March 31, 2023

KCPL SPUR Haridwar Highway Private Limited: [ICRA]BBB+ (Stable) assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Fund-based – Term loan	627.00**	[ICRA]BBB+ (Stable); assigned
Total	**627.00**	

**Instrument details are provided in Annexure-I*

***Rs. 162.25 crore of non-fund based limit (for BG against mobilisation advances) as a sub-limit of the term loan facility.*

Rationale

The rating assigned to KCPL SPUR Haridwar Highways Pvt Ltd (KSHHPL) takes into account the financial profile and track record of its sponsor and engineering, procurement and construction (EPC) contractor – Krishna Constellation Private Limited (KCPL). ICRA notes that KCPL has provided a corporate guarantee until receipt of first semi-annuity payment and a sponsor's undertaking towards cost overrun during the construction phase, and to meet any shortfall in operations and maintenance (O&M) expenses. The rating favourably factors in the inherent benefits of the hybrid-annuity model (HAM) based nature of the project including upfront availability of right of way (RoW)[1], automatic de-scoping of RoW pending beyond 180 days from the appointed date, inflation-linked[2] revisions to the bid project cost (BPC) during the construction period, and relatively lower equity mobilisation risk with 40% of the BPC to be funded by the authority during the construction period in the form of grant from the National Highways Authority of India [NHAI, rated [ICRA]AAA(Stable)]. The rating positively considers the credit support provided by the structural features of the debt, including the presence of escrow, cash flow waterfall mechanism, provision for debt servicing reserve (DSR, to be created out of the first two annuities), provision for creation of major maintenance reserve (MMR), as per the 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 notes the stable revenue stream expected post commissioning with 60% of the inflation-adjusted BPC being paid out as annuity, along with interest at the average of one year MCLR[3] of the top five scheduled commercial banks (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 strong counterparty, NHAI.

The rating is, however, constrained by the execution risks involved in the under-construction projects including risk of time and cost overruns. The project has recently received appointed date as February 20, 2023, and it is in the nascent stage of execution. However, the risk is mitigated, to an extent, by the fixed-price [subject to pass-through of the price index multiple (PIM) component received from the NHAI], fixed-time EPC contract with KCPL, which has a healthy track record of project execution. The company's ability to commission the project in a timely manner and within the budgeted costs would remain important from the credit perspective. KSHHPL is exposed to equity mobilisation risk as almost entire equity was yet to be infused as on February 28, 2023. However, healthy financial risk profile of KCPL provides comfort. Post commissioning, 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 increase in routine and major maintenance (MM) from the budgeted level could impact its DSCR. Further, KSHHPL's cash flows are exposed to inflation risk as O&M receipts, though linked to

[1] *At least 80% prior to the appointed date.*

[2] *Based on annual change in price index multiple (PMI) from the base year – PMI is the weighted average of Wholesale Price Index (WPI) and Consumer Price Index (CPI) (IW) in the ratio of 70:30.*

[3] *The authority shall declare the list of top five SCBs on 1st of September every calendar year based on the balance sheet size as declared in their annual reports. The one-year MCLR of the top five SCBs shall be taken at the start of every quarter.*

inflation index (70% WPI and 30% CPI), may not be adequate to compensate for the actual increase in O&M/periodic maintenance expenses.

Key rating drivers and their description

Credit strengths

Above average financial profile of sponsor and EPC contractor – KSHHPL is a subsidiary of KCPL, with 100% shareholding. The total estimated project cost of Rs. 1510.0 crore (including GST which is part of project cost) is planned to be funded by NHAI's grant of Rs. 696.20 crore (including GST of Rs.106.20 crore), external debt of Rs. 627.0 crore and promoter's contribution/equity of Rs. 186.8 crore. It is exposed to equity mobilisation risk as almost the entire equity is yet to be infused as of February 2023. However, ICRA has taken comfort from KCPL's healthy financial profile to meet its equity commitment in this project. KCPL is undertaking four HAM projects, which require total equity infusion of ~Rs. 700 crore over the next two years. KCPL plans to meet the same from available unencumbered cash and bank balance and accruals from operations during this period, besides support from promoters if required. Nevertheless, any further significant investments in additional HAM projects over the near term could impact its financial risk profile.

