

November 15, 2019

Kalthia Infra Projects Private Limited: Rating reaffirmed

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund Based – Term Loan	147.86	147.86	[ICRA]BBB+ (Stable); reaffirmed
Total	147.86	147.86	

*Instrument details in Annexure-1

Rationale

The rating reaffirmation factors in the inherent benefits of the hybrid-annuity based nature of the project (HAM) including upfront availability of right of way (RoW), inflation linked¹ revisions to bid project cost during construction period and relatively lower equity mobilisation risk with 40% of the project cost to be funded by the authority during the construction period through grants. The rating also considers the strong sponsor profile of Kalthia Engineering and Construction Limited (KECL, rated [ICRA]A- (Stable)/ [ICRA]A2+). Further, KECL has provided an undertaking to financially support the project in case of cost overruns during the construction phase, any shortfall in operations and maintenance (O&M) expenses, and debt servicing in case of invocation of deemed performance security. The rating also factors in 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, National Highway Authority of India (NHAI, rated [ICRA]AAA(Stable)), which is a key Central Government entity entrusted with the responsibility of development and maintenance of India's national highway programme. The rating further draws comfort from the appointment of KECL as the fixed-price engineering, procurement and construction (EPC) contractor for executing the project, which has demonstrated a track record of project execution within budgeted time and costs.

The company has received an appointed date for the project in September 2017 and the total project cost of Rs. 370 crore is being funded in the debt-to-equity ratio of 2.9:1, net of the NHAI grant. The rating also factors in the limited funding risk as entire equity commitment has been brought in by KECL and Kalthia Infra Projects Private Limited (KIPPL) has access to sanctioned term loan of Rs. 147.86 crore, out of which it has availed Rs. 120 crore. KIPPL has received order for a change in the scope of the Rs. 65-crore project, hence the revised expected completion date is March 2020.

ICRA believes KIPPL will continue to benefit from the strong execution capabilities of the ultimate sponsor and EPC contractor, KECL.

¹ Based on annual change in price index multiple (PIM) from the base year

Key rating drivers

Credit strengths

Strong profile of the sponsor and limited funding risk – KECL, the sponsor of KIPPL, has a well-established and reputed image in the civil construction industry. Further, KIPPL has received the entire equity requirement of Rs. 60 crore from KECL and has availed Rs. 120 crore out of the total sanctioned term loan of Rs. 147.86 crore. Hence, the funding risk of the project remains limited.

Benefits accruing from the Hybrid-Annuity Model (HAM) – The project, being executed under HAM, would be supported by benefits inherent under HAM such as upfront availability of RoW, inflation-linked revisions to bid project cost during construction period and relatively lower risk of equity mobilisation with 40% of the project cost to be funded by grants from the authority during the construction period. The project will have a stable revenue stream in the form of annuity that would be received post-commissioning (equivalent to 60% of the project cost) over the term of the concession period from NHAI, a central government entity.

Established track record of KECL in road construction – KIPPL has entered into fixed-price EPC contract with KECL, which has multiple decades of experience, especially in the road construction business. The company has an established track record of timely execution of projects within the budgeted cost.

Undertaking from the sponsor – KECL has provided an undertaking towards financial support in case of cost overrun during the construction phase, any shortfall in O&M expenses and debt servicing in case of invocation of deemed performance security.

Credit weaknesses

Project exposed to moderate execution risk – The project is vulnerable to moderate execution risks as it is currently under execution and is scheduled for completion in March 2020. However, KIPPL has completed ~75% of the total project work, which is a low-complexity project with the implementation risk mitigated to an extent by the fixed-price, fixed-time contract and strong project execution capabilities of KECL.

Project returns exposed to changes in inflation and interest rate risk – KIPPL's cash flows are exposed to interest rate risk given the floating nature of interest rates for the project term loan. In an event of persistently low rates of inflation, the interest payments on annuity might be lower-than-expected.

Proper maintenance of lanes to be ensured for receipt of annuity payments - KIPPL's source of income is the annuity, interest on outstanding annuities and annual O&M payments from NHAI. Hence, ensuring proper maintenance of roads along with zero deduction in annuity receipts will be a key credit sensitivity for KIPPL, going forward.

Liquidity position: Adequate

The project has progressed significantly with ~75% of the project work completed. The company has adequate liquidity to complete the remaining project since it has access to funds infused in the form of equity by the sponsor as well as undrawn term debt of Rs. 27.86 crore as on August 31, 2019. The liquidity is also supported by mobilisation advances and grant from NHAI.

Rating sensitivities

Positive triggers: The rating could be upgraded if the project is executed significantly ahead of schedule within the budgeted costs and the annuities are received on time starting from September 2020.

Negative triggers: Downward pressure on the ratings could emerge in case of any significant deviations from the proposed construction timelines and project cost or significant delay in receipts of annuities.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for BOT (Hybrid Annuity Model) Roads Impact of Parent or Group Support on an Issuer's Credit Rating
Parent/Group Support	The rating assigned to KIPPL factors in the very high likelihood of its parent, KECL [rated [ICRA]A- (Stable)/A2+], extending financial support to it because of close business linkages between them. We also expect KECL to be willing to extend financial support to KIPPL out of its need to protect its reputation from the consequences of a group entity's distress.
Consolidation/Standalone	The rating is based on the standalone financial profile of the company

About the company:

Kalthia Infra Projects Private Limited (KIPPL) is a wholly owned subsidiary of KECL. KIPPL is an SPV formed on the basis of a 17-year concession agreement (including two years of construction period) on February 15, 2017, wherein NHAI is to undertake the four/two laning (with paved shoulders) of the Gadu–Porbandar section of NH-8E in Gujarat through a private public partnership (PPP) model on a hybrid annuity mode. The construction of the project started in September 2017 and is expected to be completed by March 2020, since the company received additional work as change of scope on EPC basis.

Key Financial Indicators (Audited)

Key financial indicators are not applicable as KIPPL is a project stage company.

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		
Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating (FY2020)	Date & Rating in FY2019	Date & Rating in FY2018	Date & Rating in FY2017
				November 15, 2019	May 21, 2018	-	-
1	Fund Based	147.86	120.00	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (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	April 2017	10.0%	December 2031	147.86	[ICRA]BBB+ (Stable)

Source: KIPPL

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