

February 19, 2024

## Kokhraj Handia Expressway Private Limited: Provisional [ICRA] AA (Stable) assigned

### Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action**
Long-term – Fund-based / Term loan	1600.00	Provisional [ICRA] AA (Stable); assigned
Long-term – Non-fund based / Bank guarantee	30.00	Provisional [ICRA] AA (Stable); assigned
<b>Total</b>	<b>1630.00</b>	

\*Instrument details are provided in Annexure-I

\*\* The rating assigned to Bank facilities is provisional as of now and is subject to the fulfilment and review of all pending actions/ documentation. The final rating may differ from the provisional rating in case the completed actions/ documentation is not in line with ICRA's expectations

Rating in the absence of pending actions/documents	NA
--	----

### Rationale

ICRA has assigned a long-term rating of Provisional [ICRA]AA(Stable) to Kokhraj Handia Expressway Private Limited (KHEPL). The assigned rating is Provisional (as denoted by the prefix 'Provisional' before the rating symbol) and would be converted to final upon completion of the documentation of the proposed debt structure including loan agreement and escrow agreement. Post finalisation of the transaction and debt sanction, ICRA will assess the final terms of the sanction and the consequent impact on KHEPL's credit profile, if any. ICRA would keep the rating under review, in line with its published methodologies/policies.

The assigned rating factors in the importance of KHEPL's project stretch located on Prayagraj Bypass section of NH19, which connects Agra to Kolkata and is a part of the Golden Quadrilateral project. The project stretch has a nine-year track record of toll collection. Majority of the traffic (~85%) on the project stretch comprises commercial traffic. Although the traffic has recorded a modest growth during FY2016-FY2023, the rating is supported by healthy projected debt service coverage metrics with cumulative DSCR of more than 1.7 times for the debt tenure. The long debt tenure, presence of three-months of debt service reserve (DSR) to be created upfront and the undertaking from sponsor for supplementing any shortfall in the cost overruns for the scheduled initial capex and rectification expenses provide comfort. The rating also favourably takes into account the reputed sponsor profile, Cube Highways and Infrastructure V Pte. Ltd (CH5, part of the Cube Highways Group) and its experience in operating road assets in India.

The rating is, however, constrained by the exposure to alternative route risks from Ganga Expressway (GEW), which is expected to be operational in 2025. At present, the Delhi to Kolkata traffic uses the project stretch (Delhi-Agra-Kanpur-Prayagraj-Varanasi-Kolkata) or Delhi-Moradabad-Lucknow-Sultanpur-Kolkata. Once GEW becomes operational, part of the traffic using the project stretch is likely to shift to GEW. However, this would re-enter the project stretch between Nawabganj and Soraon interchanges. GEW connects Meerut District to Prayagraj and touches the project stretch at ~33 kms, bypassing three toll plazas. The net impact of this is likely to result in the moderation in the average five-year DSCR (FY2025-FY2029) to around 1.35 times. Although ICRA has factored in the impact of GEW on KHEPL's traffic in its base case, any significant shift in traffic beyond ICRA's base case assumptions resulting in weakening of debt coverage metrics will remain a key rating sensitivity. Further, Eastern Dedicated Freight Corridor (EDFC) is partially commissioned and is projected to be fully operational after FY2029. Given the commodity profile and trip characteristics, a modest traffic diversion is expected once it is fully operational

and the extent of the impact remains monitorable. GEW-Phase 2 (connecting Prayagraj with Varanasi) has not taken off post the initial conceptualisation, and hence it has not been factored in ICRA's base case estimates.

This apart, there are risks associated with a build operate transfer (BOT) toll road project, including traffic growth, wholesale price index (WPI)-linked toll rates and risk of toll leakages. KHEPL, after acquiring the project concession, will have to undertake the planned capex for the project, timely and within budgeted cost completion of which will be crucial. In this context, ICRA notes that the planned capex will be funded through promoters' contribution or surplus project cash flows.

The Stable outlook on the rating reflects ICRA's opinion that KHEPL will continue to benefit from the importance of the project stretch, healthy toll collections and comfortable cumulative DSCR.

## Key rating drivers and their description

### Credit Strengths

**Operational nature of project with established traffic** – The project stretch is favourably located on Prayagraj (Allahabad) Bypass section of NH19, which connects Agra to Kolkata and is a part of the Golden Quadrilateral project. The project stretch has a nine-year track record of toll collection and majority of the traffic (~85%) comprises commercial traffic.

**Comfortable debt coverage metrics** – KHEPL is expected to have a comfortable debt service cover with cumulative DSCR of more than 1.70 times for the debt tenure and the flexibility arising out of the three-year tail period. Further, the presence of structural features including competitive borrowing cost, long debt tenure, presence of three months of DSR to be created upfront offer comfort. The rating factors in the undertaking from sponsor for supplementing any shortfall in the cost overruns for the initial capex and rectification, restricted payment clause with a minimum DSCR of 1.15 times, creation of major maintenance reserve (MMR), which provide credit support.

