

## Press Release

### Ulccs Kasaragod Expressway Private Limited

April 06, 2023



### Rating Downgraded

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	563.00	ACUITE BBB-   Stable   Downgraded	-
Total Outstanding Quantum (Rs. Cr)	563.00	-	-

### Rating Rationale

Acuite has downgraded its long-term rating to '**ACUITE BBB-**' (read as **ACUITE triple B minus**) from **ACUITE BBB (CE)** (read as **ACUITE triple B (Credit Enhancement)**) on the Rs.563.00 Cr bank facilities of ULCCS Kasaragod Expressway Private Limited (UKEPL). The outlook is '**Stable**'

#### Rationale for downgrade:

The rating downgrade is effected in order to re-align the rating of UKEPL, due to change in regulatory dispensation for factoring credit enhancement. In line with this change, Acuite has reassessed the support considerations from the parent entity Uralungal Labour Contract Cooperative Society Limited (ULCCS). The rating continues to factor, the experience of the sponsors viz. ULCCS (rated ACUITE BBB/ Stable; ACUITE A2) in handling infrastructure projects, support in the form of corporate guarantee from ULCCS, majority stake in the society held by Government of Kerala, along with the latter's support in the form of capital contribution, loans, subsidies etc. The aforementioned rating strengths were partly offset by ULCCS's challenging financial position, Project execution risk, working capital intensive nature of operations and geographic concentration of projects.

### About the Company

ULCCS Kasaragod Expressway Private Limited was incorporated on 12 April 2021 with its registered office in Kerala. As on date, the company has 2 directors having active directorship; they are Mr. Remeshan Palery and Ms. Meethale Maniyoth Surendran. The company was incorporated to undertake the NHAI project for Six laning of Thalapady to Chengala section of National Highway under Bharatmala Project on Hybrid Annuity Mode (HAM). The total length of the project is 39 kms.

### About the Group

Uralungal Labour Contract Co-operative Society Limited (ULCCS), was formed in a rural pocket in Malabar region in North Kerala. ULCCS was formed in 1925 by the disciples of eminent social reformer Sri Guru Vagbhatananda in a village called Uralungal near Vatakara in Kozhikode District of Kerala. ULCCS undertakes civil construction work in Infrastructure development in Kerala and is one of the most preferred organizations for development of roads, bridges, buildings and allied infrastructure. Major clients of the Society include National

Highways Department for Highway projects, Public Works Department of Govt. of Kerala (GoK) for State Road Development, Central Ministries such as Ministry of Panchayat Raj for rural roads under Pradhan Mantri Gram Sadak Yojana (PMGSY), several state government ministries such as Local Self Government, Co-operation, Tourism etc., and a host of reputed private enterprises. ULCCS has grown to be the biggest Labour Contract Society in the State, providing direct employment to more than 13,000 workers all over Kerala

## **Standalone (Unsupported) Rating** **ACUITE BB+/Stable**

### **Analytical Approach**

Acuité has taken the standalone view of the business and financial risk profile of UKEPL and has factored support from the sponsor of the project i.e. ULCCS to arrive at final rating.

### **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 + 1.25 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 and the same is expected by January 2022. Acuite believes, having strong support from ULCCS for funding and technology will help complete the project without any cost or time over runs.

##### **Strong Counterparty Linked Revenue Profile and timely completion of milestones**

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 per cent of the actual completion cost (Rs. 1110.20 Cr) adjusted for Price Index Multiple, in the form of biannual annuity instalments from NHAI for 15 years, likely to commence from April 2024. NHAI shall also reimburse Rs.144.28 Cr (O&M bid quote) adjusted to Price Index Multiple on the annuity payment dates.

The company's construction progress is in line with its projection plan and has raised bills for 4 milestones totaling Rs.336.55Cr out of which the company has received Rs.291.22Cr worth funds. Debt raised from SBI of Rs.563Cr stands unutilized as on March 15, 2023. The company has incurred total cost of Rs.568.61Cr which is funded through Rs.291Cr of funds from NHAI, Rs.221Cr from promoters and others. Acuite believes that the company will complete the milestones as per the projected timeline.

##### **Strong ongoing funding and technical support from the ULCCS**

The management team of the Sponsor is ULCCS which was formed in 1925 undertakes civil construction work in Infrastructure development in Kerala and is involved in construction of roads, bridges, buildings and allied infrastructure. The major shareholder of the Society is Government of Kerala which owns 74.67 per cent of the issued shares and the rest are held by the members of the society. Major clients of the Society include National Highways Department for Highway projects, Public Works Department of Govt. of Kerala for State Road Development, Central Ministries such as Ministry of Panchayat Raj for rural roads under Pradhan Mantri Gram Sadak Yojana (PMGSY), several state government ministries such as Local Self Government, Co-operation, Tourism etc., and a host of reputed private enterprises.

## **Waterfall Mechanism in ESCROW account and Debt service reserve account (DSRA)**

UKEPL has escrow mechanism through which cash flows from Authority is to be routed and used for payment as per the defined payment waterfall. Only surplus cash flow after meeting operating expense, debt servicing obligation, and provision for major maintenance expense, can be utilised as per borrower's discretion during the concession period. Furthermore, ULCCS has given an irrevocable and unconditional corporate guarantee to the borrowings of UKEPL. Also, the borrower/sponsor shall maintain DSRA which is to be created upfront upon COD, of an amount equivalent to the next six months of principal, interest, fees and all other obligations due and payable in respect of facility amount.

