

Patel KNR Heavy Infrastructures Limited

October 05, 2020

Ratings

Facilities	Amount (Rs. crore)	Rating ⁵	Rating Action
Long Term Bank Facilities - External Commercial Borrowing (ECB)	79.51	CARE AA+; Stable; ISSUER NOT COOPERATING* (Double A Plus; Outlook: Stable ISSUER NOT COOPERATING*)	Issuer not cooperating; Based on best available Information and rating put under INC
Total Facilities	79.51 (Seventy Nine Crore and Fifty one Lakhs only)		
Long Term Instruments - Non Convertible Debentures (NCD)	306.80 (Three Hundred Six Crore and Eighty Lakhs only)	CARE AA+; Stable; ISSUER NOT COOPERATING* (Double A Plus; Outlook: Stable ISSUER NOT COOPERATING*)	Issuer not cooperating; Based on best available Information and rating put under INC

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

CARE has been seeking information from Patel KNR Heavy Infrastructures Ltd to monitor the rating vide e-mail communications dated June 16, 2020, June 17, 2020, August 25, 2020 & September 30, 2020 and numerous phone calls. However, despite our repeated requests, the company has not provided the requisite information for monitoring the ratings. In line with the extant SEBI guidelines, CARE has reviewed the rating on the basis of the best available information which however, in CARE's opinion is not sufficient to arrive at a fair rating. The rating of Patel KNR Heavy Infrastructures Limited will now be denoted as **CARE AA+; Stable; ISSUER NOT COOPERATING***.

Users of this rating (including investors, lenders and the public at large) are hence requested to exercise caution while using the above rating(s).

The rating assigned to the NCDs and ECBs of Patel KNR Heavy Infrastructures Limited (PKHIL) continues to factor track record of timely receipt of annuity payments, receipt of final completion certificate, presence of structured payment mechanism for servicing the NCDs and ECBs by way of escrowing semi-annual annuity receivables from NHAI, presence of fixed price Operation and Maintenance (O&M) contract with reputed player albeit pending amendments in contract terms with respect to revised estimates of Major Maintenance (MM) expenditure, reduced MM funding risk with a relatively lower MM cost (for the next two cycles) vetted by a third party consultant approved by lenders, sponsor undertaking for infusion of funds for any shortfall in meeting Major Maintenance, strong liquidity position coupled with presence of Major Maintenance Reserve Account (MMRA) to meet estimated 2nd major maintenance and Debt Service Reserve Account (DSRA) to meet almost 6 months of interest and one principal installment, fixed interest rate and hedged foreign exchange risk. The rating also takes into account the claim received from NHAI towards delayed payment of first annuity and timely receipt of eighteenth and nineteenth semi-annuity payment without any deductions.

Users of this rating (including investors, lenders and the public at large) are hence requested to exercise caution while using the above rating(s).

Detailed description of the key rating drivers
Key Rating Strengths

Strong financial risk profile of annuity provider i.e. NHAI: Incorporated by the Government of India under an act of Parliament, NHAI (rated 'CARE AAA' for bonds) functions as the nodal agency for development, maintenance and management of National Highways in the country. By virtue of being a quasi-government body and its strategic importance to GOI, the risk arising on account of NHAI defaulting on annuity payments is very low.

Timely Receipt of annuity from NHAI: The revenue source for PKHIL is the bi-annual annuity of Rs.44.37 crore receivable from NHAI up to March 1, 2028. PKHIL has a track record of timely receipt of annuity payments from NHAI and has received eighteenth

¹ Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications

*Issuer did not cooperate; Based on best available information

and nineteenth semi-annual payments from the Concession Authority up to September 1, 2019. PKHIL is an annuity project and is not exposed to any traffic risk. Further, as it is already operational project for more than 9yrs, no construction risk exists. Further, the company has received claim of Rs 17.89 crore on August 29, 2019 from NHAI on account of delayed payment of 1st annuity from NHAI.

Structured payment mechanism: PKHIL has opened and maintained an 'Escrow account' with the bank with the first priority assigned towards statutory payments if any, O&M expenses followed by debt servicing (interest and principal) of the ECB and NCDs and appropriation to Major Maintenance Reserve Account (MMRA) and other relevant expenses, in that order. A 'T+30' structure has been provided for NCD/ECB repayment with 'T' being the NHAI annuity receipt date to take care of any operational delay in receipt of annuity from NHAI.

