

May 31, 2024

KNR Shankarampet Projects 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	417.00	373.00	[ICRA]AAA (Stable); Reaffirmed
Total	417.00	373.00	

*Instrument details are provided in Annexure-I

Rationale

The rating of KNR Shankarampet Projects Private Limited (KSPPL) derives comfort from the established track record of timely receipt of five semi-annuities and operations and maintenance (O&M) payments from the National Highways Authority of India [NHAI, rated [ICRA]AAA(Stable)] without any material deductions, its robust debt coverage metrics with expected debt servicing coverage ratio (DSCR) above 1.3 times during the tenure of the debt. The rating considers the availability of a buffer of over 2.5 months, between the scheduled annuity due date and the principal repayment date, and presence of six months of debt service reserve (DSRA). The rating draws comfort from the strong counterparty and project owner NHAI, along with the stable annuity¹ stream over the 15-year operations period. The rating takes comfort from the presence of structural features of the debt, which includes upfront funded debt service reserve (DSR) equivalent to six months of debt servicing obligations, creation of the major maintenance reserve (MMR) from future annuities, and cash trap mechanism if the DSCR falls below 1.1 times.

However, KSPPL's cash flows and returns will be sensitive to the spread between the Reserve Bank of India's (RBI) bank rate and the borrowing cost as the interest earned on the outstanding annuities is linked to the bank rate, while the interest payable on the loans is linked to 3M T-bill. Further, KSPPL's cash flows are exposed to inflation risk as O&M receipts, though linked to the 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, which exposes its debt metrics to any deductions in annuity and O&M receipts. Hence, satisfactory upkeep of the carriageway and 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. Any significant deductions from the annuities or rise in routine and MM expenses from the budgeted level could impact its coverage metrics, which remain a key rating monitorable. The O&M and MM assumptions are comparable with ICRA's benchmarks for flexible pavement, with adequate cushion available.

The debt structure is moderate due to the presence of the put option at the end of two years, which exposes KSPPL to refinancing risk. However, 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 financial profile (robust coverage metrics and strong counterparty – NHAI), KSPPL is expected to be able to refinance its debt within the notice period, should the lenders exercise the put option, thereby mitigating the risk related to the put option to a major extent. Further, KSPPL is likely to be transferred to Cube Highways Trust (rated [ICRA] AAA (Stable)) before the put option exercise date, post which debt at KSPPL is expected to be completely refinanced at the trust level, thereby mitigating the risk to a large extent.

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

¹ 60% of the final completion cost to be paid out as semi-annually (along with the interest on the residual annuities payable, at the rate of Bank Rate + 3%), along with inflation-adjusted O&M cost

Key rating drivers and their description

Credit strengths

Operational nature of project – KSPPL has received the provision completion (PCOD) effective October 05, 2021, and final completion (COD) for the project effective June 21, 2022. The inflation-adjusted bid project cost (or project completion cost) has been finalised at ~Rs. 1,364.3 crore (post de-scoping of ~Rs. 2.4 crore of the project due to a minor service road stretch). The future semi-annuities will be based on 60% of the completion cost. The achievement of COD and finalisation of project completion cost primarily eliminates the residual execution risks and hence uncertainty on the annuity amount.

Annuity nature of project with strong counterparty – As per the Concession Agreement, KSPPL will be receiving 30 semi-annual annuities starting six months from completion (or provisional completion) totalling to 60% of the final project completion cost, along with 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, NHAI, a key Central Government entity responsible for the development and maintenance of the national highways in the country. Further, KSPPL received its five semi-annuities, without any major deductions. Although there were procedural delays of less than 22 days in the receipt of five semi-annuities, the availability of a buffer of 2.5 months between the annuity date and the principal repayment date provides comfort to an extent.