**Strong profile of sponsor** – KHEPL is owned by CH5. The strong profile of the sponsor group, having an established track record of asset management in the infrastructure space across the globe and its experience in operating road assets in India, provides comfort.

### Credit challenges

**Exposed to alternative route risk** – The project stretch is exposed to alternative route risks from GEW, which is expected to be operational in 2025. At present, the Delhi to Kolkata traffic uses the project stretch (Delhi-Agra-Kanpur-Prayagraj-Varanasi-Kolkata) or Delhi-Moradabad-Lucknow-Sultanpur-Kolkata. Once GEW becomes operational, part of the traffic using the project stretch is likely to shift to GEW. However, this would re-enter the project stretch between Nawabganj and Soraon interchanges. GEW connects Meerut District to Prayagraj and touches the project stretch at ~33 kms bypassing three toll plazas. The net impact of this is likely to result in moderation in the average five-year DSCR (FY2025-FY2029) to around 1.35 times. Although ICRA has factored in the impact of GEW on KHEPL's traffic in its base case, any significant shift in traffic beyond ICRA's base case assumptions resulting in weakening of debt coverage metrics will remain a key rating sensitivity. Further, Eastern Dedicated Freight Corridor (EDFC) is partially commissioned and is projected to be fully operational after FY2029. Given the commodity profile and trip characteristics, a modest traffic diversion is expected once its fully operational and the extent of the impact remains monitorable. ICRA notes that GEW-Phase 2 (connecting Prayagraj with Varanasi) has not taken off post the initial conceptualisation, and hence it has not been factored in ICRA's base case estimates.

**Ensuring routine and periodic maintenance expense within budgeted levels along with residual execution risks** – In the absence of a pre-defined major maintenance (MM) schedule, periodic maintenance is required on need basis, which may result in a volatility in operating expenses. ICRA notes that part of the first MM cost is planned to be funded through debt. Going forward, undertaking routine and periodic maintenance within the budgeted costs would remain important. Any significant upward revision to the operation and maintenance (O&M) and MM rates impacting KHEPL's cash flows will remain a key monitorable. ICRA has taken comfort from the healthy projected cash flow, while keeping cushion in the cost estimates for undertaking the O&M and MM expenditure.

**Risk inherent in BOT toll road projects** – The project remains exposed to risks inherent in BOT toll road projects, including risks arising from variation in traffic volumes over the project stretch and its dependence on economic activity in the surrounding regions. The project is vulnerable to movement in WPI (for toll rate hike), political acceptability of toll rate hike over the concession period, user willingness to pay and likelihood of toll leakages. Further, despite the favourable location of the project stretch, it remains exposed to the risks of development of alternative routes/modes of transportation.

### Liquidity position: Adequate

The estimated cash flow from operations is likely to be sufficient to meet the debt servicing requirements. KHEPL has ~Rs. 144.6 crore of debt obligations in FY2025, which can be met through its cash flow from operations. As a part of the debt structure, the company will create a funded debt service reserve (equivalent to three months of principal + interest obligations).

### Rating sensitivities

**Positive factors** – The rating maybe upgraded if there is higher-than-expected improvement in traffic and toll collections, while keeping the O&M costs within the budgeted levels, such that the average DSCR over the next five years (FY2025-FY2029) improves above 1.65 times.

**Negative factors** – The rating may be downgraded if the growth in toll collections is lower than envisaged or if the O&M expenditure is higher than the budgeted levels, resulting in pressure on the debt coverage metrics, such that the average DSCR over the next five years (FY2025–FY2029) falls below 1.30 times. The rating could come under pressure if there is any non-adherence or dilution of the debt structure or increase in indebtedness.

### Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	<a href="#">Corporate Credit Rating Methodology</a> <a href="#">Rating Methodology– BOT Toll Road Projects</a> <a href="#">ICRA's Policy on Assigning Provisional Ratings</a>
Parent/Group support	Not applicable
Consolidation/Standalone	Standalone

### Pending actions/documents required to be completed for conversion of the provisional rating into final

The assigned rating is provisional and would be converted into final upon:

1. Completion of documentation for the debt structure
  - a. Loan/Facility agreement
  - b. Escrow agreement
  - c. Creation of Debt Service Reserve Account (DSRA)

The provisional rating indicates the final rating that is likely to be assigned to the company after the completion of the pending items mentioned above, ceteris paribus.

### Validity of the provisional rating

In case the borrowing facility to which a provisional rating has been assigned is subsequently availed, the provisional rating would have to be converted into a final rating within 90 days (validity period) from the date of availing the borrowing facilities. If considered appropriate, the validity period may be extended by a further 90 days for converting the provisional rating into

final, in circumstances where the rated entity expressly indicates its intention to complete the pending actions/ documents over the near term. In no circumstance shall the validity period be extended beyond 180 days from the date of availing the borrowing facilities. For further details refer to ICRA's Policy on Provisional Ratings available at [www.icra.in](http://www.icra.in). If neither the pending actions/ documents nor the availing of the borrowing facilities is completed after one year of assignment of the provisional rating, ICRA would withdraw the provisional rating. However, the validity period may be extended beyond one year, subject to the conditions outlined in ICRA's Policy on Provisional Ratings available at [www.icra.in](http://www.icra.in).

