May 08, 2025

KCC Chittoor 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	550.00	550.00	[ICRA]A-(Stable); reaffirmed
Total	**550.00**	**550.00**	

**Instrument details are provided in Annexure I*

Rationale

The rating reaffirmation for KCC Chittoor Highways Private Limited (KCHPL) factors in the alleviation of project execution risk with physical progress of around 92.7% as of March 2025 and independent engineer's (IE) recommendation of achievement of provisional commercial operations date (PCOD) w.e.f. March 24, 2025 for 40.600 km, of the total project length of 43.800 km. The rating notes the receipt of nine milestone-based construction grant payments from the National Highways Authority of India {NHAI, rated [ICRA]AAA (Stable)} in a timely manner. Further, KCHPL has sought an extension of timeline (EOT) for completing the balance works. The PCOD approval, release of the tenth milestone grant (due after achieving 90% physical progress) and EOT for the project completion is pending with authority and remains a key rating monitorable. The first semi-annuity is likely to be received after 180 days from the PCOD, whereas the debt repayment will commence from the last day of the seventh month post PCOD/ commercial operation date (COD), providing a buffer of one month in case of delay in annuity receipt. Given the DSRA is not created at present, the sponsor – KCC Buildcon Private Limited {KCC, rated [ICRA]A- (Negative)/ [ICRA]A2+} is expected to infuse the funds in a timely manner to ensure debt servicing, in case of any delay in annuity receipt. ICRA notes that the interest cost and O&M expenses from the PCOD till the receipt of first annuity forms part of the overall project cost supporting the project cash flows.

The rating derives strength from the inflation-adjusted operation and maintenance (O&M) cost over the term of the concession by the project owner and annuity provider, the NHAI, which has a strong track record and credit profile, leading to lower counterparty credit risk. The rating positively factors in the structural features of the debt terms, including the presence of escrow, cash flow waterfall mechanism, provision for debt servicing reserve (DSR, to be created out of the first four annuities), provision for creation of major maintenance reserve (MMR), as per base case business plan and restricted payment clause with a minimum debt service coverage ratio (DSCR) of 1.1 times, which provides comfort.

The rating is, however, constrained by the residual execution risk (92.7% completed as of March 2025, against scheduled COD of December 2024), and EOT for the same is pending with the authority. The risk is mitigated, to an extent, by the fixed-price, fixed-time agreement with KCC and the latter's adequate project execution capabilities. The pending project cost is expected to be funded by undrawn debt, balance construction grant and pending equity as of March 2025. ICRA notes the moderation in the credit profile of the sponsor and engineering, procurement, and construction contractor, KCC. Nevertheless, the moderation in the credit profile of the sponsor is unlikely to have any material impact on the project progress of KCHPL, given the advanced stages of completion. Cost overruns, if any, owing to the delay in execution, are likely to be adequately funded by unsecured loans from KCC. The rating remains constrained by the exposure of KCHPL's cash flows to inflation risks, 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 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 an increase in routine or major maintenance (MM) from the budgeted level could impact the company's DSCR.

The Stable outlook on the rating reflects ICRA's opinion that KCHPL will be able to achieve timely completion of the project and will benefit from the stable cash flows from the annuity receipts post completion.

Key rating drivers and their description

Credit strengths

Advanced stages of project execution – KCHPL achieved physical progress of 92.7% as of March 2025 and IE recommended PCOD w.e.f. March 24, 2025 for 40.600 km, out of the total project length of 43.800 km. Though the company is exposed to residual project execution risk, it is mitigated, to an extent, by the fixed-price, fixed-time agreement with KCC and the latter's adequate project execution capabilities. The company's ability to commission the project in a timely manner and within the budgeted costs would remain important from the credit perspective. The rating notes the receipt of nine milestone-based construction grant payments from the NHAI in a timely manner. The PCOD approval, release of the tenth milestone grant (due after achieving 90% physical progress) and EOT for the project completion is pending with the authority and remains a key rating monitorable. The first semi-annuity is likely to be received after 180 days from the PCOD and the cash flows are likely to be sufficient to meet the debt servicing obligations.

