

January 20, 2025

Kallagam - Meensurutti Highway 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	455.60	455.60	[ICRA]AA (Positive); reaffirmed
Total	455.60	455.60	

*Instrument details are provided in Annexure-I

Rationale

The rating reaffirmation for Kallagam-Meensurutti Highway Private Limited (KMHPL) factors in the alleviation of execution risk with 100% completion of the project stretch and timely receipt of six annuities without any material deductions. The company has received the Provisional Completion Certificate-I (PCC-I) in October 2021 corresponding to physical progress of 73.04% and has applied for the final commercial operations date (COD) w.e.f. December 31, 2022. However, it is pending for approval with the National Highways Authority of India (NHAI, rated [ICRA]AAA (Stable)), amid the resolution of claims raised by the company. The rating favourably notes the stable revenue stream post-commissioning with 60% of the remaining project cost being paid out as annuity (adjusted for inflation) over the term of the concession from the project owner and annuity provider, the NHAI, a key Central Government entity responsible for development and maintenance of India's national highway programme. ICRA draws comfort from the 45-days buffer between the annuity date and the scheduled debt servicing date. The rating considers the availability of debt service reserve (DSR) of Rs. 26.9 crore equivalent to six months' debt servicing obligations, along with major maintenance (MM) reserve of Rs. 20.2 crore and an operations and maintenance (O&M) reserve of Rs. 16.0 crore equivalent to six months of O&M expenses, as of November 2024. The near-term debt servicing coverage ratio (DSCR) remains modest, given the special purpose vehicle (SPV) is receiving annuity for PCC-I of 73%, and the debt repayment has commenced on the entire debt drawn. Going forward, the receipt of full contractual annuities is critical for improvement in the debt coverage metrics and remains a key rating monitorable.

The rating is, however, constrained by the exposure of KMHPL's cash flows to the spread between the interest earned on the outstanding annuities linked to the Reserve Bank of India's (RBI) bank rate and the interest rate payable on the project loan linked to lender's MCLR. Its 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 rise in O&M expenses. ICRA notes the single asset nature of the project operations, thereby making the debt metrics sensitive to any deductions in annuity and O&M receipts. Hence, the company must ensure satisfactory upkeep of the carriageway as per the provisions of the Concession Agreement to avoid any deductions from the annuity amount. Nevertheless, the strong operational track record of its engineering, procurement, and construction (EPC) contractor – Oriental Structural Engineers Private Limited (OSEPL, rated [ICRA]AA (Stable)) mitigates the risk to an extent.

The debt structure remains moderate due to presence of the cross-default clause, whereby a default by the sponsor (OSEPL) will constitute as an event of default for KMHPL and could lead to acceleration of its debt at the lender's discretion. However, given its favourable operational and financial profile (robust coverage metrics and strong counterparty – NHAI), if such a clause is exercised by the lender, the company is expected to be able to refinance its debt within the available curing period of 60 days, thereby mitigating the risk to a major extent.

The Positive outlook on the rating reflects ICRA's expectation that KMHPL's credit profile will improve in the near to medium term, once it starts receiving full annuities in a timely manner, as 100% of the stretch is already completed and is awaiting final approval of COD from the NHAI.

Key rating drivers and their description

Credit strengths

Annuity nature of project with track record of six semi-annuities – KMHPL has received PCC-I in October 2021 corresponding to physical progress of 73.04% and 100% of construction works are completed, alleviating the project execution risks. The company has applied for final COD w.e.f. December 31, 2022. However, the same is pending for approval with the NHAI, amid the resolution of claims raised by the company. KMHPL has received the sixth semi-annuity in October 2024 without any material deductions based on the bid project cost (BPC) corresponding to physical progress of 73.04%, which was approved at the time of PCC-I issuance in October 2021.

Lower inherent risk in HAM projects from NHAI with low counterparty risk for annuity – The annuity nature of the project eliminates the traffic risk in the hybrid annuity model (HAM) road projects. As per the Concession Agreement, KMHPL will be receiving 30 semi-annuities starting six months from completion (or provisional 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. The project will have a stable annuity revenue stream over the term of the concession from the project owner and annuity provider, the NHAI, which is a key Central Government entity responsible for development and maintenance of India's national highway programme.

