

Press Release

HK Toll Road Private Limited

April 05, 2023



Rating Assigned

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	518.00	ACUITE B Stable Assigned	-
Total Outstanding Quantum (Rs. Cr)	518.00	-	-

Rating Rationale

Acuite has assigned its long term rating of '**ACUITE B**' (read as **ACUITE B**) to the Rs.518.00 Cr. bank facilities of HK Toll Road Private Limited (HKTRPL). The outlook is '**Stable**'.

Rationale for rating assigned

The rating takes into account the long operational track record of operations of toll road for more than 5 years and promoters experience in the infrastructure industry. The rating also factors in the stable growth in toll collections and revenues post covid-19 pandemic. However, the rating is constraint on account of inadequate MMR balance to carry out major maintenance on time and stretched liquidity position led by ballooning repayment payment. Furthermore, the company needed to carry out MMR expenses to the tune of Rs.55 Cr. in next six months as per NHAI which is expected to further stretch the liquidity position of the company.

About the Company

HK Toll Road Private Limited (HKTRPL) was incorporated in 2010 as a Special Purpose Vehicle (SPV) by Reliance Infrastructure Limited (RInfra) to implement strengthening and widening of 59.87 km stretch road of Hosur-Krishnagiri on NH-7 located in the state of Tamil Nadu from existing 4 lanes to 6 lanes under Design-Build-Finance-Operate-Transfer (DBFOT) model. The company is 100 percent owned by RInfra. The project was a part of the National Highway Development Project (NHDP) being developed by National Highways Authority of India (NHAI). NHAI undertook development of the road and invited bids from parties interested in Design, Engineering, Finance, Construction, Operation and Maintenance of the Hosur - Krishnagiri section of NH-7 through the international competitive bidding route. The Project is to be executed on a Build-Operate-Transfer (BOT) - toll basis on Design Build Finance Operate and Transfer (DBFOT) pattern under NHDP-Phase V.

Analytical Approach

Acuite has considered standalone business and financial risk profile of HK Toll Road Private Limited to arrive at the rating.

Key Rating Drivers

Strengths

Established track of operations

HK Toll Road Private Limited (HKTRPL) was incorporated in 2010 as a Special Purpose Vehicle (SPV) by Reliance Infrastructure Limited (Rlnfra) to implement strengthening and widening of 59.87 km stretch road of Hosur-Krishnagiri on NH-7 located in the state of Tamil Nadu from existing 4 lanes to 6 lanes under Design-Build-Finance-Operate-Transfer (DBFOT) model. The project road is a section of the NH-7 between Hosur and Krishnagiri and is a part of the Golden Quadrilateral which connects Bengaluru and Chennai. The project road lies on a high-density traffic corridor which led NHAI to envisage upgradation of the project road from 4-lanes to 6-lanes. The project was a part of the National Highway Development Project (NHDP) being developed by National Highways Authority of India (NHA). NHAI undertook development of the road and invited bids from parties interested in Design, Engineering, Finance, Construction, Operation and Maintenance of the Hosur - Krishnagiri section of NH-7 through the international competitive bidding route. NHAI had invited bids for the project and after evaluating the bids received from the bidders, NHAI selected Rlnfra to execute the Project. The project was based on the bidding criteria of minimum grant quoted or maximum revenue sharing with NHAI. Rlnfra had bid the maximum revenue share of Rs.66.90 Cr. payable per annum to NHAI and was thus awarded the project. The Letter of Award (LoA) for the project was issued by NHAI on May 13, 2010 and the Concession Agreement (CA) was executed on July 2, 2010 between HKTRPL and NHAI. The project achieved Provisional Commercial Operation Date on Apr 5, 2016 whereas the company started collection of toll from the appointment date since the project was an expansion of four to six lanes reflecting established track record of operations for more than 5 years. However, the final COD for the project will be issued by IE/NHAI after completion of all punch list items. There are 4 nos. of punch list items that are yet to be completed due to land constraint.

Acuité believes that the company will continue to receive benefits from the successful operations of the toll road led by stable growth in toll traffic.

Weaknesses

Inadequate Major Maintenance Reserves

The company was required to create a Major Maintenance Reserve (MMR) account for meeting the major maintenance work/capex as per the loan agreement with the consortium lenders. The company is expected to carry out the major maintenance work as per the timelines mentioned in the concession agreement with NHAI. However, the company has maintain inadequate balance in the MMR account as required to carry out the maintenance capex in the near term which is expected to impact the credit profile of the company going forward. The company need to carry an expense of Rs.55 crore in next six months for the major maintenance work out of which Rs.17 crore as already been incurred from 01 January 2023 to 28 March 2023.

Ballooning repayment structure

The company has availed project loan for completion of the project in form of consortium lending. The project loan has a ballooning repayment structure with relatively large repayments falling due from FY23 till full repayment which is till FY26. Apart from the term loan, the company has to start repaying the deferred premium amount payable to NHAI along with regular premiums from FY24. Acuité believes that the timely repayment of the repayment obligations will going to be a key rating sensitivity over near to medium term.

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.

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 is 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.

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 defense mechanisms are key material issues as well.

Rating Sensitivities

- Timely repayment of all debt obligations
- Stable growth in traffic volumes
- Carrying out MMR expenses as stipulated by NHAI

Material covenants

None

Liquidity Position

Stretched

The liquidity position of the company is poor marked by high repayment obligations along with high MMR expenses against expected cash inflows in the near term. The company need to incur immediate MMR expenses as per NHAI against which the company is expected to have shortfall in cash inflows over near term medium term to repay all its obligations. Also, the company has to pay deferred premium along with regular premiums to NHAI from FY24 which is expected to further stretch the liquidity position of the company. However, the company has repaid all its debt obligations on time (both interest and principal) after covid-19 moratorium received from the lenders till date. The conduct of the account has remain standard and Acuité has received feedback from the lenders about the same as well.

Outlook: Stable

Acuité believes that outlook on the company will continue to remain 'stable' over the medium term on account of established track record of operations in road infrastructure industry. The outlook may be revised to 'Positive' if there is substantial and sustained improvement in the company's profitability along with stable growth in cash inflows. Conversely, the outlook may be revised to 'Negative' in case of further shortfall in cash inflows and deterioration in traffic revenues.

Other Factors affecting Rating

None

Key Financials

Particulars	Unit	FY 22 (Actual)	FY 21 (Actual)
Operating Income	Rs. Cr.	181.23	149.67
PAT	Rs. Cr.	(77.36)	(96.02)
PAT Margin	(%)	(42.68)	(64.15)
Total Debt/Tangible Net Worth	Times	(0.33)	(0.34)
PBDIT/Interest	Times	0.82	0.67

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

None

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>

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:

Not Applicable

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	Simple	15.61	ACUITE B Stable Assigned
Canara Bank	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	280.29	ACUITE B Stable Assigned
Punjab National Bank	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	132.17	ACUITE B Stable Assigned
Union Bank of India	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	45.51	ACUITE B Stable Assigned
State Bank of India	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	44.42	ACUITE B Stable Assigned

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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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