



Press Release
KKK HIGHWAY Y LLP
January 31, 2024
Rating Assigned

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	65.00	ACUITE BBB Stable Assigned	-
Total Outstanding Quantum (Rs. Cr)	65.00	-	-

Rating Rationale

Acuite has assigned its long-term rating of '**ACUITE BBB**' (read as **ACUITE triple B**) on the Rs.65.00 crore bank facilities of KKK Highway LLP (KKKH). The outlook is '**Stable**'.

Rationale for rating assigned.

The rating assigned considers the completion of project along with all the milestone payments received from PWD and three annuity payments has been received by the KKKH till date. The rating also considers the strong financial risk profile of the sponsor as seen by the self-funded nature of the project. Further, the rating factors in the adequate liquidity of the company in the form of DSRA created equivalent to 6 months instalments and interest payments along with escrow mechanism. However, the rating is constrained by the risk related to delay in receipt of future annuity payments and changes in operational and interest cost, which could affect the debt serving capabilities of KKKH.

About the Company

KKK Highways LLP (KKKH), a SPV promoted by DHD Infracon Private Limited. The company entered into Concession Agreement (CA) on August 2018 with the Public Works Department (PWD) of the Government of Maharashtra. Under the CA, it made Improvement to Karad Malkapur Namdalpur Pachwad Phata Yenpe Kokrud Road, Tal-Karad and Shirala, District Satara (Project No. PN-38), in the state of Maharashtra on Hybrid Annuity Model.

Unsupported Rating

Not Applicable

Analytical Approach

Acuite has considered the standalone business and financial risk profiles of KKK Highway LLP to arrive at the rating.

Key Rating Drivers

Strengths

Established track record of sponsor

The sponsor for the project is DHD Infracon Private Limited. The company is into EPC business for more than 2 decades. Over the years the company has established its presence in the state of Maharashtra. The net-worth of the sponsor stands at Rs.118.35 crore as on 31st March 2023. KKKH is a self-funded project by the sponsor entity without any borrowings from banks. The company in FY23 had taken a bank borrowing by way of discounting of future

annuities which is to be received by the company from PWD Maharashtra.
Acuite believes that the healthy financial risk profile of the sponsor will support KKKH if require going ahead.

Strong counter party linked revenue profile.

The company entered into a concession agreement with PWD Maharashtra for improvement to roads in Satara district in Maharashtra in August 2018. The company achieved COD in March 2022 after the extension being granted by the authority. The concession is granted to KKKH for 10 years after the COD was received and during the concession, semi-annual annuity payments would be paid by PWD Maharashtra. The company has till date received three annuities until December 2023. Along with annuity payments, interest shall be payable to KKKH on reducing balance of completion cost at a rate equal to applicable bank rate plus spread. PWD Maharashtra shall also reimburse the O&M bid quote adjusted to Price Index Multiple on the annuity payment dates to KKKH.

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

The repayments for term loan will be recovered from escrow account created by bank. KKKH has escrow mechanism through which cash flows from Authority is 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. The debt service coverage ratio (DSCR) is expected to remain over 2.52 times for the tenure of the loan. The company maintains DSRA equivalent to six months debt service obligation (principal and interest) in the form of fixed deposits to mitigate any unforeseen risk related to delay in annuity receipt etc.

Weaknesses

Exposed to risks such as delay in receiving annuity payments and any 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 at a rate equivalent of prevailing bank rate plus spread. Further, the company is exposed to risks related to maintenance of the project. If the prescribed standards and timely maintenances of the project are not performed, it will significantly affect the annuity payments. And with any significant delay or deduction in annuities could impact the debt servicing ability of the company.

Acuite believes that any delay or deduction in annuities will affect the debt servicing capabilities of the KKKH.

Rating Sensitivities

- Timely receipt of annuity payments from PWD Maharashtra going forward
- Timely support from the sponsor for O&M activities.

Liquidity Position Adequate

KKKH's liquidity position is adequate marked by receipt of last annuity and timely support from parent. The company has started receiving the annuity from Maharashtra PWD since October'22. The company has faced a delay in receiving the last annuity payment. It has received its third annuity in the month of December 2023 which was due in September 2023. The DSCR is expected to be adequate and will remain above 2.52 times going forward. The company has maintained DSRA of Rs. 4.16 crore in form of FD, which is one instalment. Fund support is likely from sponsor for any immediate works including O&M and major maintenance expenses. Further there is also an additional undisbursed loan amount for the company. However, the Company needs to make provision for MMR expenses which are to be incurred in the third year.

Acuite expects the liquidity of KKKH is likely to remain adequate backed by support from parent and government in terms annuity payments.

Outlook: Stable

Acuité believes that the outlook on KKKH's rated facilities will remain 'Stable' over the medium term on account of steady flow of semi-annual annuity from the government. 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 receipt of the annuity or lack of timely support from the sponsor as and when needed.

Other Factors affecting Rating

Acuité has considered DSRA equivalent to 6 months instalments and 6 months interest and escrow mechanism, as specified in the loan sanction letter while arriving at the rating.

Key Financials

Particulars	Unit	FY 23 (Actual)	FY 22 (Actual)
Operating Income	Rs. Cr.	51.67	52.82
PAT	Rs. Cr.	(1.06)	0.38
PAT Margin	(%)	(2.04)	0.71
Total Debt/Tangible Net Worth	Times	0.93	0.02
PBDIT/Interest	Times	(1.27)	22.52

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>
- 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>

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 avl. / Not appl.	Proposed Term Loan	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	6.45	ACUITE BBB Stable Assigned
State Bank of India	Not avl. / Not appl.	Term Loan	Not avl. / Not appl.	Not avl. / Not appl.	31 Oct 2030	Simple	58.55	ACUITE BBB 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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