

Shri K N Reddy
Director
Patel Knr Heavy Infrastructures Limited
KNR House, 4th Floor,
Plot No. 114, Phase I, Kavuri Hills,
Jubilee Hills, Hyderabad
Telangana 500033

September 15, 2022

Dear Sir,

Credit rating for Bank Facilities and NCDs

Please refer to our letters dated August 24, 2022 on the above subject.

2. The rationale for the rating is attached as **Annexure - I**.
3. We request you to peruse the annexed document and offer your comments, if any. We are doing this as a matter of courtesy to our clients and with a view to ensure that no factual inaccuracies have inadvertently crept in. Kindly revert as early as possible. In any case, if we do not hear from you by **September 16, 2022**, we will proceed on the basis that you have no comments to offer.

If you have any further clarifications, you are welcome to approach us.

Thanking you,
Yours faithfully,

Puja Jalan

[Puja Jalan]
Associate Director

Annexure
Rating Rationale
Patel Knr Heavy Infrastructures Limited

Ratings

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long-term bank facilities*	29.40 (Reduced from 38.94)	CARE AA+; Stable (Double A Plus; Outlook: Stable)	Reaffirmed
Total bank facilities	29.40 (₹ Twenty-nine crore and forty lakh only)		
Non-convertible debentures	244.20 (Reduced from 255.65)	CARE AA+; Stable (Double A Plus; Outlook: Stable)	Reaffirmed
Total Long-term instruments	244.20 (₹ Two hundred forty-four crore and twenty lakh Only)		

*ECB facility equivalent to 4.2 mn USD @ ₹ 70

Details of instruments/facilities in Annexure-1

Detailed rationale and key rating drivers

The rating assigned to the non-convertible debentures (NCDs) and external commercial borrowing (ECB) of Patel KNR Heavy Infrastructures Limited (PKHIL) continues to derive strength from the long track record of timely receipt of annuity payments, structured payment mechanism whereby biannual annuity is received from the National Highways Authority of India (NHAI, rated CARE AAA; Stable) in an escrow account for servicing of the NCDs and ECB, strong credit profile and significant experience of the operations & maintenance (O&M) contractor and comfortable liquidity profile. The rating also factors in presence of sponsor undertaking for infusion of funds in meeting any shortfall in major maintenance (MM) expenses over and above the revised estimates and to not withdraw any free cash available in the project. Foreign currency risk and interest rate risk continues to be mitigated on account of fully hedged ECB debt with fixed rate of interest. The rating takes cognizance of completion of the second MM during FY22 and receipt of 23rd and 24th annuity in a timely manner without any deduction.

The company continues to remain exposed to the risks arising out of possibility of lower disbursement of annuity than stipulated due to non-adherence to clauses in Concession Agreement (CA) pertaining to maintenance of project stretch, higher-than-envisaged increase in the O&M expenses and absence of suitable amendments in fixed-price MM contract in line with revised estimates albeit presence of undertakings from the sponsors to meet cost overrun above the envisaged cost.

Rating Sensitivities

Positive Factors - Factors that could lead to positive rating action/upgrade:

- Minimum Debt service coverage ratio (DSCR) should be more than 1.10x for every year for the projected period (post factoring all the requisite provisions and excluding interest income)

Negative Factors- Factors that could lead to negative rating action/downgrade:

- Non-receipt/delayed/reduced receipt of annuities
- Non adherence of the structured payment mechanism.
- Withdrawal of cash balance lying in escrow account

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¹Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications
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Detailed description of the key rating drivers

Timely receipt of annuity from National Highways Authority of India (NHAI): PKHIL is an annuity project and is not exposed to any traffic risk. The revenue source for PKHIL is the bi-annual annuity (i.e. due on March 1 and September 1 of every year) of ₹44.37 crore receivable from NHAI up to March 1, 2028. PKHIL has a track record of timely receipt of annuity payments from NHAI and has received 24 semi-annual annuities till March 31, 2022. PKHIL has received its 23rd and 24th annuities on due date i.e. September 01, 2021, and March 01, 2022 respectively, without any deductions except TDS and cess.

