

April 05, 2024

## 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	291.50	[ICRA]AAA (Stable); reaffirmed
<b>Total</b>	<b>382.00</b>	<b>291.50</b>	

\*Instrument details are provided in Annexure I

### Rationale

The rating reaffirmation for KNR Srirangam Infra Private Limited (KSIPL) factors in the operational nature of the project with a track record of receiving five semi-annuities and operations and maintenance (O&M) payments without any deductions in a timely manner from a strong counterparty, i.e., National Highway Authority of India (NHAI, [ICRA] AAA (Stable)). The rating notes its robust debt coverage metrics with cumulative debt service coverage (DSCR) of over 1.3 times during the debt tenure. Further, the availability of a two-month buffer between the scheduled annuity date and the scheduled principal repayment date, along with the upfront creation of six-month debt service reserve (DSRA) provide comfort. The project received the final completion certificate as on June 15, 2023 upon the completion of balance works. The bid project cost (BPC) is revised to original cost, which is in line with ICRA's earlier assumptions. The rating takes comfort from the stipulated clause of creation of a major maintenance reserve (MMR) and restricted payment clause with a minimum DSCR of 1.10 times from the lender. The rating favourably takes into account the reputed sponsor profile, Cube Highways and Infrastructure III Pte. Ltd (CH3, part of the Cube Highways Group) and its experience in operating road assets in India.

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. ICRA notes the single asset nature of the project operations, thereby making the debt metrics of the project sensitive to any deductions in annuity and O&M receipts. Hence, the company must ensure satisfactory upkeep of the carriageway and 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 rise in routine and MM expenses from the budgeted level could impact its coverage metrics and remains a key rating monitorable.

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 at least 90 days. Given its favourable operational and robust financial profile, 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 receipt of annuity receipts in a timely manner without major deductions and its robust debt coverage metrics.

## Key rating drivers and their description

### Credit strengths

**Operational nature of the project** – KSIPL received the final completion certificate for the entire project length of 38.70 km on June 15, 2023 [provisional completion (PCC I) on May 30, 2021 for the length of 27.3 km, PCC II on June 24, 2022, for length of 9.830 km, and PCC III on March 31, 2023 for completion of the 1.57-km balance stretch]. With this, the final BPC is restored to the original Rs. 1,020.6 crore. The company will be receiving 30 semi-annuities starting six months from completion totalling to 60% of the final project completion cost, along with 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, NHAI.

**Annuity nature of project with strong counterparty and track record of five semi annuities** – The project will have a stable revenue stream over the term of the concession from the project owner and annuity provider, the NHAI, a key Central Government entity responsible for the development and maintenance of India's national highway programme. KSIPL has received five semi-annuities and O&M payments without any major deductions in a timely manner providing comfort. Further, the availability of a two-month buffer between the scheduled annuity date and the scheduled principal repayment date, along with the availability of DSRA, provide comfort in case of any delay in annuity receipt.

**Robust coverage indicators and presence of structural features** – KSIPL is expected to have robust debt coverage indicators, with a cumulative DSCR of more than 1.3 times during the debt tenure as per ICRA's base case projections. 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 months' 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.

### 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 robust debt coverage metrics, 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 at least 90 days. Given its favourable operational and robust financial profile, 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.

**Undertaking O&M as per concession requirement and risk of deductions from annuity/O&M payout** – KSIPL has to undertake regular as well as periodic maintenance of the project as per specifications of the Concession Agreement to get full annuity receipts. 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 key O&M and MM activities will be undertaken in-house by Cube Highways, which has a proven track record of managing O&M for various road projects. 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).

### Liquidity position: Adequate

KSIPL's liquidity position is adequate, with cash balance of Rs. 73.6 crore, which include DSRA of Rs. 26 crore as on March 15, 2024. The company has debt repayment obligation (principal + interest) of Rs. 47-48 crore each in FY2025 and FY2026, which are expected to be comfortably met from its cash flow from operations.

## 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	<a href="#">Corporate Credit Rating Methodology</a> <a href="#">BOT (Hybrid Annuity) Roads</a>
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 [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). The company received the final completion certificate on June 15, 2023 for the entire project stretch.

## Key financial indicators (audited)

	FY2022	FY2023
Operating income	240.8	89.9
PAT	35.2	-61.1
OPBDIT/OI	22.1%	-24.7%
PAT/OI	14.6%	-68.0%
Total outside liabilities/Tangible net worth (times)	2.4	7.6
Total debt/OPBDIT (times)	5.5	-15.5
Interest coverage (times)	2.9	-0.8

Source: Annual report; PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amounts in Rs. Crore

Note: The company follows Ind AS and key financial ratios are not representative of actual cash flows.

### Status of non-cooperation with previous CRA: Not Applicable

#### Any other information:

The company also faces prepayment risk, given the possibility of debt acceleration upon the breach of certain financial covenant or rating linked covenants or upon the exercise of put option by the lenders. The rating would face pressure, if the company is unable to get waivers from the lenders/investors or the lenders/investors do not provide it with adequate time to arrange for alternative funding to pay off the accelerated loans.

### Rating history for past three years

Instrument	Current rating (FY2025)				Chronology of rating history for the past 3 years			
	Type	Amount rated (Rs. crore)	Amount outstanding as on March 15, 2024 (Rs. crore)	Date & rating on	FY2024	FY2023		FY2022
				April 05, 2024		March 16, 2023	December 30, 2022	
1 Term loan	Long-term	291.50	291.50	[ICRA]AAA (Stable)	-	[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	291.50	[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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