April 22, 2024

KCC Dhangaon Boregaon Expressway Private Limited: Rating reaffirmed; outlook revised to Positive

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based – Term loan	270.0	270.0	[ICRA] A-; reaffirmed; outlook revised to Positive from Stable
Total	**270.0**	**270.0**	

**Instrument details are provided in Annexure-I*

Rationale

The revision in outlook to Positive for KCC Dhangaon Boregaon Expressway Private Limited (KDBEPL) factors in the alleviation of project execution risk in the backdrop of advanced stage of project progress (~98.3% of physical progress as on March 31, 2024) and receipt of all five milestone payments from the National Highways Authority of India (NHAI, rated [ICRA]AAA(Stable)). The company has applied for provisional completion certificate (PCC) and the same is pending with the authority for approval. The rating favourably factors in the inherent benefits of the hybrid-annuity based nature of the project including upfront availability of right of way[1] (RoW), automatic de-scoping of RoW pending beyond 180 days from the appointed date, inflation-linked[2] revisions to the bid project cost during the construction period, and relatively lower equity mobilisation risk with 40% of the bid project cost to be funded by the authority during the construction period in the form of a grant. The rating positively considers the credit support provided by the structural features of the debt, including the presence of escrow, cash flow waterfall mechanism, provision for debt servicing reserve (DSR), provision for creation of major maintenance reserve (MMR), presence of reserves to meet the regular operations and maintenance (O&M) and interest obligations till the next scheduled annuity. Additionally, the cash sweep mechanism and restricted payment clause with a minimum debt servicing coverage ratio (DSCR) of 1.2 times provides comfort.

The rating notes the stable revenue stream post commissioning, with 60% of the inflation-adjusted bid project cost being paid out as annuity, along with interest at bank rate plus 300 bps and the inflation-adjusted O&M cost bid over the 15-year operations period by the project owner, the NHAI, which is a strong counterparty.

The rating is, however, constrained by the exposure of KDBEPL's cash flows to the spread between the interest earned on the outstanding annuities, which is linked to the Reserve Bank of India's (RBI) Bank Rate, and the interest rate on the project loans, which is linked to lender's MCLR. Further, KDBEPL's cash flows are exposed to 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 also 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 will have to undertake O&M of the project stretch as per the Concession Agreement to avoid any deductions from annuities. KDBEPL is in the process of signing a long-term fixed-price O&M contract with its sponsor KCC Buildcon Private Limited (KCC, rated [ICRA]A (Stable) / [ICRA] A2+), which has long experience spanning over two decades in the road construction segment. Any significant deductions from annuities or increase in routine and major maintenance (MM) from the budgeted level could impact its DSCR.

The Positive outlook on the rating reflects that the company's credit profile will improve with receipt of PCC, finalisation of completion cost and timely receipt of annuities on a sustained basis.

Key rating drivers and their description

Credit strengths

Healthy coverage indicators and presence of structural features – Once operational, KDBEPL is expected to have healthy debt coverage indicators. The special purpose vehicle (SPV) is likely to have adequate cushion to withstand any adverse movement in the bank rate and inflation to a major extent. Further, the presence of structural features of the debt, including the presence of escrow, cash flow waterfall mechanism, provision for DSR (worth three months' interest to be created upfront and the remaining to be created out of the first two annuities), provision for creation of MMR, presence of reserves to meet the regular O&M and interest obligations till the next scheduled annuity, cash sweep and restricted payment clause with a minimum DSCR of 1.2 times provide comfort.

Established track record and financial profile of sponsor and EPC contractor – KDBEPL is a subsidiary of KCC, which has long experience spanning over two decades in the road construction segment and has been executing road projects since 1999. The credit profile is supported by undertaking towards cost overrun during the construction phase, any shortfall in O&M expenses and corporate guarantee to meet any shortfall in debt servicing until the receipt of the first two annuities. The total estimated project cost of Rs. 682.0 crore is planned to be funded by the NHAI's grant of Rs. 332.4 crore, external debt of Rs. 270.0 crore and the promoter's contribution of Rs. 79.6 crore, of which ~96% of the equity contribution has been infused till March 31, 2024, thereby mitigating the equity mobilisation risk to a major extent. KCC is adequately placed to meet its balance equity commitment and complete the project in a timely manner.