Inherent benefits of HAM projects from the NHAI – The inherent benefits of the HAM project include inflation-linked revisions to the bid project cost during the construction period and relatively low equity mobilisation risk with 40% of the project cost to be funded by the authority during the construction period in the form of a grant. The project is expected to have a stable revenue stream post-commissioning as 60% of the remaining project cost will be paid out as annuity (adjusted for inflation), along with interest at the average of one-year marginal cost of fund-based lending rates (MCLRs) of the top five schedule commercial bank (SCBs, to be reset every quarter) plus spread of 1.25%, and the inflation-adjusted O&M cost bid over the 15-year operations period by the project owner and annuity provider, the NHAI, a key Central Government entity that develops and maintains India's national highways.

Adequate coverage indicators and presence of structural features – KCHPL is expected to maintain adequate debt coverage indicators. Further, the presence of structural features of the debt, including escrow, cash flow waterfall mechanism, provisions for DSRA (to be created out of the first four annuities) and creation of MMR and restricted payment clause with a minimum DSCR of 1.1 times, provides comfort. Given the DSRA is not created at present (and will be fully funded after receipt of fourth annuity), the sponsor is expected to infuse the funds in a timely manner for debt servicing, in case of any delay in annuity receipt. KCC has extended an undertaking towards cost overruns during the construction phase and any shortfall in O&M expenses and debt servicing during the operations period.

Credit challenges

Project's cash flows and returns exposed to interest rate and inflation risks – The project cash flows and returns are sensitive to the spread between the interest to be paid by the NHAI on the outstanding annuities linked to the average of one-year MCLRs of top five SCBs and the interest rate payable on the outstanding debt, linked to lender's MCLR. Further, KCHPL's cash flows are exposed to inflation risks as O&M receipts, though linked to inflation (70% WPI and 30% CPI), may not be adequate to compensate for any increase in O&M/periodic maintenance expenses.

Undertaking O&M as per concession requirement and risk of deductions from annuity – KCHPL's sources of income shall include annuity, interest on outstanding annuities and the annual O&M payments from the NHAI. Hence, regular, and periodic maintenance of the project stretch as per the concession agreement is important for receiving full annuity receipts. 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. An increase in expenditure towards regular or periodic maintenance will have a bearing on the DSCR and remains a key credit sensitivity. The special purpose vehicle (SPV) shall enter into a fixed-price O&M and MM contract with its sponsor, KCC, who has an adequate track record of managing road assets. However, any material deterioration in KCC's credit profile impacting KCHPL's ability to undertake maintenance activities will remain a monitorable.

Liquidity position: Adequate

KCHPL's liquidity position is likely to be adequate, supported by timely receipt of annuities without any major deductions. The company's debt servicing obligations would be ~Rs. 96 crore over the next 12-18 months and the cash flows from operations are likely to remain sufficient to meet O&M expenditure and debt servicing requirements. Moreover, the sponsor is likely to extend timely funding support to ensure debt servicing, in case of any delay in annuity receipt.

Rating sensitivities

Positive factors – The rating could be upgraded upon timely receipt of semi-annuity and O&M payments without any material deductions and full creation of DSRA, while maintaining healthy coverage metrics.

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 additional indebtedness resulting in significant deterioration in coverage metrics. Non-adherence/weakening of debt structure, or material deterioration in the sponsor's credit profile could exert pressure on the rating.

Analytical approach

Analytical approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Roads - Hybrid Annuity
Parent/Group support	Not applicable
Consolidation/Standalone	Standalone

About the company

KCHPL is an SPV formed in June 2021 by KCC for undertaking a road project awarded by the NHAI. The project involves developing the six-lane Chittoor-Thatchur highway from km 0.000 to km 43.800, under Bharatmala Pariyojna, in Andhra Pradesh and Tamil Nadu (Package-I) on HAM basis. The concession agreement was signed on November 10, 2021 and the appointed date was December 6, 2022. The construction period for the project is two years from the appointed date, and the operations period is 15 years from the COD. The BPC is Rs. 1,431.0 crore, with first year O&M cost of Rs. 2.74 crore. The company has achieved physical progress of 92.7% as of March 24, 2025.

