

Patel KNR Heavy Infrastructures Limited

August 20, 2025

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Non-convertible debentures	52.12 (Reduced from 175.90)	CARE AAA; Stable	Upgraded from CARE AA+; Stable

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

Upgrade in the rating assigned to non-convertible debentures (NCDs) of Patel KNR Heavy Infrastructures Limited (PKHIL) factors in the significant improvement in debt coverage metrics following the prepayment of debt from the arbitration proceeds received in FY25 (FY refers to period April 01 to March 31). PKHIL settled arbitration claim with National Highways Authority of India (NHAI, rated 'CARE AAA; Stable') under 'Vivad se Vishwas' scheme of Government of India (GoI). The company received ₹266 crore as part of arbitration claim, which was expected to be entirely passed on to the engineering, procurement and construction (EPC) contractor and major maintenance (MM) contractor (also the project sponsors). However, a sum of ₹66.5 crore has been utilised towards debt prepayment in FY25, reducing the outstanding debt obligation for FY26 and FY27. With this reduction, debt coverage metrics have improved significantly with total debt/annuity improving sharply to ~0.60x for FY26.

The rating continues to derive strength from the long track record of the timely receipt of annuity payments with the receipt of the 29th and 30th annuity in a timely manner without deduction, structured payment mechanism, where, biannual annuity is received from the NHAI in an escrow account for servicing of NCDs; the strong credit profile and the significant experience of the operations and maintenance (O&M) contractor, KNR Constructions Limited (KNRCL); and strong liquidity profile with presence of stipulated liquidity reserves in form of debt service reserve account (DSRA) and major maintenance reserve account (MMRA). The presence of a fixed price O&M agreement and fixed rate of interest on the NCDs are additional credit positives.

The rating also factors in the restricted payment covenants which do not allow withdrawal of free cash available in the project until the time the debentures are redeemed. Going forward, with the utilisation of arbitration proceeds for debt prepayment, it is expected that the impending payment to sponsors shall be from project cashflows, subject to approval from Debenture Trustee and post completion of major maintenance (MM). With improved debt coverage and likely completion of the third and last MM by March 2026, the withdrawal is not expected to have material impact on the project liquidity.

The company continues to remain exposed to the risks arising out of inherent O&M risk and MM risk.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors: Not applicable

Negative factors

- Non-receipt or delayed or reduced receipt of annuities.
- Reduction in DSCR below 1.1x on sustained basis.
- Nonadherence of the structured payment mechanism.
- Withdrawal of significant cash balance lying in the escrow account prior to completion of MM.

Analytical approach: Standalone

Outlook: Stable

The 'stable' outlook reflects the timely receipt of annuities from the NHAI without deduction, comfortable debt coverage, and the maintenance of liquidity reserves in form of DSRA and MMRA.

¹Complete definition of ratings assigned are available at www.careratings.com and other CARE Ratings Limited's publications.

Detailed description of key rating drivers:**Key strengths****Improved debt coverage metrics**

In FY25, PKHIL settled its pending arbitration claim with NHAI under the 'Vivad Se Vishwas' Scheme and received ₹251 crore (net of arbitration expenses). While ~₹200 crore has been passed to the EPC contractor, the balance fund has been used for prepayment of debt of ₹66.5 crore (in January 2025), significantly improving debt coverage metrics. Post prepayment, DSCR has improved significantly and the debt/annuity for FY26x stands robust at 0.60x.

The arbitration claim receipts are towards the additional cost incurred by the EPC contractor/M&M contractor and hence are to be entirely passed on to them. However, given that a partial sum has been paid, going forward, the balance amount of ~₹51 crore is expected to be paid from the project cashflows based on approval from Debenture Trustee. However, CARE Ratings Limited (CareEdge Ratings) does not envisage material impact of this withdrawal on project liquidity, considering the improved debt coverage and likely completion of the third and final MM in FY26.

Timely receipt of annuity from NHAI

PKHIL is an annuity project and is not exposed to traffic risk. PKHIL's revenue source is the bi-annual annuity (due on March 1 and September 1 of every year) of ₹44.37 crore receivable from the NHAI up to March 1, 2028. PKHIL has a track record of the timely receipt of annuity payments from the NHAI and has received 30 semi-annual annuities up to March 31, 2025. PKHIL has received its 29th and 30th annuities on August 29, 2024, and March 01, 2025, respectively, against their due dates of September 01, 2024, and March 01, 2025, respectively, without deductions except TDS and cess. NHAI has also released GST component on annuities.

Strong financial risk profile of the annuity provider, NHAI

Incorporated by the GoI under an Act of Parliament, NHAI functions as the nodal agency for the development, maintenance, and management of the National Highways in the country. By virtue of being a quasi-government body and its strategic importance to the GoI, the risk arising considering NHAI defaulting on annuity payments is low.

