

September 25, 2020

Kalthia Infra-Con Private Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund Based – Term Loan	50.92	50.92	[ICRA]A-(CE) (Stable); Reaffirmed
Total	50.92	50.92	
*Instrument details in Annexure-1			
Rating Without Explicit Credit Enhancement			[ICRA]BBB+

Note: The (CE) suffix mentioned alongside the rating symbol indicates that the rated instrument/facility is backed by some form of explicit credit enhancement. Earlier, the rating symbol for this instrument/facility used to be accompanied by the (SO) suffix. The change in suffix is not to be construed as a change in rating. This rating is specific to the rated instrument/facility, its terms and its structure and does not represent ICRA's opinion on the general credit quality of the entity concerned. The last row in the table above also captures ICRA's opinion on the rating without factoring in the explicit credit enhancement

Rationale

ICRA has taken a consolidated view of Kalthia Engineering and Construction Ltd. (KECL) as well as its subsidiaries and special purpose vehicles (SPVs) incorporated to carry out road construction projects, wherein KECL has extended corporate guarantees towards their debt obligations. The above rating considers the strength of the corporate guarantee provided by KECL, the parent of Kalthia Infra-Con Private Limited (KICPL), for the bank line facilities of KICPL. The Stable outlook on this rating reflects ICRA's outlook on the rating of the guarantor, KECL.

Adequacy of credit enhancement

The guarantee is legally enforceable, irrevocable, unconditional and covers the entire amount and tenor of the rated instrument. Given these attributes, the guarantee provided by KECL is adequately strong to result in an enhancement in the rating of the said instrument to [ICRA]A-(CE) against the rating of [ICRA]BBB+ without explicit credit enhancement. In case the rating of the guarantor is to undergo a change in future, the same would reflect in the rating of the aforesaid instrument as well.

Salient covenants related to the credit enhancement, as specified in the terms of the transaction

- » *The guarantee is unconditional, irrevocable and absolute.*
- » *The Guarantor shall, on demand, forthwith pay the guaranteed obligations without demur or protest.*
- » *The guarantee is a continuing security and shall remain in full force till all dues under the above-mentioned facilities are met.*

Key rating drivers and their description

Credit strengths

Strong backing from KECL – KICPL's sponsor company, KECL, has an extensive experience in the road construction sector. Its proven track record and adequate infrastructure, along with AA-class registration, places it among the top construction companies in the country. This, coupled with the presence of an experienced management team and professionals, ensures adequate in-house project execution capabilities.

Annuity and operational nature of project eliminates traffic and construction risks – The project constructed and being operated by KICPL is an annuity-based design, build, finance, operate, transfer (DBFOT) project. Given its annuity nature, it has a fixed income stream and faces lower revenue risk than toll-based projects, where the revenue is a function of traffic volume.

Availability of adequate cushion period provides comfort with regard to repayments – The company has structured its term loan such that the repayment date falls due about 30 days after the annuity receipt date. Thus, adequate cushion period is available in case of delay in the receipt of annuity payments. Further, KICPL maintains debt-service reserve account (DSRA) to the extent of financial obligations of six months as per the sanctioned terms, which also provides comfort.

Corporate guarantee from sponsor – KECL has provided an unconditional and irrevocable corporate guarantee for the bank facilities of KICPL.

Credit challenges

Vulnerability of cash flow to delay in receipt or non-receipt of annuity payment – Annuity receipt from the R&B, Gujarat Government is the major income source for KICPL and any significant delay in receipt of the same could affect its debt servicing ability. However, this is partly mitigated by a clean record with none of the 14 annuities received so far, having been delayed by more than a month. Additionally, the company is required to maintain the road over the concession period and is, thus, exposed to the risk of not being able to meet the prescribed quality standards, which could result in annuity deduction.

Volatility in maintenance cost and interest rate can affect margins – The O&M cost incurred by the company to meet the prescribed standards is a function of annual inflation in the raw material prices. Additionally, the interest rate on term loan for this project is floating, exposing KICPL to any volatility in interest rates.

Liquidity position: Adequate

KICPL's liquidity position is driven by the liquidity position of its guarantor, KECL. Further, the company's liquidity is supported by timely receipt of annuities from the concerned authority.

Rating sensitivities

The rating assigned to the bank lines of KICPL will remain sensitive to any movement in the rating or outlook of the guarantor, KECL.

Analytical approach:

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for BOT (Annuity) Roads Consolidation and Rating Approach Impact of Parent or Group Support on an Issuer's Credit Rating Approach for rating debt instruments backed by third-party explicit support
Parent/Group Support	Parent: Kalthia Engineering and Construction Ltd The assigned ratings are based on unconditional, irrevocable corporate guarantee extended by KICPL's parent company, KECL.
Consolidation / Standalone	For arriving at the ratings, ICRA has consolidated the financials of the various group entities of KECL (as mentioned in Annexure-2) given the close business, financial and managerial linkages among them.

