

Press Release

Karmala Road Project Private Limited

December 21, 2021



Rating Assigned

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	280.00	ACUITE BBB+ Stable Assigned	
Total	280.00	-	-

Rating Rationale

Acuite has assigned the long-term rating of '**ACUITE BBB+**' (read as **ACUITE triple B plus**) on the Rs.280.00 crore bank facilities of Karmala Road Project Private Limited (KRPPL). The outlook is '**Stable**'.

Rationale for ratings assigned

The rating assigned derives comfort from the established track record of the sponsor company Anish Infracon India Private Limited, benefits derived from the annuity-based revenue model and strong Counterparty Linked Revenue Profile. The rating is, however, constrained by moderate funding and implementation risk and Susceptibility to risks related to delay in receipt of annuity and changes in operational cost & interest rate.

About the Company

Karmala Road Project Private Limited (KRPPL) is Joint Venture (JV) between Anish Infracon India Private Limited (AIPL) and GHV (India) Private Limited (GIPL) incorporated in 2021 for the development, maintenance and management of National Highway No. – 561A including the section from design km. 38+775 (Ghogargaon) to design km. 80+390 (Ahmednagar-Solapur Border) on the Ahmednagar- Mirajgaon- Karmala – Tembhurni section of National Highway no 561A in the state of Maharashtra. The project covering a length of 80.39 KM. The project has been awarded by National Highways Authority of India (NHAI) for concession period of 15 years including a construction period of 2 years.

The project is to be executed on Design, Build, Operate and Transfer (DBOT), Hybrid Annuity Model basis i.e. post completion of construction, and SPV will benefit from 30 bi-annual annuities of 60 per cent of completion cost in addition to O&M expenses and interest cost (adjusted for price inflation index).

Analytical Approach

For arriving at the rating, Acuite has considered the standalone credit profile of KRPPL, which is strengthened by the support from the parent company Anish Infracon India Private Limited (AIPL).

Key Rating Drivers

Strengths

Benefits derived from the annuity-based revenue model

The project being developed has an annuity-based revenue model. Under this model, the NHAI makes bi-annual payment over the concession period to the concessionaire. The company does not bear any traffic risk as it recovers whole of the capital cost through annuity. Further, bi annual operational and maintenance expense and interest cost

reimbursement to the extent of bank rate+3 per cent is given to the concessionaire during the concession phase. The company will also receive 10 per cent of the total project cost as mobilisation advances.

Acuité believes that KRPPPL will benefit from favorable clauses in the concession agreement under the HAM and face lower execution challenges vis-à-vis projects under BOT model.

Technical and financial support from Anish Infracon India Private Limited

AIPL has more than three decades of experience in the construction business and have established a track record for successful project execution. The company is led by the Vijapura family, since inception. Extensive experience of the promoters has helped the company in establishing and maintaining healthy relations with clients and sanctioning authorities. The promoters' extensive experience is also reflected through the healthy order book position of around Rs.725.61 crore as on 30 September, 2021. Acuité believes that sponsor's extensive experience and long track of operations will support its business risk profile over the medium term. Further, AIPL will contribute 10 per cent funding in the HAM project. As on 30 Sept 2021, they have already infused Rs. 23.08 crore in the form of equity and USL.

Strong Counterparty Linked Revenue Profile

During the construction/implementation phase, cash flow is assured in form of 10 milestone achievement linked grants (on achievement of every 5-10 percent of physical progress covering the 40 percent of the project cost) along with mobilization advance. These grants would be against the indexed BPC.

During the operational phase, the project shall receive 60% of the actual completion cost (Rs. 415.83 Crore) adjusted for Price Index Multiple, in the form of biannual annuity instalments from NHAI for 15 years, likely to commence from October 2023. Along with annuity payments, interest shall be payable to KRPPPL on reducing the completion cost net of construction grants at a rate equal to bank rate (4.25%) plus 3%. NHAI shall also reimburse Rs.82.78 Crore (O&M bid quote) adjusted to Price Index Multiple on the annuity payment dates to KRPPPL.

Weaknesses

Susceptibility to risks related to delay in receipt of annuity and changes in operational cost & interest rate

As per the concession agreement, the company is expected to receive a semi-annual annuity. Any delay in timely receipt of the annuity could adversely impact debt-servicing ability. Along with fixed annuities, the project will receive interest payments on the balance annuities that are linked to the prevailing bank rate. The bank rate has reduced significantly in past couple of years which has impacted the project inflow as a large proportion of the cash inflow is from the interest on balance annuities. However, this risk is partially offset as the interest rate on debt is floating and is also expected to follow the trend in bank rates thus keeping DSCR in check.

Further, the company is exposed to risks related to maintenance of the project. If the prescribed standards are not met, annuity payment may be reduced. Any significant delay and deduction in annuities could impact the debt servicing ability of the company. However, strong track record of sponsor, who is also the O&M contractor, is expected to mitigate this risk.

Rating Sensitivities

- Timely receipt of grants and annuity payments from the Government
- Significant deterioration in the sponsor's credit profile

Material covenants

None

Liquidity Position – Adequate

KRPPPL'S liquidity is expected to be adequate over the longer run. The term loan repayments

are expected to begin in FY2025, post COD. The Sponsor/parent Company will provided the corporate guarantee for the SPV. The availability of corporate guarantee, the repayment schedule and the proposed creation and maintenance of debt service reserve account (DSRA) will remain key monitorables over the medium term. Further, the liquidity of the parent company is comfortable. Further, the DSCR is expected to be in the range 1.20-1.50 times during the tenure of the term loan. Acuité believes that liquidity will remain adequate yet improve over the medium term.

Outlook: Stable

Acuité believes that the outlook on SRPPL's rated facilities will remain 'Stable' over the medium term on account of steady flow of milestone payments and annuity from the government coupled with strong support of sponsors. The outlook may be revised to 'Positive' in case of significant improvement in free cash flow from operations. Conversely, the outlook may be revised to 'Negative' in case of delays in completion of the project or lack of timely support from the sponsor.

About the Rated Entity - Key Financials

Not Applicable as the commercial operations are yet to commence.

Status of non-cooperation with previous CRA (if applicable)

Not Applicable

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Infrastructure Sector: <https://www.acuite.in/view-rating-criteria-51.htm>
- Application Of Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>
- Group And Parent Support: <https://www.acuite.in/view-rating-criteria-47.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Initial Quantum (Rs. Cr.)	Quantum (Rs. Cr.)	Rating
Not Applicable	Not Applicable	Proposed Term Loan	Not Applicable	Not Applicable	Not Applicable	280.00	280.00	ACUITE BBB+ Stable Assigned

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About Acuité Ratings & Research

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