Strong financial risk profile of annuity provider i.e. NHAI: Incorporated by the Government of India (GOI) under an act of Parliament, NHAI functions as the nodal agency for development, maintenance and management of National Highways in the country. By virtue of being a quasi-government body and its strategic importance to GOI, the risk arising on account of NHAI defaulting on annuity payments is very low.

Structured payment mechanism and liquidity reserves created: PKHIL maintains an escrow account with defined waterfall for payments in an order of priority. The escrow ensures proper utilization of annuity receipts as defined in the debenture trust deed. The terms of DTD stipulate maintenance of DSRA and MMRA which is being adequately maintained by the company. Besides, a 'T+30' structure has been provided for NCD/ECB repayment with 'T' being the NHAI annuity receipt date to take care of any operational delay in receipt of annuity from NHAI.

Fixed interest rate & fully-hedged foreign currency loan: The principal and interest payments to the NCDs and ECB are to be made on semi-annual basis. (i.e. due on September 30 and March 31 of every year). The interest rates on NCDs are fixed which thereby eliminates interest rate risk. In order to mitigate the forex risk arising out of fluctuation in foreign currency towards the ECB loan, the company has purchased call options with the lender for the entire tenor of the ECB loan at a predetermined strike price. Furthermore, the company has purchased interest rate swap option for the balance tenor of the loan at 10.9% p.a (fixed), thereby mitigating the interest rate risk arising out of fluctuation in LIBOR.

Strong credit profile of the O&M contractor cum sponsor: The sponsors have established track record of project execution with O&M of large portfolio of infrastructure assets. KNR Constructions Ltd (KNRCL – holding 40% stake in the company) was set up in 1995 and provides Engineering, Procurement, and Construction (EPC) services across sectors such as roads and highways, irrigation, and urban water infrastructure management. The company has a strong outstanding order book of ₹8,685 crore as on June 30, 2022. The routine maintenance activity is undertaken by KNRCL. The other sponsor Patel Engineering Limited (PEL – holding 60% stake) has vast experience in the construction segment, although the credit profile has relatively moderated over the years.

Completion of second MM activity within budgeted estimates

The second MM cycle was envisaged to be undertaken during FY20 and FY21 at an estimated cost of ₹38.75 crore. However, the execution was delayed due to pending decision on thickness of Bituminous Concrete (BC) to be laid on the project highway, covid-related restrictions and the onset of monsoon. As against the company's request for extension till May 2021 in view of relief provided by MoRTH to contractors/developers of road sector, Independent Engineer (IE) had recommended extension of time up to February 2, 2021. The second MM activity has been completed in May 2021 at a cost of ₹ 38.69 crore as against revised estimates of ₹ 38.75 crore. However, final approval from IE/Project Director (PD), NHAI on Extension Of Time/completion of the activity is awaited. Nevertheless, the condition of the road can be considered satisfactory given receipt of two annuities post completion of the MM activity. The entire expense has been met out of the existing Major Maintenance Reserve Account (MMRA) maintained with the company.

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Higher expenditure on MM on account of revised estimates: KNRCL is the O&M contractor for the project and Patel-KNR JV (Patel: KNR in the ratio 60: 40) is undertaking the periodic maintenance. The special purpose vehicle (SPV) has incurred higher MM expenses than envisaged despite having a fixed-price contract for MM, due to instructions from NHAI for overlaying the renewal coat on the road with 40mm BC as against 30mm BC overlay as per the agreement.

