

December 08, 2023

## 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
<b>Total</b>	<b>455.60</b>	<b>455.60</b>	

\*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 completion of the balance works. Further, KMHPL 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)). KMPHL has received the fourth semi-annuity in October 2023 based on the Bid Project Cost (BPC) corresponding to physical progress of 73.04%, which was approved as a part of the provisional commercial operations date (PCOD) received in October 2021. KMHPL has drawn debt to the extent of Rs. 445.64 crore (against sanction of Rs. 455.60 crore) and has repayments of Rs. 22.3 crore in FY2024. Given the special purpose vehicle (SPV) is receiving annuity for PCOD of 73%, and the debt repayment has commenced on the entire debt drawn, the near-term debt servicing coverage ratio (DSCR) remains modest. Going forward, receipt of full contractual annuities is critical for improvement in the debt coverage metrics and remains a key rating monitorable. The rating positively considers the availability of debt service reserve (DSR) of Rs. 27.5 crore, equivalent to six months' debt servicing obligations, and an operations and maintenance (O&M) reserve of Rs. 20.2 crore equivalent to six months of O&M expenses, as of November 2023. ICRA also draws comfort from 45 days buffer between the annuity date and the scheduled debt servicing date.

The rating continues to derive comfort from the strong operational track record of its sponsor and engineering, procurement, and construction (EPC) contractor – Oriental Structural Engineers Private Limited (OSEPL, rated [ICRA]AA (Stable)). The rating positively 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.

The rating strengths are partially offset 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. KMHPL's 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. Further, 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. Any material deductions from annuities or significant increase in routine and major maintenance (MM) from the budgeted level could adversely affect KMHPL's coverage metrics. The debt structure remains moderate due to the 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, 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 will start receiving full annuities in a timely manner.

## Key rating drivers and their description

### Credit strengths

**Annuity nature of project with track record of four semi-annuities** – 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. KMHPL has applied for final COD w.e.f December 31, 2022. However, it is pending for approval with the NHAI. KMHPL has received the fourth semi-annuity in October 2023 based on BPC corresponding to physical progress of 73.04%, which was approved as a part of PCOD received 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. High certainty of cash flows (except for the bank rate, and inflation) from a strong counterparty (NHAI) is a key strength for the company.

**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 DSCR during the debt tenure. The company has created six months' DSRA of Rs. 27.5 crore and O&M reserve of Rs. 20.2 crore equivalent to six months as of November 2023. 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, DSRA 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%. The company has received four annuities till date. Despite achieving 100% physical progress by December 2022, the fourth annuity was received on BPC of 73.04% owing to pending receipt of the final COD by the NHAI. Further, it has entirely drawn the sanctioned debt and has repayments of Rs. 22.3 crore in FY2024. Given this, the near-term DSCR remains modest and 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** – Post commissioning, the company will have to undertake the O&M of the project stretch as per the concession agreement to avoid any deductions from annuities. Any significant deduction from annuities or increase in routine and MM from the budgeted level could impact its DSCR. 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 the 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, thereby mitigating the risk to a major extent.

## Liquidity position: Adequate

The cash flows from operations are expected to be sufficient to meet the debt (P+I) repayment obligations of Rs. 58.4 crore in FY2024 and Rs. 60.8 crore in FY2025. The company's liquidity position is supported by the availability of DSRA of ~Rs. 27.5 crore as of November 2023.

## 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 is further delay in receiving the final completion certificate or if there are major deductions, or delays in the receipt of semi-annual annuities or O&M payments, or if the O&M expenses significantly exceed the estimates. Any additional debt availed by the SPV that impacts its coverage indicators, with the cumulative DSCR reducing below 1.25 times may trigger a downward rating revision. 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	<a href="#">Corporate Credit Rating Methodology</a> <a href="#">Rating Methodology for BOT (Hybrid Annuity Model) Roads</a>
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 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 (the project) on design, build, operate and transfer (the DBOT Annuity or Hybrid Annuity) basis. The PCOD of the project was October 19, 2021.