## **Weaknesses**

### **Execution Risk**

Execution risk associated with the project is high as any delays in completion of the project can delay the receipt of NHA grant and also result in delay in achieving the COD resulting in time and cost over runs. Any such delay will directly impact the credit worthiness of the company. The company has executed back to back execution contract with ULCCS (sponsor) which will execute the project on behalf of the company. Acuite believes, ULCCS with its decades' experience of experience in executing similar projects will be able to complete the project without time and cost over runs.

### **Challenging Financial Risk profile of ULCCS**

financial position is considerably stretched as observed from leveraged capital structure and weak coverage indicators albeit the comfortable net worth of the Society which stood at Rs 380.81 Cr as on March 31, 2022. The gearing stood high at 8.77 times and Debt to EBITDA stood at 11.12 times as on March 31, 2022. The DSCR was 0.41 times and interest coverage was 1.11 times in FY22. The DSCR is low primarily due to the high portion of short term deposits collected by ULCCS from general public. As a cooperative society, ULCCS distributes the profits to its member labourers in the form of bonuses every year.

## **ESG Factors Relevant for Rating**

### **Environment**

For the civil engineering industry, considerations for low carbon processes are becoming increasingly important making GHG emissions and energy efficiency material key issues. The costs incurred by the industry for material inputs are very high, therefore, material efficiency is also a significant issue, similarly establishing a green supply chain is crucial as well. Further, overall environmental management practices including water efficiency and waste are important for the companies in the industry. The company has obtained clearances from Ministry of Environment under provision of CSR Notification to NHA including minimum 10 times number of trees felled (non-mangrove) trees shall be replanted, no ground water shall be extracted to meet the water requirements during construction and operation of project, no excavated material shall be dumped in water bodies in adjacent areas, temporary structures raised for construction shall be removed within one month of completion of construction and others.

### **Social:**

The civil engineering industry has employees working in high risk settings, therefore, the safety of the employees and employment quality is a key material issue. Further, because of the working conditions, it is important that human rights of the employees are given due importance. The support and development that the companies render to the community is crucial in determining their societal impact. To avoid defects and safety concerns, the product quality is another parameter of crucial importance. The company is sponsored by ULCCS which is a Labour Contract Cooperative Society with primary motive to provide employment for its members and cater to social and economic development of the state. Further, the Government of Kerala holds 74.67 per cent of the equity and the projects are undertaken for the welfare of the society.

## Governance

The civil engineering industry has witnessed cases of bribery, corruption and anti-competitive behavior globally. It is in this context that upholding fundamental business ethics is a key material issue for the industry. Other significant issues include compensation of the board and management personnel. Independence and diversity of the board, rights of the shareholders, financial audit and control, audit committee functioning and takeover defence mechanisms are key material issues as well. As previously mentioned, the society which is the sponsor to the project has been formed under the Co-operative Societies Act of Government of Kerala aimed at rural development, poverty eradication and employee welfare.

## Rating Sensitivities

- Execution of project without time and cost over runs
- Any changes in credit rating of sponsor or the Government of Kerala
- Implementation of T-n Structure.

## Material covenants

Debt to Equity ratio of 70:30 excluding NHAI Support

## Liquidity Position: Adequate

Liquidity position of the company is adequate. The company has bank loan Rs 563.00 Cr from SBI and the entire loan is unutilised as on March 28, 2023. The promoters have already infused Rs 221.00 Cr of funds as equity and balance Rs 20.00 Cr will be infused in FY24.

Acuite believes, the company will maintain its liquidity profile, considering the support from ULCCS

## Outlook: Stable

Acuite believes that UKEPL will maintain stable credit profile considering the debt tie up for the project already completed, support from ULCCS and the corporate guarantee from the sponsor. The outlook may be revised to 'Positive' in case of significant improvement in credit profile of the sponsor and on time completion of the project. Conversely, the outlook may be revised to 'Negative' in case of any deterioration in credit profile of the sponsor or significant delay in achievement of project completion milestones

## Other Factors affecting Rating

None

## About the Rated Entity - Key Financials

The operations of SPV has not yet started. Hence, Sponsor company 'Uralungal Labour Contract Co-operative Society Limited' financials are used in the KFI.

## Key Financials

Particulars	Unit	FY 22 (Actual)	FY 21 (Actual)
Operating Income	Rs. Cr.	1430.03	1114.67
PAT	Rs. Cr.	4.08	2.11
PAT Margin	(%)	0.29	0.19
Total Debt/Tangible Net Worth	Times	8.77	6.70
PBDIT/Interest	Times	1.11	1.11

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

BWR vide its press release dated 16.3.2023 had downgraded the company to BWR B- Stable ; INC.

Infomerics vide its press release dated 10/06/2022 had downgraded the company to IVR B; INC.

### Any other information

None

### Applicable Criteria

- Default Recognition :- <https://www.acuite.in/view-rating-criteria-52.htm>
- Rating Process and Timeline: <https://www.acuite.in/view-rating-criteria-67.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>
- Complexity Level Of Financial Instruments: <https://www.acuite.in/view-rating-criteria-55.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](http://www.acuite.in)

### Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
06 Jan 2022	Term Loan	Long Term	538.00	ACUITE BBB (CE)   Stable (Assigned)
	Term Loan	Long Term	25.00	ACUITE BBB (CE)   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
State Bank of India	Not Applicable	Term Loan	03 Oct 2021	9	30 Apr 2037	Simple	25.00	ACUITE BBB-   Stable   Downgraded
State Bank of India	Not Applicable	Term Loan	03 Oct 2021	9	30 Apr 2037	Simple	538.00	ACUITE BBB-   Stable   Downgraded

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### 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.

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