Robust coverage indicators and presence of structural features – KSPPL is expected to have robust debt coverage indicators with DSCR above 1.3 times during the debt tenure. This provides the special purpose vehicle (SPV) adequate cushion to withstand adverse movement in the bank rate and inflation to a major extent. The credit profile is supported by the structural features of the debt facility such as the presence of escrow, cash flow waterfall mechanism, upfront creation of DSR equivalent to six months of 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. As on April 30, 2024, the company has DSRA balance of Rs. 31.6 crore, which is sufficient to cover six months' debt servicing obligations for its term loan facility and the same will be topped-up as per the future debt servicing obligations.

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. 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 the 3M T-Bill rate with quarterly reset. However, the risk is mitigated to a major extent by the healthy DSCR, which is expected to withstand 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, which exposes KSPPL to 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 financial profile (robust coverage metrics and strong counterparty – NHAI), KSPPL is expected to be able to refinance its debt within the notice period, should the lenders exercise the put option, thereby mitigating the risk related to the put option to a major extent. Further, KSPPL is likely to be transferred to Cube Highways Trust (rated [ICRA] AAA (Stable)) before the put option exercise date, post which debt at KSPPL is expected to be completely refinanced at the trust level, thereby mitigating the risk to a large extent.

Undertaking O&M as per concession requirement – KSPPL's sources of income are the annuity, interest on outstanding annuities and the annual O&M payments from the NHAI. ICRA notes the single asset nature of the project, which exposes its debt metrics to any deductions in annuity and O&M receipts. Hence, satisfactory upkeep of the carriageway and 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. Any significant deductions from the annuities or rise in routine and MM expenses from the budgeted level could impact its coverage metrics, which remain a key rating monitorable. The O&M and MM estimates factor in the

adequate cushion compared to ICRA's benchmarks of such expenses pertaining to flexible pavement. Besides, given that the traffic across the stretch is relatively moderate, there is limited wear and tear, and maintenance-related expenses are anticipated to remain within the budgeted levels. The O&M and MM activities are planned to be undertaken by the in-house team, along with supervision of a Cube Highways group entity, which has a proven track record of managing O&M for various road projects and proactively taking steps to strengthen road quality, and the same provides comfort.

Liquidity position: Adequate

The cash flow from operations is expected to be sufficient to meet the debt servicing obligations of Rs. 62.3 crore (interest and principal repayments) for FY2025. The company's liquidity position is also supported by DSRA of Rs. 31.6 crore and surplus cash and bank balances of ~Rs. 50 crore as on April 30, 2024.

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, with the cumulative DSCR reducing below 1.25 times. The rating could come under pressure if there is any non-adherence or dilution of the debt structure.

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

KNR Shankarampet Projects Private Limited is an SPV formed by KNR Constructions Ltd (KNRCL) to undertake four-laning of NH-161 from Ramsanpalle village (design km 39.980/existing km 44.757) to Mangloor village (design km 86.788/existing km 91.350) in Telangana on HAM. The total project length is 46.808 kms. The concession agreement was signed on May 9, 2018.

The project achieved PCOD effective October 5, 2021, and final completion certificate (COD) dated June 21, 2022. The project SPV was initially sponsored by KNR Constructions Ltd (KNRCL). Subsequently, KNRCL entered into an agreement with Cube Highways and Infrastructure III Pte Limited (Cube Highways) to sell the entire stake in the SPV in tranches. As of March 2024, the entire stake was held by Cube Highways.

Key financial indicators

As per IndAS accounting	FY2023 (Audited)	FY2024 (Provisional)
Operating income	60.7	58.1
PAT	-9.9	11.9
OPBDIT/OI	79.6%	70.3%
PAT/OI	-16.3%	20.5%
Total outside liabilities/Tangible net worth (times)	9.6	6.3
Total debt/OPBDIT (times)	9.6	9.2
Interest coverage (times)	1.2	1.0

Source: Company, ICRA Research; PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs. crore, KSPPL 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	Type	Current rating (FY2025)			Chronology of rating history for the past 3 years				
		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	
				May 31, 2024	Aug 21, 2023	July 18, 2022	June 14, 2022	-	
1	Term loans	Long term	373.0	372.2	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (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	May 2022	NA	Dec 2035	373.0	[ICRA]AAA (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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Branches



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