## Key financial indicators

	FY2022 (Audited)	FY2023 (Prov.)
Operating income	368.4	230.2
PAT	21.0	28.4
OPBDIT/OI	15.3%	32.6%
PAT/OI	5.7%	12.3%
Total outside liabilities/Tangible net worth (times)	5.1	4.2
Total debt/OPBDIT (times)	6.6	5.7
Interest coverage (times)	2.0	1.9

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	Type	Current rating (FY2024)		Chronology of rating history for the past 3 years				
		Amount rated (Rs. crore)	Amount outstanding as on Nov 30, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021	
				Dec 08, 2023	Sep 12, 2022	Feb 11, 2022	Feb 04, 2021	Sep 10, 2020
1 Term loans	Long term	455.60	400.08	[ICRA]AA (Positive)	[ICRA]AA(Positive)	[ICRA]AA-(Stable)	[ICRA]A-(Stable)	[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 facility – Term Loan	July 2021	NA	FY2036	455.60	[ICRA]AA (Positive)

Source: Company

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

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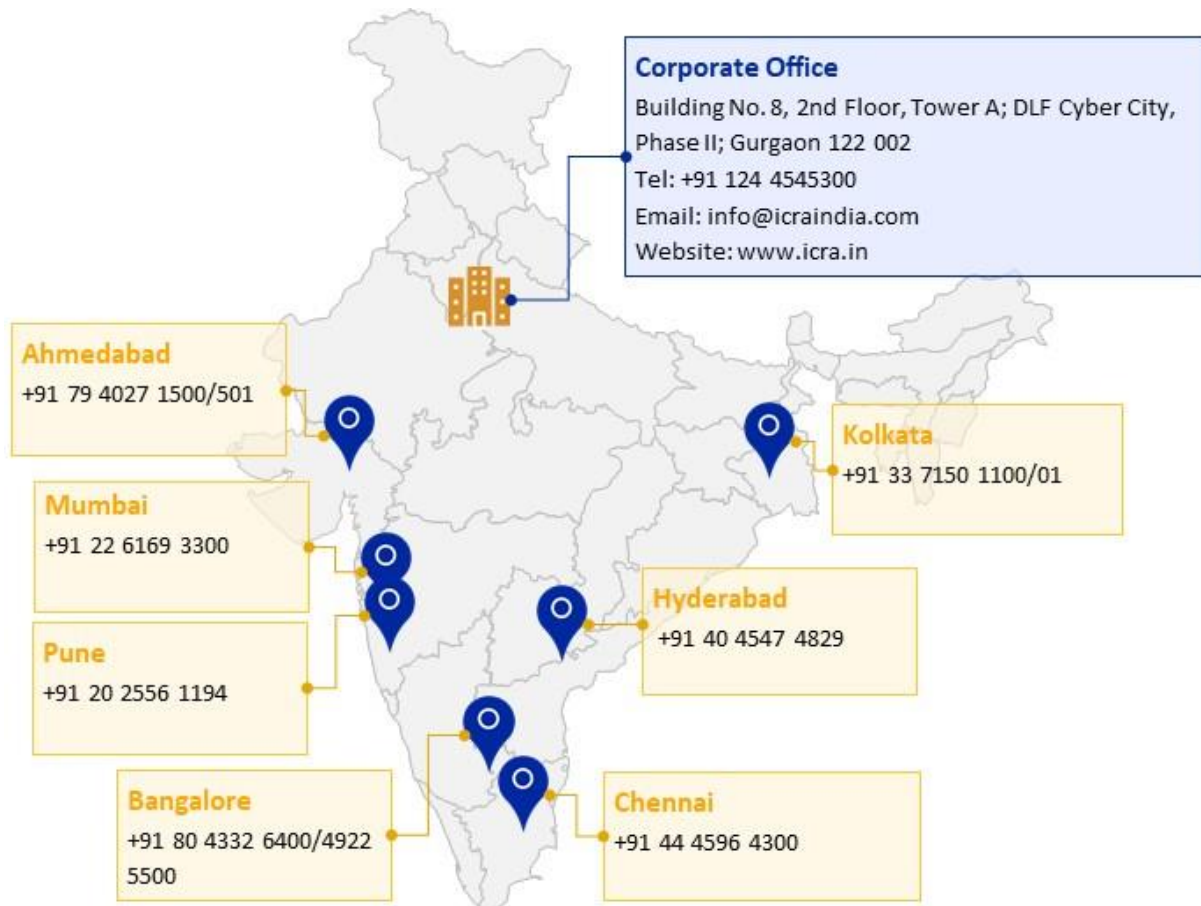
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