Accordingly, the company had revised estimates for its second and third MM cycle, which is 38% and 27% higher than the initial estimates of the respective maintenance cycles. Post revision in estimates of MM expenditure, the company has not amended the fixed-price contract entered with the contractor for execution of MM though payment thereof is being made as per revised estimates instead of fixed price. As the promoters have provided undertaking to cover the cash shortfall over the revised estimates instead of fixed-price contract, the cost of additional MM expense is borne by the company. Higher MM expense over and above the fixed-price contract already executed has led to moderation in debt service coverage indicators of the company. The receipt of annuity from NHAI is fixed and is not linked to the Toll revenue on the project road. However, the receipt thereof in full is linked to maintenance of road in line with the clauses stipulated in Concession Agreement. Hence the same would remain important from credit perspective.

Favorable Arbitral Tribunal Award: The company has received favourable arbitral award aggregating ₹ 89.09 crore towards various claims submitted by the Concessionaire along with interest (SBI PLR +2%) till realisation. Apart from the said award, the company has received ₹ 17.93 crore from NHAI on August 28, 2019 towards interest on delay of annuity receipt which has supported the cashflow, enabling liquidity built up. However, the arbitral award has been contested by NHAI in courts of law and the matter is under sub-judice. Out of total award of ₹ 89.09 crore, ₹ 11.04 crore is expected to remain with PKHIL and the same on receipt would provide upside to the cashflows. Timelines for the same however remain to be seen.

Liquidity: Strong

Liquidity profile is strong with timely receipt of annuities and a T+30-day structure providing cushion to any delays w.r.t same. The company has been maintaining stipulated reserves comprising Debt Service Reserve Account (DSRA of ₹ 35 crore) and a MM Reserve. This apart, the company had surplus funds of ₹ 18.69 crore as on June 30, 2022. All the stipulated reserves and liquid funds are maintained by way of investment in mutual funds.

Analytical approach: Standalone

Applicable criteria

[Policy on default recognition](#)

[Financial Ratios – Non financial Sector](#)

[Liquidity Analysis of Non-financial sector entities](#)

[Rating Outlook and Credit Watch](#)

[Annuity Road Projects](#)

[Infrastructure Sector Ratings](#)

About the Company

Patel KNR Heavy Infrastructures Limited (PKHIL/the company) is a SPV incorporated in 2006 for design, construction, development, financing and operations of four laning of 48 km stretch in the Islamnagar – Kadthal section of National Highway 7 (connecting Hyderabad and Bangalore) from Km 230 to Km 278 in Adilabad district in the state of Telangana (Erstwhile Andhra Pradesh) under DBFOT (Annuity) basis.

The company is jointly promoted by KNR Constructions Ltd with 40% equity stake and Patel Engineering Limited – 60% stake through its wholly-owned subsidiaries; Patel Engineering Infrastructures Limited (42%) and Fornido Developers Ltd (erstwhile ENPRO Ltd) with 18% of shareholding of the company. The concession is for a period of 20 years, including a 24-month construction period and ending on March 02, 2028. PKHIL has received the final completion certificate on December 26, 2016

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Financial Performance:

(Rs. crore)

For the Period Ended / as at March 31,	2020	2021	2022	Q1FY23
	(12m, A)	(12m, A)	(12m, A)	(3m, UA)
Working Results				
Total Operating Income	69.86	72.17	57.85	11.34
PBILDT	49.71	51.53	48.60	3.35
Interest	47.77	47.03	35.50	7.57
Depreciation	0.04	0.04	0.10	0.02
PBT	11.62	18.88	32.55	(2.97)
PAT	9.42	11.91	32.55	(2.97)
Gross Cash Accruals	9.46	18.92	32.65	(2.95)
Financial Position				
Equity Capital	23.82	23.82	23.82	NA
Net-Worth	73.11	85.01	117.57	NA
Total Capital Employed	425.42	399.72	390.86	NA
Key Ratios				
<u>Growth</u>				
Growth in Total Income (%)	24.79	3.3	(19.85)	NA
Growth in PAT (after deferred tax) (%)	-206.69	26.41	1.73	NA
Profitability				
PBILDT/Total Op. Income (%)	71.16	71.41	75.92	29.54
PAT (after deferred tax)/Total Income (%)	13.48	16.5	50.85	-Ve
ROCE (%)	13.57	15.97	17.22	NA
<u>Solvency</u>				
Debt Equity Ratio (times)	4.82	3.7	2.32	NA
Overall Gearing Ratio (times)	4.82	3.7	2.32	NA
Interest Coverage (times)	1.04	1.1	1.37	0.44
Term Debt/Gross Cash Accruals (years)	37.24	16.63	8.37	NA
Total Debt/Gross Cash Accruals (years)	37.24	16.63	8.37	NA