Fixed interest rate & hedged foreign currency risk The repayment and the interest payments to the NCD's are to be made on semi-annual basis and are fixed which eliminates the interest rate risk, providing comfort from the credit perspective. The above repayments are slated to be made with a gap of 30 days from the receipt of annuity. Also PKHIL has hedged foreign currency and interest rate risk towards entire External Commercial Borrowings.

Significant Sponsor Experience coupled with satisfactory credit profiles: KNR Constructions Ltd was set up in 1995 and provides Engineering, Procurement, and Construction (EPC) services across sectors such as roads and highways, irrigation, and urban water infrastructure management. On a total income of Rs.2,137 crore in FY19 (refers to the period April 1 to March 31), KNRCL earned profit after tax (PAT) of Rs.263 crore (standalone) compared with a PAT of Rs.272 crore on a total income of Rs.1,932 crore in FY18. Further, the company has a strong outstanding order book of Rs 6,519 crore as on June 30, 2019.

Incorporated in 1949, Patel Engineering Limited (PEL) has been engaged in the construction of dams, bridges, tunnels, roads, piling works, industrial structures and other kinds of heavy civil engineering works in areas like hydro, irrigation & water supply, urban infrastructure and transport. During FY19 on a standalone basis, PEL reported total income of and PAT of Rs. 2,356 crore (Rs.2,420 crore in prev. yr.) and Rs.82.87 crore (Rs.59.08 crore prev. yr.). Further, the company has a strong outstanding order book of Rs 10,215 crore as on March 31, 2019.

Key Rating Weaknesses

Absence of amendments in the fixed price contract for major maintenance on account of revised estimates: The incurred major maintenance expenditure in FY15-16 was more than the budgeted cost mainly due to the change in the specification (particularly thickness of overlay) and delay in undertaking the activities. The SPV has incurred higher major maintenance expenses than envisaged despite having a fixed price O&M contract with KNRCL, due to instructions from NHAI for overlaying the renewal coat on the road with 40mm Bituminous Concrete (BC) as against 30mm BC overlay as per the agreement.

The company has revised estimates for its 2nd and 3rd major maintenance cycle, which is 38% and 27% higher than the initial estimates of the respective maintenance cycles. Post revision in estimates of major maintenance expenditure, the company has not amended the fixed price contract entered with KNRCL for execution of major maintenance. However, the promoters have provided undertaking to cover the cash shortfall. Besides, non-performance of O&M contractor in carrying out Major Maintenance Activity (MMA) may translate into reduction in annuity receivables. Such shortfall in annuity will have a direct bearing on the envisaged debt servicing capability of PKHIL.

Liquidity position: Strong The company has strong liquidity characterized by sufficient cushion in debt servicing with timely receipt of annuity (Rs.88.74 crore per year vis-à-vis debt repayment obligation of Rs.35.11 crore) presence of liquid investments by way of mutual funds to the extent of Rs 35 crore (lien marked to lead lender) for DSRA, which covers 90% of 1 half year principal installment and 1 half year interest outlay, Debenture Redemption Reserve balance of Rs 3.65 crore and major maintenance reserve balance of Rs 37.22 crore against the estimated cost of 2nd major maintenance cycle of Rs 38.75 crore and has a free cash & bank balances of Rs 2.19 crore as on March 31, 2019. The company did not avail for any moratorium.

Analytical approach: Standalone

Applicable criteria

Policy in respect of Non-cooperation by issuer

Criteria on assigning Outlook to Credit Ratings

CARE's Policy on Default Recognition

Rating Methodology - Infrastructure Sector Ratings

Liquidity Analysis of Non-Financial Sector Entities

Financial ratios – Non-Financial Sector

About the Company

Patel KNR Heavy Infrastructures Limited (PKHIL/the company) is a Special Purpose Vehicle (SPV) incorporated in 2006 for design, construction, development, financing and operations of four laning of 48 km stretch in the Islamnagar – Kadthal section of National Highway 7 (connecting Hyderabad and Bangalore) from Km 230 to Km 278 in Adilabad district in the state of Andhra Pradesh under DBFOT (Annuity) basis. The company is jointly promoted by KNR Constructions Ltd with 40% (KNRCL), Patel Engineering Infrastructures Limited (PEIL) with equity share of 42%, a wholly-owned subsidiary of Patel Engineering Limited (PEL) and Enpro Limited with 18% of shareholding of the company.