Healthy projected debt coverage indicators and structural features of the debt – Once the SPV starts getting full annuities, KMHPL is expected to have a healthy debt coverage metrics during the debt tenure. The company has created six months' DSRA of Rs. 26.9 crore and O&M reserve of Rs. 16.0 crore equivalent to six months as of November 2024. Further, there is a buffer available of 45 days between the annuity date and the scheduled debt servicing date. Structural features of the debt, such as the presence of escrow, a cash flow waterfall mechanism, DSR equivalent to ensuing six months of debt servicing obligation and creation of MMR, presence of reserves to meet regular O&M and interest obligations till the next scheduled annuity, cash sweep and restricted payment clause with a minimum DSCR of 1.15 times, provide comfort.

Credit challenges

Delay in receipt of contractual annuities could adversely impact credit metrics – The NHAI had approved provisional COD for the project stretch in October 2021 corresponding to BPC of 73.04%. Despite achieving 100% physical progress by December 2022, the final COD is pending with the NHAI amid the resolution of claims raised by the company. Further, the company has already drawdown debt of Rs. 445.6 crore, out of sanctioned amount of Rs. 455.6 crore. The debt repayment has commenced on the entire debt drawn, resulting in modest near-term DSCR. Given this, the receipt of full contractual annuities remain crucial for improvement in the debt coverage metrics and is a key rating monitorable.

Ensuring timely routine and periodic maintenance expenses; project returns exposed to spread between RBI's bank rate and interest rate charges by lenders – KMHPL's sources of income are the annuity, interest on outstanding annuities and annual O&M payments from the NHAI. ICRA notes the single asset nature of the project operations, thereby making the debt metrics sensitive to any deductions in annuity and O&M receipts. Hence, the company must ensure satisfactory upkeep of the carriageway as per the provisions of the Concession Agreement to avoid any deductions from the annuity amount. Further, 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 the lenders is linked to their respective MCLR. The spread between the RBI's bank rate and bank's MCLR, if widened, could adversely impact the projected cash flows.

Moderate debt structure due to presence of cross-default clauses – The company's debt terms have a cross-default clause, whereby any default by the sponsor (OSEPL) will constitute as an event of default for KMHPL and could lead to acceleration of its debt at the lender's discretion. However, given its favourable operational and financial profile (robust coverage metrics and

strong counterparty – NHAI), if such a clause is exercised by the lender, the company is expected to refinance its debt within the available curing period of 60 days, thereby mitigating the risk to a major extent.

Liquidity position: Adequate

The cash flows from operations is expected to be sufficient to meet the debt obligations (P+I) of Rs. 58.7 crore in FY2025 and Rs. 57.7 crore in FY2026. The company's liquidity position is supported by the availability of DSR of Rs. 26.9 crore, MM and O&M reserves of Rs. 36.2 crore and unencumbered cash balances of Rs. 33.0 crore as of November 2024.

Rating sensitivities

Positive factors – The rating could be upgraded if the company receives contracted annuities in full in a timely manner without any significant deductions.

Negative factors – Pressure on the rating could arise if there are material deductions or delays in the receipt of semiannual 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 Roads - Hybrid Annuity
Parent/Group support	NA
Consolidation/Standalone	Standalone

About the company

Kallagam - Meensurutti Highway Private Limited (KMHPL) is an SPV incorporated in March 2018, by Oriental Structural Engineers Pvt Ltd (OSEPL) to undertake the project, in concession agreement with the NHAI, for four laning of Kallagam to Karuppur from km. 38.700 to km. 50.382 and two laning with paved shoulders from Karuppur to Meensurutti from km. 50.382 to km. 98.433 under NHDP phase-IV in Tamil Nadu on design, build, operate and transfer (DBOT Annuity or Hybrid Annuity) basis.

Key financial indicators (Audited)

	FY2023	FY2024
Operating income	230.21	100.71
PAT	28.42	30.87
OPBDIT/OI	32.6%	75.4%
PAT/OI	12.3%	30.7%
Total outside liabilities/Tangible net worth (times)	4.21	3.25
Total debt/OPBDIT (times)	5.75	5.41
Interest coverage (times)	1.90	1.98