A; Audited UA; Unaudited NA: Not Available

Status of non-cooperation with previous CRA: Not applicable**Any other information:** Not applicable**Rating History for last three years:** Please refer Annexure-2**Details of rated facilities:** Please refer Annexure-3**Complexity level of various instruments rated for this company:** Annexure 4**Covenants of rated instrument / facility:** Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-5

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Annexure-1: Details of Instruments/Facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT- External commercial borrowings		-	-	September 30, 2023	29.40	CARE AA+; Stable
Debentures-Non convertible debentures	INE555J07013	September 03, 2013	10.04	September 30, 2025	93.60	CARE AA+; Stable
	INE555J07195	September 03, 2013	10.00	September 30, 2022	5.60	
	INE555J07203	September 03, 2013	10.00	March 31, 2023	5.60	
	INE555J07211	September 03, 2013	10.35	September 30, 2023	11.00	
	INE555J07229	September 03, 2013	10.35	March 31, 2024	11.00	
	INE555J07237	September 03, 2013	10.35	September 30, 2024	13.05	
	INE555J07245	September 03, 2013	10.35	March 31, 2025	13.05	
	INE555J07252	September 03, 2013	10.35	March 31, 2026	30.40	
	INE555J07260	September 03, 2013	10.35	September 30, 2026	30.45	
	INE555J07278	September 03, 2013	10.35	March 31, 2027	30.45	

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Debentures-Non convertible debentures	LT	244.20	CARE AA+; Stable	-	1)CARE AA+; Stable (11-Oct-21)	1)CARE AA+; Stable (16-Oct-20) 2)CARE AA+; Stable; ISSUER NOT COOPERATING* (05-Oct-20)	1)CARE AA+; Stable (04-Oct-19)
2	Fund-based - LT- External commercial borrowings	LT	29.40	CARE AA+; Stable	-	1)CARE AA+; Stable (11-Oct-21)	1)CARE AA+; Stable (16-Oct-20) 2)CARE AA+; Stable; ISSUER NOT COOPERATING* (05-Oct-20)	1)CARE AA+; Stable (04-Oct-19)

Annexure-3: Details of Rated Facilities
1. Long Term Facilities
1.A. Rupee Equivalent of Foreign Currency Term Loan

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Sr. No.	Name of Bank / Lender	Amount	Rated Amount (Rs. crore)	Debt Repayment Terms
1.	Standard Chartered Bank	4.20 (Mn. USD)	29.40	Repayable in 27 semi-annual unequal instalments commencing from September 30, 2010 and ending on September 30, 2023
	Total		29.40	

Equivalent to USD 4.2 mn @Rs 70

Total Long Term Facilities : Rs.29.40 crore

Total Facilities (1.A) : Rs.29.40 crore

Annexure 4: Complexity level of various instruments rated for this company

Sr. No.	Name of Instrument	Complexity Level
1	Debentures-Non Convertible Debentures	Simple
2	Fund-based - LT-External Commercial Borrowings	Simple

Note on complexity levels of the rated instrument: CARE Ratings Ltd. has classified instruments rated by it on the basis of complexiy. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

Annexure-5: Detailed explanation of covenants of the rated instrument / facilities

Name of the Instrument	Detailed explanation
Financial covenants	At all times after the first anniversary of the Project Completion Date its Debt Service Cover Ratio and Forward Debt Service Reserve Cover is not less than 1.10 times.

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(This follows our brief rationale for the entity published on August 30, 2022)

About CARE Ratings Limited:

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