The project got commissioned and PKHIL received Provisional Completion Certificate dated June 11, 2010. The scheduled project completion date for the project was March 01, 2010; the project cost was initially estimated at Rs.592 crore. However, the project got delayed on account of public agitation/bandhs and delay in handing over of land for construction, resulting in cost overrun to the tune of Rs.5.48 crore. The concession is for a period of 20 years, including a 24-month construction period and ending on March 1, 2028. PKHIL has received the final completion certificate on December 26, 2016.

Brief Financials (Rs. crore)	FY18(A)*	FY19(A)*
Total operating income	68.60	67.21
PBILDT	50.61	46.80
PAT	(3.11)	(8.82)
Overall gearing (times)	5.68	6.06
Interest coverage (times)#	0.94	0.84

*Audited; #-interest coverage ratio based on IND AS methodology works out to below unity, however based on cash flow analysis it is more than unity.

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

Covenants of rated instrument / facility: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated for this company: Annexure 4

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-External Commercial Borrowings		-	-	September 30, 2023	79.51	CARE AA+; Stable; ISSUER NOT COOPERATING*
Debentures-Non Convertible Debentures	INE555J07013	September 03, 2013	10.04%	September 30, 2025	127.50	CARE AA+; Stable; ISSUER NOT COOPERATING*
	INE555J07138	September 03, 2013	9.75%	September 30, 2019	4.00	
	INE555J07146	September 03, 2013	9.75%	March 31, 2020	4.00	
	INE555J07153	September 03,	10%	September 30, 2020	4.45	

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
		2013				
	INE555J07161	September 03, 2013	10%	March 31, 2021	4.45	
	INE555J07179	September 03, 2013	10%	September 30, 2020	5.90	
	INE555J07187	September 03, 2013	10%	March 31, 2022	5.90	
	INE555J07195	September 03, 2013	10%	September 30, 2022	5.60	
	INE555J07203	September 03, 2013	10%	March 31, 2023	5.60	
	INE555J07211	September 03, 2013	10.35%	September 30, 2023	11.00	
	INE555J07229	September 03, 2013	10.35%	March 31, 2024	11.00	
	INE555J07237	September 03, 2013	10.35%	September 30, 2024	13.05	
	INE555J07245	September 03, 2013	10.35%	March 31, 2025	13.05	
	INE555J07252	September 03, 2013	10.35%	March 31, 2026	30.40	
	INE555J07260	September 03, 2013	10.35%	September 30, 2026	30.45	
	INE555J07278	September 03, 2013	10.35%	March 31, 2027	30.45	

*Issuer did not cooperate; Based on best available information

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Debentures-Non Convertible Debentures	LT	306.80	CARE AA+; Stable; ISSUER NOT COOPERATING*	-	CARE AA+; Stable (04-Oct-19)	1) CARE AA+ (SO); Stable (05-Oct-18) 2) CARE AA+ (SO); Stable (30-Aug-18)	1) CARE AA (SO); Stable (30-Mar-18)
2.	Fund-based - LT- External Commercial Borrowings	LT	79.51	CARE AA+; Stable; ISSUER NOT COOPERATING*	-	CARE AA+; Stable; (04-Oct-19)	1) CARE AA+ (SO); Stable (05-Oct-18) 2) CARE AA+ (SO); Stable (30-Aug-18)	1) CARE AA (SO); Stable (30-Mar-18)

*Issuer did not cooperate; Based on best available information

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities: Not applicable

Annexure 4: Complexity level of various instruments rated for this Company

Sr. No.	Name of the Instrument	Complexity Level
1.	Debentures-Non Convertible Debentures	Simple
2.	Fund-based - LT- External Commercial borrowings	Simple

Note on complexity levels of the rated instrument: CARE has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

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About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

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