IndiaRatings & Research
A Fitch Group Company

FitchGroup

Mr. Shambhusingh Rajput
Finance Manager
Suryapet Khammam Road Private Limited
Adani Group - RMRW business,
9th Floor, East Wing, Commerce House - 6,
Next to SNP Global House, Behind Divya Bhaskar Office,
Prahlad Nagar, Ahmedabad - 380051

July 17, 2024

Dear Sir/Madam,

Re: Rating Letter for NCD of Suryapet Khammam Road Private Limited

India Ratings and Research (Ind-Ra) has rated Suryapet Khammam Road Private Limited's (SKRPL) proposed non-convertible debentures (NCDs) as follows:

Instrument Type	**Size of Issue (million)**	**Rating assigned along with Outlook/Watch**	**Rating Action**
Proposed non-convertible debentures	INR6,500	IND AAA/Stable	Assigned

In issuing and maintaining its ratings, India Ratings relies on factual information it receives from issuers and underwriters and from other sources India Ratings believes to be credible. India Ratings conducts a reasonable investigation of the factual information relied upon by it in accordance with its ratings methodology, and obtains reasonable verification of that information from independent sources, to the extent such sources are available for a given security.

The manner of India Ratings factual investigation and the scope of the third-party verification it obtains will vary depending on the nature of the rated security and its issuer, the requirements and practices in India where the rated security is offered and sold, the availability and nature of relevant public information, access to the management of the issuer and its advisers, the availability of pre-existing third-party verifications such as audit reports, agreed-upon procedures letters, appraisals, actuarial reports, engineering reports, legal opinions and other reports provided by third parties, the availability of independent and competent third-party verification sources with respect to the particular security or in the particular jurisdiction of the issuer, and a variety of other factors.

Users of India Ratings ratings should understand that neither an enhanced factual investigation nor any third-party verification can ensure that all of the information India Ratings relies on in connection with a rating will be accurate and complete. Ultimately, the issuer and its advisers are responsible for the accuracy of the information they provide to India Ratings and to the market in offering documents and other reports. In issuing its ratings India Ratings must rely on the work of experts, including independent auditors with respect to financial statements and attorneys with respect to legal and tax matters. Further, ratings are inherently forward-looking and embody assumptions and predictions about future events that by their nature cannot be verified as facts. As a result, despite any verification of current facts, ratings can be affected by future events or conditions that were not anticipated at the time a rating was issued or affirmed.

India Ratings seeks to continuously improve its ratings criteria and methodologies, and periodically updates the descriptions on its website of its criteria and methodologies for securities of a given type. The criteria and methodology used to determine a rating action are those in effect at the time the rating action is taken, which for public ratings is the date of the related rating action commentary. Each rating action commentary provides information about the criteria and methodology used to arrive at the stated rating, which may differ from the general criteria and methodology for the applicable security type posted on the website at a given time. For this reason, you should always consult the applicable rating action commentary for the most accurate information on the basis of any given public rating.

Ratings are based on established criteria and methodologies that India Ratings is continuously evaluating and updating. Therefore, ratings are the collective work product of India Ratings and no individual, or group of individuals, is solely responsible for a rating. All India Ratings reports have shared authorship. Individuals identified in an India Ratings report were involved in, but are not solely responsible for, the opinions stated therein. The individuals are named for contact purposes only.

Ratings are not a recommendation or suggestion, directly or indirectly, to you or any other person, to buy, sell, make or hold any investment, loan or security or to undertake any investment strategy with respect to any investment, loan or security or any issuer. Ratings do not comment on the adequacy of market price, the suitability of any investment, loan or security for a particular investor (including without limitation, any accounting and/or regulatory treatment), or the tax-exempt nature or taxability of payments made in respect of any investment, loan or security. India Ratings is not your advisor, nor is India Ratings providing to you or any other party any financial advice, or any legal, auditing, accounting, appraisal, valuation or actuarial services. A rating should not be viewed as a replacement for such advice or services. Investors may find India Ratings ratings to be important information, and India Ratings notes that you are responsible for communicating the contents of this letter, and any changes with respect to the rating, to investors.

It will be important that you promptly provide us with all information that may be material to the ratings so that our ratings continue to be appropriate. Ratings may be raised, lowered, withdrawn, or placed on Rating Watch due to changes in, additions to, accuracy of or the inadequacy of information or for any other reason India Ratings deems sufficient.

Nothing in this letter is intended to or should be construed as creating a fiduciary relationship between India Ratings and you or between India Ratings and any user of the ratings.

In this letter, “India Ratings” means India Ratings & Research Pvt. Ltd. and any successor in interest.