If neither the pending actions/ documents nor the availing of the borrowing facilities is completed after one year of assignment of the provisional rating, ICRA would withdraw the provisional rating. However, the validity period may be extended beyond one year, subject to the conditions outlined in ICRA's Policy on Provisional Ratings available at [www.icra.in](http://www.icra.in).

### **Risks associated with the provisional rating**

In case the borrowing facilities are availed, but the pending actions/documents are not completed by the entity within 90 days (validity period) from the date of availing the borrowing facilities, the provisional rating will be converted into final upon a review of the required actions/documents to the extent these are completed by the end of the validity period. This implies that the provisional rating may even be revised at the end of the validity period, while being converted into final, to a level commensurate with the rating in the absence of the pending actions/documents (as disclosed earlier in the rationale). ICRA may consider extending the validity period in accordance with its Policy on Provisional Ratings available at [www.icra.in](http://www.icra.in).

### **About the company**

Incorporated on November 10, 2023, Kokhraj Handia Expressway Private Limited (KHEPL) is a special purpose vehicle (SPV) promoted by Cube Highways and Infrastructure V Pte Ltd (CH5) to operate a four-laned closed tolling section, on National Highway (NH) 19 from 628.753 km to 713.215 km (84.462kms) in Uttar Pradesh on tolling, operation, maintenance and transfer (TOT) basis. It is a part of Delhi to Kolkata Golden Quadrilateral network of National Highways in India. The concession agreement (CA) was executed between KHEPL and National Highways Authority of India (NHAI) in November 2023, for a concession period of 20 years from the appointed date. The appointed date is yet to be announced.

The project stretch consists of two main toll plazas and four interchange ramp plazas. A new interchange plaza is planned at the junction of Ganga Expressway at km 664, between Nawabganj and Soraon interchanges. The interchange is expected to be developed as a part of Ganga Expressway by the end of 2024.

#### **Key financial indicators (audited)**

The key financial indicators are not applicable as KHEPL is a newly formed company.

#### **Status of non-cooperation with previous CRA: Not applicable**

**Any other information:** The debt structure has a put option available for the lenders at the end of the seventh year and every year thereafter from the date of first disbursement and a credit rating linked event of default, which if materialises, could expose the company to refinancing risk. However, it shall have a refinance window of 120 days for put option / cure period of 30 days for credit rating linked default, which mitigates the risk to an extent.

The Borrower shall also have a Call Option at the end of seventh year and tenth year from date of first disbursement. Borrower shall have a timeline of 120 days from its notice of exercise of such Call option for honouring the prepayment.

## 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 Jan 31, 2024 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
				Feb 19, 2024			
1	Fund-based / Term loan	1600.00	0.0	Provisional [ICRA] AA (Stable)	-	-	-
2	Non-fund-based / Bank Guarantee	30.00	-	Provisional [ICRA] AA (Stable)	-	-	-

## Complexity level of the rated instruments

Instrument	Complexity Indicator
Fund-based / Term loan	Moderately Complex
Non-fund based / Bank guarantee	Very 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
--	<b>Fund-based / Term loan</b>	NA*	NA	FY2041	1600.00	Provisional [ICRA] AA (Stable)
--	<b>Non-fund based / Bank guarantee</b>	-	-	-	30.00	Provisional [ICRA] AA (Stable)

Source: Company

\*The proposed debt is yet to be sanctioned

[Please click here to view details of lender-wise facilities rated by ICRA](#)

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

## ANALYST CONTACTS

**Rajeshwar Burla**  
+91 40 6939 6443  
[rajeshwar.burla@icraindia.com](mailto:rajeshwar.burla@icraindia.com)

**Ashish Modani**  
+91 20 6606 9912  
[ashish.modani@icraindia.com](mailto:ashish.modani@icraindia.com)

**Vinay G**  
+91 40 6939 6424  
[vinay.g@icraindia.com](mailto:vinay.g@icraindia.com)

**Saurabh Singhal**  
+91 124 4545 855  
[saurabh.singhal@icraindia.com](mailto:saurabh.singhal@icraindia.com)

## RELATIONSHIP CONTACT

**L. Shivakumar**  
+91 22 6114 3406  
[shivakumar@icraindia.com](mailto:shivakumar@icraindia.com)

## MEDIA AND PUBLIC RELATIONS CONTACT

**Ms. Naznin Prodhani**  
Tel: +91 124 4545 860  
[communications@icraindia.com](mailto:communications@icraindia.com)

## Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)  
[info@icraindia.com](mailto:info@icraindia.com)

## 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.

For more information, visit [www.icra.in](http://www.icra.in)

## ICRA Limited



### Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001  
Tel: +91 11 23357940-45



### Branches



© Copyright, 2024 ICRA Limited. All Rights Reserved.

Contents may be used freely with due acknowledgement to ICRA.

ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website [www.icra.in](http://www.icra.in) or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents.