

April 24, 2024

Kokhraj Handia Expressway Private Limited: Provisional rating finalised

Summary of rating action

Instrument*	Previous Rated Amount (Rs. Crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Fund-based - Term loan	1600.00	1600.00	[ICRA] AA (Stable); provisional rating finalised
Long-term – Non-fund based - Bank guarantee	30.00	30.00	[ICRA] AA (Stable); provisional rating finalised
Total	1630.00	1630.00	

*Instrument details are provided in Annexure-I

Rationale

ICRA has finalised the provisional rating assigned to the Rs. 1,630-crore bank facilities of Kokhraj Handia Expressway Private Limited (KHEPL) at [ICRA]AA (Stable). The finalisation of the provisional rating considers the completion of loan documentation including signing of escrow agreement and creation of upfront DSRA, with the key terms being in line with the terms indicated at the time of assigning the provisional rating.

The rating derives comfort from KHEPL's favourable location on Prayagraj Bypass section of NH19, which connects Agra to Kolkata and is a part of the Golden Quadrilateral project. KHEPL has started toll collection w.e.f. the appointed date of April 1, 2024. 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) created upfront and the undertaking from sponsor for supplementing any shortfall in cost overruns for the scheduled initial capex and rectification expenses provide comfort. The rating favourably notes 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 moderation in the average five-year DSCR (FY2025-FY2029) to around 1.35 times. Although ICRA has factored in the effect of GEW on KHEPL's traffic in its base case estimates, 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 debt coverage metrics.

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. KHEPL has started toll collection w.e.f. the appointed date of April 1, 2024. 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 coverage metrics 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 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 effect of GEW on KHEPL's traffic in its base case estimates, 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 likely 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. Further, the company has created a debt service reserve of Rs. 36.0 crore (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	Corporate Credit Rating Methodology BOT Toll Road Projects
Parent/Group support	Not applicable
Consolidation/Standalone	Standalone

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 April 1, 2024 and tolling commenced from this date.

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. The 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 (FY2025)		Chronology of rating history for the past 3 years			
		Amount rated (Rs. crore)	Amount outstanding as on March 31, 2024 (Rs. crore)	Date & rating in FY2025	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022
				Apr 24, 2024	Feb 19, 2024	-	-
1 Fund-based / Term loan	Long-term	1600.00	1600.00	[ICRA]AA (Stable)	Provisional [ICRA] AA (Stable)	-	-
2 Non-fund based / Bank guarantee	Long-term	30.00	-	[ICRA]AA (Stable)	Provisional [ICRA] AA (Stable)	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term fund-based - Term loan	Moderately Complex
Long-term 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
NA	Fund-based / Term loan	March 2024	NA	FY2041	1600.00	[ICRA]AA (Stable)
NA	Non-fund based / Bank guarantee	March 2024	-	-	30.00	[ICRA]AA (Stable)

Source: Company

[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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