Presence of structured payment mechanism

PKHIL maintains an escrow account with defined waterfall for payments in order of priority. A 'T+30' structure has been provided for the NCD repayment with 'T' being the NHAI annuity receipt date to take care of operational delay in the receipt of annuity from the NHAI.

The Debenture Trust Deed stipulates restricted payment conditions, where the company cannot make restricted payments until the time the debentures are redeemed, trapping the cash at special purpose vehicle (SPV) level. Such cash traps aid liquidity.

Fixed interest rate on NCDs

The principal and interest payments to the NCDs are to be made on a semi-annual basis (due on September 30 and March 31 of every year). The interest rates on the NCDs are fixed, which eliminates the interest rate risk.

Strong credit profile of the O&M contractor-cum-sponsor

The sponsors have an established track record of project execution with the O&M of large portfolios of infrastructure assets. KNRCL (holding 40% stake in the company) is an established engineering, procurement, and construction (EPC) entity with

presence across sectors such as roads and highways, irrigation, and urban water infrastructure management. The routine maintenance activity is undertaken by KNRCL. The other sponsor, Patel Engineering Limited (PEL; holding 60% stake), has vast experience in the construction segment, although the credit profile has relatively moderated over the years.

The sponsors, KNRCL and PEL, have also jointly and severally provided an undertaking for the infusion of funds in meeting shortfall in MM expenses over and above the revised estimates and the disallowance of withdrawal of free cash available in the project.

Key weakness

Inherent O&M risk associated with project

KNRCL is the project's O&M contractor, and Patel-KNR JV (Patel: KNR in the ratio 60:40) is undertaking periodic maintenance. PKHIL is exposed to the inherent O&M risk of sharp increase in the O&M cost due to more-than-envisaged wear and tears associated with build-operate-transfer (BOT) projects.

In the past, SPV has incurred higher MM expenses than envisaged, despite having a fixed-price contract for MM, due to instructions from the NHAI for overlaying the renewal coat on the road with 40-mm bitumen concrete (BC) against 30-mm BC overlay as per the agreement. Accordingly, the company revised the estimates for its third-MM cycle, which is 27% higher than the initial estimates of respective maintenance cycles.

Liquidity: Strong

The liquidity profile is strongly supported by timely receipt of annuities and a T+30-day structure providing cushion against delays in annuity receipt. The company has been maintaining stipulated reserves comprising a DSRA (of ₹35 crore, which covers around one year of debt servicing) and an MM reserve of ₹12.63 crore as on June 30, 2025. This apart, the company had surplus funds of ₹54 crore as on June 30, 2025. All the stipulated reserves and liquid funds are maintained by investments in mutual funds and fixed deposits as per the terms of the restricted payment covenants.

Assumptions/Covenants: Not applicable

Environment, social, and governance (ESG) risks: Not applicable

Applicable criteria

[Definition of Default](#)

[Liquidity Analysis of Non-financial sector entities](#)

[Rating Outlook and Rating Watch](#)

[Financial Ratios – Non financial Sector](#)

[Road Assets-Annuity](#)

[Infrastructure Sector Ratings](#)

About the company and industry

Industry classification

Macroeconomic indicator	Sector	Industry	Basic industry
Services	Services	Transport infrastructure	Road assets–toll, annuity, hybrid-annuity

Incorporated in 2006, PKHIL (the company) is an SPV 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 Telangana under DBFOT (Annuity) basis.

The company is jointly promoted by KNRCCL with 40% stake and PEL – 60% stake through its wholly owned subsidiaries; Patel Engineering Infrastructures Limited (42%) and Fornido Developers Ltd (erstwhile ENPRO Ltd) with 18% of the company's shareholding.

Brief Financials (₹ crore)	March 31, 2024 (A)	March 31, 2025 (UA)	Q1FY26 (UA)
Total operating income	38.12	297.81	6.74
PBILDT	20.21	-0.96	2.46
PAT	-3.20	-18.02	1.77
Overall gearing (times)	1.54	0.55	0.53
Interest coverage (times)	0.80	-0.05	1.90

A: Audited UA: Unaudited; Note: these are latest available financial results

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years: Annexure-2

Detailed explanation of covenants of rated instrument / facility: Annexure-3

Complexity level of instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned and Rating Outlook
Debenture-Non-Convertible Debentures	INE555J07252	03-Sep-2013	10.65	31-Mar-2026	23.32	CARE AAA; Stable
Debenture-Non-Convertible Debentures	INE555J07260	03-Sep-2013	10.65	30-Sep-2026	15.00	CARE AAA; Stable
Debenture-Non-Convertible Debentures	INE555J07278	03-Sep-2013	10.65	31-Mar-2027	13.80	CARE AAA; Stable