Key financial indicators (audited)

The key financial indicators are not applicable as KCHPL is a project-stage company.

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instruments	Current (FY2026)			Chronology of rating history for the past 3 years					
	Type	Amount rated (Rs. crore)	May 08, 2025	FY2025		FY2024		FY2023	
				Date	Rating	Date	Rating	Date	Rating
Fund-based – Term loan	Long-term	550.00	[ICRA]A- (Stable)	Apr 12, 2024	[ICRA]A- (Stable)	-	-	Jan 05, 2023	[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	**Fund-based – Term loan**	FY2023	NA	FY2038	550.00	[ICRA]A- (Stable)

Source: Company, ICRA Research

[*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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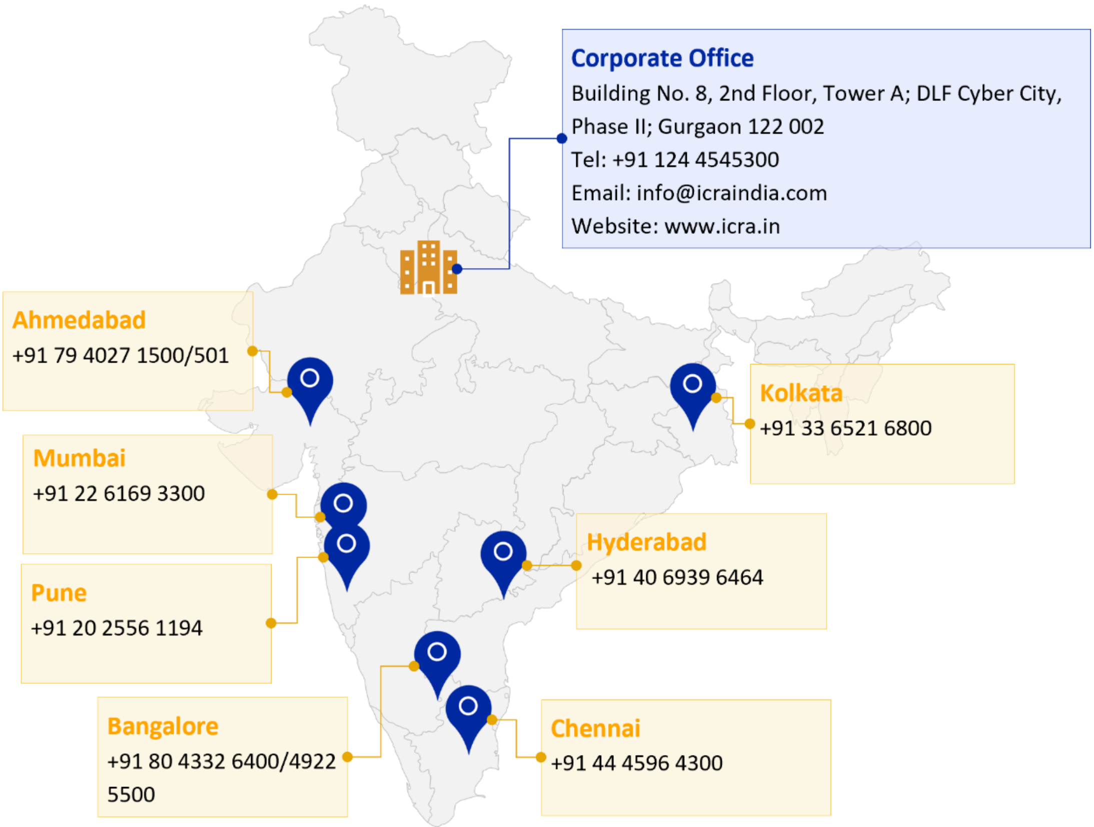

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