About the company

KICPL is a wholly-owned subsidiary of KECL. KICPL, a special purpose vehicle (SPV), entered into a 13 years six months concession agreement on January 5, 2012 with the Road and Building Department, Government of Gujarat for the DBFOT of a 50 km road project for the widening and strengthening of the existing two-lane and paved shoulders of district border to Jasdan bypass (167.00 km to 198.20 km) and Lakhatar to Wadhwan (km 101.50 to 120.30 of SH-17) on state highway no. 17 in Gujarat. The project was completed on May 11, 2013, which was 227 days ahead of the scheduled commercial operation date of December 25, 2013.

Key financial indicators (Audited)

	FY2019	FY2020*
Operating Income (Rs. crore)	13.5	13.5
PAT (Rs. crore)	0.5	2.2
OPBDIT/ OI (%)	59.2%	64.0%
RoCE (%)	9.2%	13.1%
Total Debt/ TNW (times)	2.3	2.0
Total Debt/ OPBDIT (times)	3.7	3.4
Interest Coverage (times)	2.5	2.7

* provisional

About the guarantor

Established in 1960 as a partnership firm in Bhavnagar, Gujarat, Kalthia Engineering and Construction limited (KECL) was converted into a limited company in 1996. KECL is promoted by Mr. Ratilal Kalthia along with his sons Mr. Hitesh Kalthia and Mr. Kalpesh Kalthia. The company is primarily involved in civil construction (mainly roads, pipe-laying, building bridges, etc). KECL is recognised as an AA-class (highest in the scale of AA to E) contractor by the Public Works Department (PWD) of the Government of Gujarat. The company's registered office is in Ahmedabad (Gujarat). Its major clients include the National Highway Authority of India (NHAI), R&B Division (Jamnagar), R&B Division (Rajkot), Gujarat Urban Development Corporation and Executive Engineer (GIDC Bharuch), among others.

For detailed rating rationale on Kalthia Engineering and Construction Limited, [click here](#).

Key financial indicators (Audited) - Standalone

	FY2019	FY2020*
Operating Income (Rs. crore)	706.3	979.3
PAT (Rs. crore)	26.1	42.3
OPBDIT/ OI (%)	7.1%	8.4%
RoCE (%)	19.5%	24.9%
Total Debt/ TNW (times)	0.4	0.5
Total Debt/ OPBDIT (times)	1.5	1.3
Interest Coverage (times)	8.8	5.9

* provisional

Status of non-cooperation with previous CRA: Not Applicable

Any other information: None

Rating history for last three years

Current Rating (FY2020)									Chronology of Rating History for the past 3 years			
					Date &Rating (FY2021)							
							Date & Rating in FY2020		Date & Rating in FY2019		Date & Rating in FY2018	
Instrument		Type	Amount Rated (Rs. crore)	Amount Outstan- ding (Rs.crore)	September 25, 2020	November 15, 2019		May 21, 2018		May 1, 2017		
1	Term Loan	Long-Term	50.92	29.38	[ICRA]A-(CE) (Stable)	[ICRA]A-(CE) (Stable)		[ICRA]A-(SO) (Stable)		[ICRA] A-(SO)(Stable)		

Complexity level of the rated instrument

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1: Instrument details

ISIN No	Instrument Name	Date of Issuance/ Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term loan	December 2014	-	FY2023	50.92	[ICRA]A-(CE) (Stable)

Source: KICPL

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership by KECL	Consolidation Approach
Kalthia Engineering and Construction Ltd	-	Parent Company of KIPL
KIPL Energie Pvt Ltd	78.17%	Full Consolidation
Kalthia Infra-con Pvt Ltd	100%	Full Consolidation
Kalthia Infra Pvt Ltd	100%	Full Consolidation
Kalthia Priyheer Infrastructure Pvt Ltd	26%	Full Consolidation
Kalthia AshtiPachod Pvt Ltd	100%	Full Consolidation
Kalthia BagodaraTarapur Highway Pvt Ltd	100%	Full Consolidation

Source: KICPL

ANALYST CONTACTS

Shubham Jain

+91 124 4545 306

shubhamj@icraindia.com

Ankit Patel

+91 79 4027 1509

ankit.patel@icraindia.com

Ravish Mehta

+91 79 4027 1522

ravish.mehta@icraindia.com

RELATIONSHIP CONTACT

Jayanta Chatterjee

+91 80 4332 6401

jayantac@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

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For more information, visit www.icra.in

ICRA Limited

Corporate Office

Building No. 8, 2nd Floor, Tower A; DLF Cyber City, Phase II; Gurgaon 122 002

Tel: +91 124 4545300

Email: info@icraindia.com

Website: www.icra.in

Registered Office

1105, Kailash Building, 11th Floor; 26 Kasturba Gandhi Marg; New Delhi 110001

Tel: +91 11 23357940-50

Branches

Mumbai + (91 22) 24331046/53/62/74/86/87
Chennai + (91 44) 2434 0043/9659/8080, 2433 0724/ 3293/3294,
Kolkata + (91 33) 2287 8839 /2287 6617/ 2283 1411/ 2280 0008,
Bangalore + (91 80) 2559 7401/4049
Ahmedabad+ (91 79) 2658 4924/5049/2008
Hyderabad + (91 40) 2373 5061/7251
Pune + (91 20) 2556 0194/ 6606 9999

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