*ISINs INE555J07013, INE555J07237, INE555J07245 have been redeemed

Annexure-2: Rating history for last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2025-2026	Date(s) and Rating(s) assigned in 2024-2025	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023
1	Debentures-Non-Convertible Debentures	LT	52.12	CARE AAA; Stable	-	1)CARE AA+; Stable (22-Aug-24)	1)CARE AA+; Stable (23-Aug-23)	1)CARE AA+; Stable (30-Aug-22)
2	Fund-based - LT-External Commercial Borrowings	LT	-	-	-	1)Withdrawn (22-Aug-24)	1)CARE AA+; Stable (23-Aug-23)	1)CARE AA+; Stable (30-Aug-22)

LT: Long term

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

Annexure-4: Complexity level of instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Debentures-Non-Convertible Debentures	Simple

Annexure-5: Lender details

To view lender-wise details of bank facilities please [click here](#)

Contact us

Media Contact Mradul Mishra Director CARE Ratings Limited Phone: +91-22-6754 3596 E-mail: mradul.mishra@careedge.in	Analytical Contacts Rajashree Murkute Senior Director CARE Ratings Limited Phone: +91-22-68374474 E-mail: Rajashree.murkute@careedge.in
Relationship Contact Saikat Roy Senior Director CARE Ratings Limited Phone: 912267543404 E-mail: saikat.roy@careedge.in	Puja Jalan Director CARE Ratings Limited Phone: 914040020131 E-mail: puja.jalan@careedge.in
	Tej Kiran Ghattamaneni Associate Director CARE Ratings Limited Phone: 914040020131 E-mail: tej.kiran@careedge.in

About us:

Established in 1993, CareEdge Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the Reserve Bank of India. With an equitable position in the Indian capital market, CareEdge Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CareEdge Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CareEdge Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit. For more information: www.careratings.com

Disclaimer:

This disclaimer pertains to the ratings issued and content published by CARE Ratings Limited ("CareEdge Ratings"). Ratings are opinions on the likelihood of timely payment of the obligations under the rated instrument and are not recommendations to sanction, renew, disburse, or recall the concerned bank facilities or to buy, sell, or hold any security. Any opinions expressed herein are in good faith and are subject to change without notice. The rating reflects the opinions as on the date of the rating. A rating does not convey suitability or price for the investor. The rating agency does not conduct an audit on the rated entity or an independent verification of any information it receives and/or relies on for the rating exercise. CareEdge Ratings has based its ratings/outlook on the information obtained from reliable and credible sources. CareEdge Ratings does not, however, guarantee the accuracy, adequacy, or completeness of any information and is not responsible for any errors or omissions and the results obtained from the use of such information. The users of the rating should rely on their own judgment and may take professional advice while using the rating in any way. CareEdge Ratings shall not be liable for any losses that user may incur or any financial liability whatsoever to the user of the rating. The use or access of the rating does not create a client relationship between CareEdge Ratings and the user.

CAREEDGE RATINGS DISCLAIMS WARRANTY OF ANY KIND, EXPRESS, IMPLIED OR OTHER WARRANTIES OR CONDITIONS, TO THE EXTENT PERMITTED BY APPLICABLE LAWS, INCLUDING WARRANTIES OF MERCHANTABILITY, ACCURACY, COMPLETENESS, ERROR-FREE, NON-INFRINGEMENT, NON-INTERRUPTION, SATISFACTORY QUALITY, FITNESS FOR A PARTICULAR PURPOSE OR INTENDED USAGE.

Most entities whose bank facilities/instruments are rated by CareEdge Ratings have paid a credit rating fee, based on the amount and type of bank facilities/instruments. CareEdge Ratings or its subsidiaries/associates may also be involved with other commercial transactions with the entity. CareEdge Ratings does not act as a fiduciary by providing the rating. The ratings are intended for use only within the jurisdiction of India. The ratings of CareEdge Ratings do not factor in any rating-related trigger clauses as per the terms of the facilities/instruments, which may involve acceleration of payments in case of rating downgrades. However, if any such clauses are introduced and triggered, the ratings may see volatility and sharp downgrades. CareEdge Ratings has established policies and procedures as required under applicable laws and regulations which are available on its website.

Privacy Policy applies. For Privacy Policy please refer to https://www.careratings.com/privacy_policy

© 2025, CARE Ratings Limited. All Rights Reserved.

This content is being published for the purpose of dissemination of information. Any use or reference to the contents herein on an "as-is" basis is permitted with due acknowledgement to CARE Ratings. Reproduction or retransmission in whole or in part is prohibited except with prior written consent from CARE Ratings.

**For detailed Rating Report and subscription information,
please visit www.careratings.com**