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs. crore
KMHPL 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 (FY2025)		Chronology of rating history for the past 3 years							
	Type	Amount Rated (Rs. crore)	FY2025		FY2024		FY2023		FY2022	
			Date	Rating	Date	Rating	Date	Rating	Date	Rating
Term loans	Long term	455.60	20-Jan-2025	[ICRA]AA (Positive)	08-Dec-2023	[ICRA]AA (Positive)	12-Sep-2022	[ICRA]AA (Positive)	11-Feb-2022	[ICRA]AA- (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	July 2021	NA	FY2036	455.60	[ICRA]AA (Positive)

Source: Company

Annexure II: List of entities considered for consolidated analysis: Not Applicable

ANALYST CONTACTS

Ashish Modani

+91 22 6169 3300

ashish.modani@icraindia.com

Suprio Banerjee

+91 22 6114 3443

supriob@icraindia.com

Vinay G

+91 40 6939 6424

vinay.g@icraindia.com

M Rajashekar Reddy

+91 40 6939 6423

m.rajashekarreddy@icraindia.com

KBS Siva Krishna

+91 40 6939 6415

k.krishna@icraindia.com

RELATIONSHIP CONTACT

L. Shivakumar

+91 22 6114 3406

shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani

Tel: +91 124 4545 860

communications@icraindia.com

HELPLINE FOR BUSINESS QUERIES

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

ABOUT ICRA LIMITED

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.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

ICRA Limited

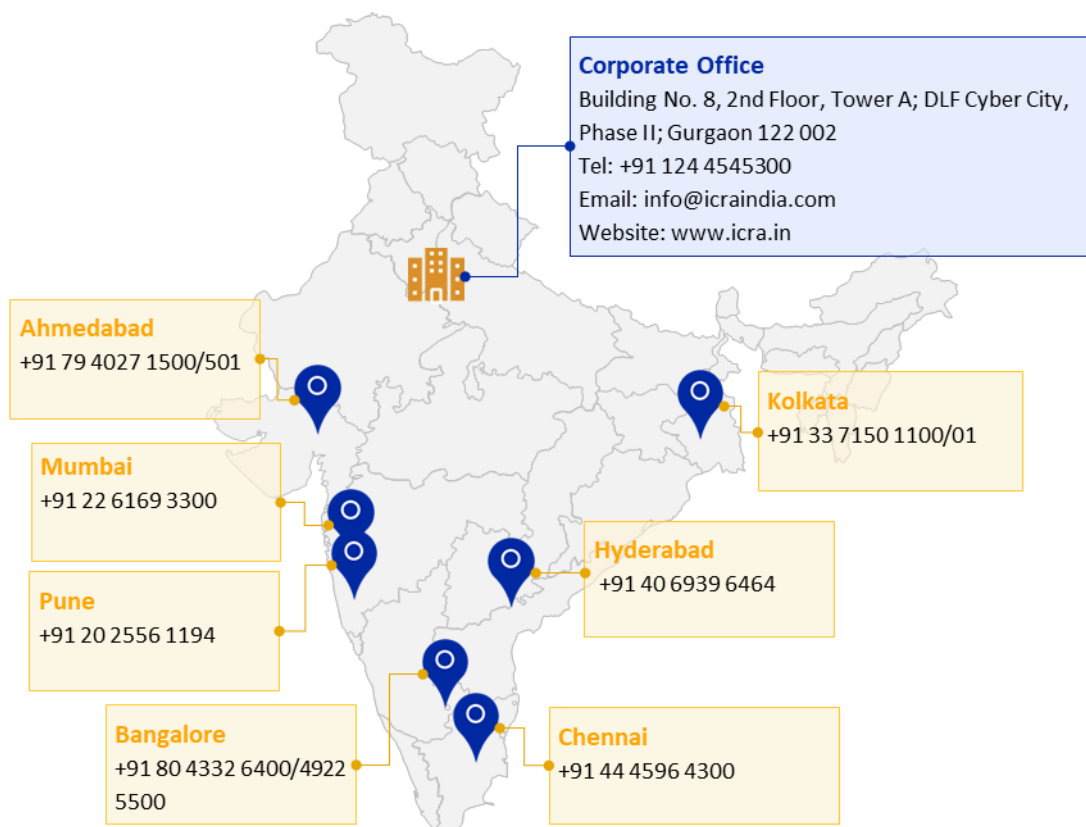


Registered Office

B-710, Statesman House, 148 Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45



Branches



© Copyright, 2025 ICRA Limited. All Rights Reserved.

Contents may be used freely with due acknowledgement to ICRA.

ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website www.icra.in or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents.