



Press Release
Ulccs Kasaragod Expressway Private Limited
July 04, 2024
Rating Upgraded

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

Rating Rationale

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

Rationale for rating upgrade:

The upgrade of rating considers the improvement in the credit risk profile of the UKEPL, supported by corporate guarantee issued by the parent company "Uralungal Labour Contract Cooperative Society Limited"(ULCCS) (rated ACUITE BBB+/Stable/A2) . The rating also considers the fact that the project is being developed on a hybrid annuity model (HAM) where revenue risk is low post-commencement of project execution. Additionally, the company has successfully completed seven milestones i.e. more than 60 percent physical progress as on March 31, 2024.

However, the rating is partially constrained on account of moderate implementation risk, susceptibility to risks related to delay in receipt of annuity and changes in operational cost and interest rate.

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 Cooperative 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. The major share holder of the society is Government of Kerala, which holds 84.7 percent of the issued shares and rest are held by the members of the society. 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.

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 and strong counterparty linked revenue profile:

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 also received 10 per cent of the total project cost as mobilization advances and has achieved seven milestones as on March 31, 2024.

During the construction/implementation phase, cash flow is assured in the form of 10 milestone achievement linked grants (on achievement of every 5-10 percent of physical progress covering 40 percent of the project cost) along with mobilization advance. These grants would be against the indexed bid project cost (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 in September 2025. NHAI shall also reimburse Rs.144.28 Cr (O&M bid quote) adjusted to Price Index Multiple on the annuity payment dates. Acuite believes, having strong support from ULCCS for funding and technology will help complete the project without any further time over runs.

Low funding risk

The project has debt tie-up of Rs.563 Cr to partly finance the project. As of March 2024, approximately 63 percent of the amount has been disbursed. The promoters have contributed their full share of Rs. 241.19 Cr, indicating low funding risk for the project. Further, the repayment of term loan will commence after ten months of scheduled COD. The term loan will be repaid through 26 structured half yearly instalments.

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. Due to natural calamities (COVID and heavy rains), the construction, initially estimated to be completed by May 16, 2024, was extended until December 31, 2024. However, timely settlement of bills from NHA allowed the management to defer the use of a term loan which resulted in savings on interest costs during the construction period and effectively mitigate the cost overrun. Further, 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 with in the revised time lines and without cost over runs.

Rating Sensitivities

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

Liquidity Position : Adequate

The company has adequate liquidity profile marked by strong resource mobilization from its sponsor entities. Promoter's have infused substantial amount of funds to execute the order. The said amount is being adjusted against grant. The repayment of term loan will commence from October 2025 that is ten months from the scheduled commercial operations date (COD) and after the receipt of first annuity, which helps to mitigate any potential liquidity mismatch. Additionally, the parent company has extended its guarantee towards the repayment of the loan. This further strengthens the liquidity position of the company.

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

Key Financials

Particulars	Unit	FY 24 (Provisional)	FY 23 (Actual)
Operating Income	Rs. Cr.	410.79	538.26
PAT	Rs. Cr.	1.07	3.38
PAT Margin	(%)	0.26	0.63
Total Debt/Tangible Net Worth	Times	1.48	0.22
PBDIT/Interest	Times	1.06	5.42

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>
- 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>

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
06 Apr 2023	Term Loan	Long Term	25.00	ACUITE BBB- Stable (Downgraded from ACUITE BBB (CE) Stable)
	Term Loan	Long Term	538.00	ACUITE BBB- Stable (Downgraded from ACUITE BBB (CE) Stable)
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 avl. / Not appl.	Term Loan	04 Oct 2021	Not avl. / Not appl.	30 Apr 2037	Simple	563.00	ACUITE BBB Stable Upgraded (from ACUITE BBB-)

*Annexure 2 - List of Entities (applicable for Consolidation or Parent / Group / Govt. Support)

Sr.No.	Company Name
1	Uralungal Labour Contract Cooperative Society Limited
2	ULCCS Kasaragod Expressway Private Limited

Contacts

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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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