Lower inherent risks in HAM projects from the NHAI – The inherent benefits of hybrid-annuity based nature of the project include upfront availability of RoW, automatic de-scoping of RoW pending beyond 180 days from the appointed date, inflation-linked revisions to the bid project cost during the construction period. Moreover, it faces relatively lower equity mobilisation risk with 40% of the bid project cost to be funded by the authority during the construction period in the form of a grant. Stable revenue stream post commissioning, with 60% of the inflation-adjusted bid project cost being paid out as annuity, along with interest at bank rate plus 300 bps and the inflation-adjusted O&M cost bid over the 15-year operations period by the NHAI, which is a strong counterparty, provide comfort.

Credit challenges

Project cash flows and returns exposed to interest rate and inflation risks – The project's cash flows and returns are exposed to interest rate risk and are dependent on the spread between the RBI's Bank Rate and the interest rate charged by lenders. The interest on the outstanding annuities from the NHAI is linked to the RBI's Bank Rate, while the interest rate charged by lenders is linked to their respective MCLR. Further, KDBEPL's cash flows are exposed to inflation risk as O&M receipts, though linked to inflation (70% WPI and 30% CPI), may not be adequate to compensate for the increase in O&M/periodic maintenance expenses.

Ensuring routine and periodic maintenance expenses within budgeted levels – KCC will be appointed as an O&M contractor. In absence of a pre-defined MM schedule in the Concession Agreement, periodic maintenance is required on a need basis, which may result in volatility in operating 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 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 annuities or increase in routine and MM expenses from the budgeted level could impact its DSCR.

Liquidity position: Adequate

The company's liquidity position is adequate. The pending costs of ~Rs. 24.5 crore is likely to be funded by Rs. 10.6 crore of balance terms loan, and the remaining through promoter support. The cash flows from operations would be sufficient for debt servicing obligations of Rs. 38.9 crore in FY2025.

Rating sensitivities

Positive factors – The rating could be upgraded upon the sustained track record of annuity and O&M payments without any deduction and finalisation of the completion cost.

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. Further, any additional indebtedness adversely impacting the debt coverage metrics and/or non-adherence to the debt structure could exert pressure on the rating.

Analytical approach

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

About the company

KCC Dhangaon Boregaon Expressway Private Limited (KDBEPL) is an SPV promoted by KCC Buildcon Private Limited (KCC). The SPV was formed in December 2020 for four-laning of Dhangaon–Boregaon section of NH-347BG & 753L (Indore to Boregaon-Pkg IV) Design Ch. 81.000 to 139.000 (Length 58.000 Km) under Bharatmala Pariyojana Phase-I in Madhya Pradesh on hybrid annuity model (HAM) basis. The construction and operations period for the project is 2 years and 15 years, respectively. The concession agreement was signed on January 11, 2021 with an appointed date of August 4, 2021. The company has applied for PCOD in March 2024.

Key financial indicators (audited)

Standalone	FY2022	FY2023
Operating income	168.5	255.9
PAT	8.8	0.7
OPBDIT/OI	7.5%	3.9%
PAT/OI	5.2%	0.3%
Total outside liabilities/Tangible net worth (times)	1.5	3.8
Total debt/OPBDIT (times)	1.7	13.0
Interest coverage (times)	7.1	1.1

Source: Company, ICRA Research; PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs. crore
KDBEPL 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: None

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 Mar 31, 2024 (Rs. crore)	Date & rating in FY2025	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022
					Apr 22, 2024	-	Jan 16, 2023	Dec 07, 2021
1	**Term loans**	Long term	270.0	259.4	**[ICRA]A- (Positive)**	-	**[ICRA]A- (Stable)**	**[ICRA]A- (Stable)**

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term – Fund-based – Term loan	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-I**	March 2021	NA	FY2038*	140.0	[ICRA]A-(Positive)
NA	**Term loan-II**	May 2021	NA	FY2038*	130.0	[ICRA]A-(Positive)

*Source: Company; *Estimated as per first repayment expected in October 2024*

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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ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

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