since August 2017). The exercise is expected to be completed in two phases, one each in FY2024 and FY2025. The 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 same 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. 9.12 crore as on December 31, 2023, which is equivalent to cover one quarter's principal and interest, along with unencumbered cash and additional liquid investments of ~Rs. 10 crore as on December 31, 2023.

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. Additionally, timely completion of the ongoing MM cycle, within the budgeted cost will also be a key monitorable.

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 and MM expenditure is significantly above the budgeted costs resulting in compression of the cumulative DSCR to less than 1.15 times. Additional indebtedness or non-adherence to debt structure will also result in a rating downgrade.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology BOT Toll Road Projects in India
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 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. Owing to lower-than-projected traffic, the company has applied for extension in concession period, though the final approval is still awaited from the authority.

PCOD-I was issued on August 18, 2017 and the commercial operations started with effect from August 18, 2017. PCOD-II for near 100% stretch) was issued on December 30, 2022.

Key financial indicators (audited)

	FY2022	FY2023
Operating income (Rs. crore)	42.4	50.1
PAT (Rs. crore)	- 19.3	-11.8
OPBDIT/OI (%)	71.5%	78.9%
PAT/OI (%)	-45.4%	-23.6%
Total outside liabilities/Tangible net worth (times)	10.9	6.1
Total debt/OPBDIT (times)	15.2	10.3
Interest coverage (times)	1.0	1.5

Source: Company Data; ICRA Research; PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation

Status of non-cooperation with previous CRA:

India Ratings and Research (Ind-Ra), in its press release dated October 31, 2023, has maintained Kashipur Sitarganj Highways Pvt Ltd's bank loan's rating at IND-D, ISSUER NOT COOPERATING citing that the issuer did not participate in the surveillance exercise, despite continuous requests and follow-ups by the agency.

Brickwork Ratings (BWR), its press release dated January 13, 2024, maintained the rating for bank loan facilities of Kashipur Sitarganj Highways Pvt Ltd at BRW D; ISSUER NOT COOPERATING citing non-cooperation by the issuer and based on best available information.

Any other information: None

Rating history for past three years

Instrument	Type	Current rating (FY2024)		Chronology of rating history for the past 3 years			
		Amount rated (Rs. crore)	Amount outstanding as on Dec 31, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
				Feb 27, 2024	Feb 27, 2023	-	-
1	Term loans	326.71	326.71	[ICRA] BB (Stable)	[ICRA] BB (Stable)	-	-
2	NCD	51.00	50.32	[ICRA] BB (Stable)	[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	326.71	[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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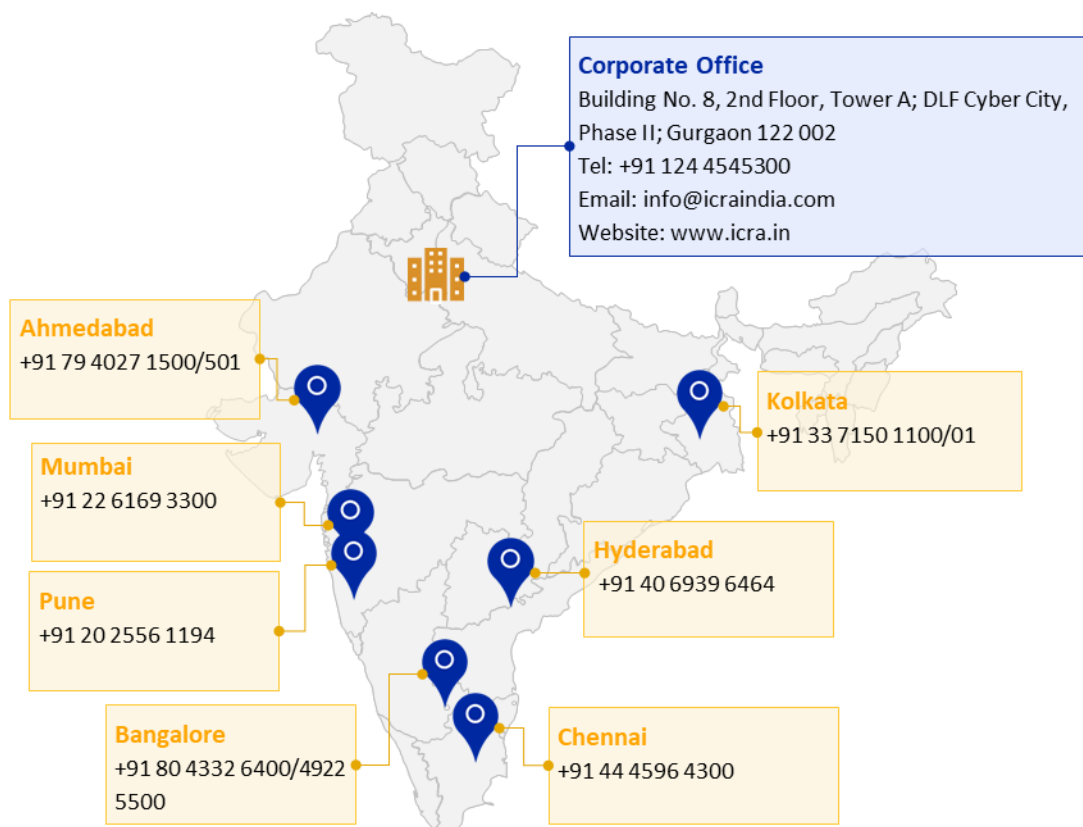


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