We are pleased to have had the opportunity to be of service to you. If we can be of further assistance, please email us at infogrp@indiaratings.co.in

Sincerely,

India Ratings

Vishal Kotecha
Director

India Ratings Assigns Suryapet Khammam Road's Proposed NCDs 'IND AAA'/Stable

Jul 17, 2024 | Road Assets–Toll | Annuity | Hybrid-Annuity

India Ratings and Research (Ind-Ra) has rated Suryapet Khammam Road Private Limited's (SKRPL) proposed non-convertible debentures (NCDs) as follows:

Details of Instruments

Instrument Type	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of Issue (million)	Rating assigned along with Outlook/Watch	Rating Action
Proposed non-convertible debentures	-	-	-	INR6,500	IND AAA/Stable	Assigned

Analytical Approach

Ind-Ra has taken a standalone view of SKRPL to arrive at the rating because of the restricted payment conditions and waterfall arrangements, as per the financing documents. Any contribution by the sponsors, Adani Road Transport Limited (ARTL; holding 74%) and PATH Highways LLP (PATH; holding 26%), and other related parties in the form of unsecured loans would be subordinate to the rated senior debt. Any interest/principal payable on the same from the project cash flows shall be made only after complying with the restricted payment conditions.

Detailed Rationale of the Rating Action

The project has achieved commercial operations date (COD) effective 10 August 2023 and the project is 100% complete in all aspects. Accordingly, the construction risk does not exist. The sponsor has infused the entire committed equity towards the project. The rating further reflects the receipt of the first three annuities from the strong counterparty National Highways Authority of India's (NHAI; debt rated at 'IND AAA'/Stable). The rating factors in the strong characteristics of the hybrid annuity mode (HAM)-based road projects, such as at least 80% of the right of way being available upfront to the project , inflation-linked construction grants, and operational annuities to be received from NHAI.

List of Key Rating Drivers

Strengths

- Successful project completion, no construction risk
- Low revenue risk, strong counterparty
- Sponsor undertakings

Weaknesses

- Moderate O&M risk
- Moderate debt structure

Detailed Description of Key Rating Drivers

Successful Project Completion; No Construction Risk: The project had achieved provisional COD on 22 September 2022 upon part project completion to the extent of 54.536km i.e. around 93% of the total stretch of 58.626km. The entire project was completed in all aspects on 10 August 2023 and the final COD was accorded to the company. The total bid project cost (BPC) of INR15,663 million was reduced by INR123 million on account of a reduction in the project scope due to some change of scope at the toll plaza and some of the works that could not be executed at the site. The annuities have been calculated on the final completion cost arrived at by factoring in the inflation index on the BPC.

Low Revenue Risk, Strong Counterparty: The rating reflects the visibility of inflation adjusted semi-annual annuities to be received from NHAI for the HAM project. NHAI provides 40% of the payment during the construction phase, and the balance would be paid in annuities. SKRPL will have three revenue streams adjusted for the Price Index Multiple during its operational period namely: i) 60% of inflation-adjusted BPC of INR11,108.4 million spread over a period of 15 years from COD, ii) interest on annuity on a reducing balance basis at bank rate plus 300bp, and iii) O&M payments based on the first year operations and maintenance (O&M) bid quote of INR146.3 million. The Price Index Multiple comprises 70% Wholesale Price Index and 30% Consumer Price Index. While the annuity payments are subject to variations in the inflation index, deductions for the non-conformance to the lane availability norms and underperformance, and maintenance requirements are relatively straightforward. The timely receipt of annuity during the operational period will remain a key rating monitorable.

At end-April 2024, the project had received three annuities from NHAI in a timely manner and regular intervals. Moreover, Ind-Ra expects the forthcoming annuity payments to be timely, given NHAI's robust track record in this respect, subject to the satisfactory maintenance of the road by the concessionaire. SKRPL will receive a total of 30 semi-annual annuity payments (of which three have been received) during the concession tenor, equivalent to 60% of the project completion cost adjusted for the Price Index Multiple linked to inflation.

Additionally, the interest on the outstanding annuity balance is payable at a rate equal to the Reserve Bank of India's bank rate plus 3%. The interest revenue stream is exposed to the risk of a decline in the bank rate and limited transmission in lending rates. However, the interest rate risks are partially mitigated by the adequate buffer in the debt service coverage ratio.

NHAI will pay INR146.3 million for annual O&M costs, along with adjustments for the Price Index Multiple over the concession period. A shortfall in the forthcoming annuity payments could arise due to deductions for non-conformance to maintenance requirements during the concession term. However, the satisfactory operational track record of the contractor, Adani Road O&M Limited, in the highway sector and the moderate complexity of the O&M involved in the project provides strength to the rating.

Sponsor Undertaking: ARTL which is a wholly owned subsidiary of Adani Enterprises Limited holds 74% and PATH holds 26% in SKRPL.ARTL shall provide an undertaking valid until the final settlement date of the term loan to meet any deficit or delay in committed annuity payments due to maintenance obligations under-performance and cover the obligations in the event of termination of the concession agreement. ARTL shall make the necessary O&M arrangement and provide the support required to maintain the minimum annual debt service coverage ratio (DSCR) of 1.15x during the remaining tenor of the outstanding debt facility on account of any higher O&M and major maintenance expenses. ARTL's credit profile is comfortable with cash and cash equivalents of INR706 million at end-FY24 and a leverage (long-term debt/EBITDA) of 7.8x.

