

Press Release

Karmala Road Project Private Limited

March 21, 2023

Rating Reaffirmed



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

Rating Rationale

Acuite has reaffirmed 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 (KRPL). The outlook is '**Stable**'.

Rationale for rating reaffirmation

The rating reaffirmation takes into account the ongoing status of road construction at KRPL. The company commenced construction since its appointed date of January 13, 2022. As on January 31, 2023 the company has incurred cost of Rs. 340.83 Cr i.e. 57% of the total project cost and has so far billed NHAI for 7 milestones which is in line with its planned project schedule. The cost incurred is funded vide receipts from NHAI of Rs. 170.59 Cr, debt of Rs. 100 Cr and sponsor's contribution of Rs. 70.24 Cr. The rating also 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 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 (KRPL) 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 41.62 KM. The project has been awarded by National Highways Authority of India (NHA) 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).

Standalone (Unsupported) Rating

ACUITE BBB-/Stable

Analytical Approach

For arriving at the rating, Acuité 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 KRPPL 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. Acuité believes that sponsor's extensive experience and long track of operations will support its business risk profile over the medium term. Further, as on February, 2023 AIPL alongwith its JV partner have already infused Rs.70.24 Cr in the project in the form of equity and compulsory convertible debentures.

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 January, 2024. Along with annuity payments, interest shall be payable to KRPPL 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 KRPPL.

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

KRPPL'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. Acuite believes that liquidity will remain adequate yet improve over the medium term.

Outlook: Stable

Acuite believes that the outlook on KRPPL'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.

Other Factors affecting Rating

None

Key Financials

Particulars	Unit	FY 22 (Actual)	FY 21 (Actual)
Operating Income	Rs. Cr.	98.42	0.00
PAT	Rs. Cr.	1.96	0.00
PAT Margin	(%)	2.00	0.00
Total Debt/Tangible Net Worth	Times	1.61	0.00
PBDIT/Interest	Times	4.39	0.00

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

In order to inform the investors about complexity of instruments, Acuite has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuite's categorisation of the instruments across the three categories is based on factors like variability of the returns to the investors, uncertainty in cash flow patterns, number of counterparties and general

understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels of risk. For more details, please refer Rating Criteria "Complexity Level Of Financial Instruments" on www.acuite.in.

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
21 Dec 2021	Proposed Term Loan	Long Term	280.00	ACUITE BBB+ Stable (Assigned)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
PTC India Financials	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	280.00	ACUITE BBB+ Stable Reaffirmed

Contacts

Analytical	Rating Desk
Aditya Gupta Vice President-Rating Operations Tel: 022-49294041 aditya.gupta@acuite.in Salony Goradia Manager-Rating Operations Tel: 022-49294065 salony.goradia@acuite.in	Varsha Bist Senior Manager-Rating Operations Tel: 022-49294011 rating.desk@acuite.in

About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI) for Bank Loan Ratings under BASEL-II norms in the year 2012. Acuité has assigned ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Kanjurmarg, Mumbai.

Disclaimer: An Acuité rating does not constitute an audit of the rated entity and should not be treated as a recommendation or opinion that is intended to substitute for a financial adviser's or investor's independent assessment of whether to buy, sell or hold any security. Ratings assigned by Acuité are based on the data and information provided by the issuer and obtained from other reliable sources. Although reasonable care has been taken to ensure that the data and information is true, Acuité, in particular, makes no representation or warranty, expressed or implied with respect to the adequacy, accuracy or completeness of the information relied upon. Acuité is not responsible for any errors or omissions and especially states that it has no financial liability whatsoever for any direct, indirect or consequential loss of any kind, arising from the use of its ratings. Ratings assigned by Acuité are subject to a process of surveillance which may lead to a revision in ratings as and when the circumstances so warrant. Please visit our website (www.acuite.in) for the latest information on any instrument rated by Acuité.