Lower inherent risks in HAM projects from the NHAI – The inherent benefits of the hybrid-annuity based nature of the project include upfront availability of RoW, de-scoping of RoW pending beyond 180 days from the appointed date, inflation-linked revisions to the BPC during the construction period. Moreover, it faces relatively lower equity mobilisation risk with 40% of the BPC to be funded by the authority during the construction period through a grant. Stable revenue stream post commissioning with 60% of the inflation-adjusted BPC being paid out as annuity, along with interest at the average of one-year MCLRs of the top five 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 NHAI, which is a strong counterparty, provide comfort.

Comfortable coverage indicators and presence of structural features – The project is expected to achieve the commercial operations date (COD) within two years from the appointed date, which is February 20, 2023. If the overall project cost remains within the budgeted level, once operational, KSHHPL is likely to have comfortable debt coverage indicators as per ICRA's estimates. This provides the special purpose vehicle (SPV) adequate cushion to withstand adverse movement in the interest on annuity and inflation to a major extent. The credit profile is supported by KCPL's undertaking towards cost overrun during the construction phase and any shortfall in O&M expenses.

Credit challenges

Execution risk related to under-construction project – The project is in the initial stage of construction, which exposes the SPV to execution risk including risks of delays and cost overruns. However, the risk is mitigated to an extent by the fixed-price (subject to pass-through of PIM component), fixed-time contract executed with KCPL. KCPL's long execution track record mitigates the execution risk to an extent. KCPL's ability to commission the project in a timely manner and within the budgeted costs would remain important from the credit perspective.

Project cash flows and returns exposed to inflation risks – The project's cash flows and returns are exposed to inflation risk as O&M receipts, though linked to inflation (70% WPI and 30% CPI), may not be adequate to compensate for the increase in O&M/periodic maintenance expenses.

Undertaking O&M and MM as per concession requirement and within budgeted cost – Post commissioning, 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 increase in routine and MM expenses from the budgeted level could impact its DSCR.

Liquidity position: Adequate

The liquidity position is supported by undrawn sanctioned term loan facility, grants receivable from the NHAI and equity infusion from KCPL.

Rating sensitivities

Positive factors – The rating could be upgraded once the project achieves completion without any significant delays or cost overruns, or if there is an improvement in the credit profile of the sponsor.

Negative factors – Negative pressure on the rating could arise if the project progress is delayed, leading to significant time and cost overruns, or if there is a deterioration in the credit profile of the sponsor, or if delays in receipt of grant or equity infusion results in increased funding risks for the project.

Analytical approach

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

About the company

KCPL SPUR Haridwar Highway Private Limited is an SPV promoted by Krishna Constellation Private Limited (KCPL; formerly known as Krishna Constructions). The SPV was formed in February 2022 for development of six-lane access-controlled Spur to Haridwar from Delhi-Saharanpur-Dehradun Economic Corridor in Uttar Pradesh and Uttarakhand, on HAM basis, under Bharatmala Pariyojana (From Ch. 0+000 to Ch. 50+700). The construction and operations period for the project is 2 years and 15 years, respectively. The concession agreement was signed on June 23, 2022 and appointed date is February 20, 2023.

Key financial indicators (audited)

The key financial indicators are not applicable as KCPL SPUR Haridwar Highway Private Limited is a project-stage company.

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2023)				Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Amount outstanding as on Feb 28, 2023 (Rs. crore)	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021	Date & rating in FY2020
					Mar 31, 2023	-	-	-
1	Term loans	Long term	627.00**	0.00	[ICRA]BBB+ (Stable)	-	-	-

***Rs. 162.25 crore of non-fund based limit (for BG against mobilisation advances) as a sub-limit of the term loan facility.*

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**	January 2023	-	September 2038	627.00**	[ICRA]BBB+ (Stable)

Source: Company

***Rs. 162.25 crore of non-fund based limit (for BG against mobilisation advances) as a sub-limit of the term loan facility.*

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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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.

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