Ind-Ra derives comfort from the strong credit profile and significant operational experience of Adani group to support the project and in ensuring there are no material delays or deductions in annuity receipts from NHAI.

Moderate O&M Risk: SKRPL enters into an O&M contract with AROML on yearly basis for taking up routine and major maintenance expenses for the entire debt service tenor. As per the schedule-K of the concession agreement, the major maintenance activity shall be undertaken within 180 days from a breach in the roughness index level of 2,750mm per km of the entire stretch. The project's O&M costs are comparable with those of its Ind-Ra-rated peers. The major maintenance activity is scheduled during the concession period in FY30 and FY37, given the project stretch is a flexible pavement carriageway. However, the annual routine maintenance activity shall take care of any repairs/damages in the flexible pavement-based main carriage way, slip roads and service roads. O&M risks are partly mitigated by the inflation indexed O&M payments from NHAI, however the flexible pavement of the project is susceptible to higher maintenance requirements resulting into higher O&M costs and/or major maintenance costs. The maintenance of adequate quality for the entire project stretch shall remain a key monitorable.

Moderate Debt Structure: The principal repayment obligations are in line with the annuity payment receipts from the NHAI. The project loan is to be amortised over 11 years, with a tail of five annuities. The principal repayments are half yearly, and the repayment schedule provides for a cushion of more than one month (difference between the repayment date and the annuity payment date from the COD). This would partially safeguard the project from any unanticipated delays in the forthcoming annuity payments. As of end-June 2024, SKRPL's outstanding debt amount was INR2,753 million out of the total sanctioned limits of INR6,000 million (disbursed - INR4,000 million); the company has prepaid part debt, and the debt is being refinanced by the issuance of NCDs having a 11-year repayment period. The coupon rate is targeted to be 8.6% per annum. The applicable coupon rate shall be reset at the end of three years six months from the deemed date of allotment and every three years thereafter or as mutually agreed between the company and the debenture holders at the time of coupon reset.

SKRPL and each debenture holder who has not agreed for the rate as decided in the 'Coupon Reset' process shall have the respective right to call for premature redemption on the coupon reset date (if applicable) subject to written intimation of at least 60 days, without any prepayment penalty. However, the agency believes that any refinancing risk is reasonably mitigated by the stable credit profile of the project. Also, the financing documents stipulate a minimum DSCR of 1.15x. The DSCR shall be tested on a half-yearly basis based on trailing twelve months financials.

A debt service reserve account (DSRA) equivalent to ensuing two quarters' debt service as stipulated in the financing documents has to be created upfront by the company from NCD proceeds.

Liquidity

Adequate: Ind-Ra expects the company to generate adequate cash flows, backed by a steady cash flow stream of annuity payments and maintaining minimum coverages of over 1.2x through the loan tenor. Furthermore, the company has created a debt service reserve with the existing lender amounting INR320 million, covering interest and debt servicing obligations for six months. A major maintenance reserve is to be created starting August 2024, as stipulated by the existing financing documents. In addition, the company had a cash and cash equivalent of INR138 million as on 4 July 2024 and a gap of more than one month between the scheduled annuity payment date and the debt repayment date, which provides an additional cushion, in case of a delay in the receipt of annuity.

The project is exposed to performance-related annuity deductions; however, if this impacts the project's debt servicing ability, the shortfall shall be met by the sponsor, as per the financing agreements.

Furthermore, as per the terms of financing documents, restricted payments shall be allowed on a semi-annual basis after meeting the restricted payment conditions and financial covenants including a minimum DSCR of 1.2x basis trailing twelve months' financials. Any significant reduction in the liquidity profile including that related to the revenue uncertainties will be a rating sensitivity.

Rating Sensitivities

Positive: Not applicable

Negative: Future developments that could, individually or collectively, lead to a negative rating action are:

- significant delays or deduction in the receipt of annuities, resulting in weakening of coverages, and the absence of timely sponsor support on a sustained basis;
- average DSCR below 1.20x;
- raising of higher debt than INR6,500 million as envisaged through issuance of NCDs;
- deterioration in the credit profile of NHAI and/or sponsor and O&M contractor;
- adverse remarks on the overall road quality by the independent engineer or NHAI and/or a dismal operational performance of the O&M contractor.

Any Other Information

Financial Covenants:

Minimum DSCR	1.15x

ESG Issues

ESG Factors Minimally Relevant to Rating: Unless otherwise disclosed in this section, the ESG issues are credit neutral or have only a minimal credit impact on SKRPL, due to either their nature or the way in which they are being managed by the entity. For more information on Ind-Ra's ESG Relevance Disclosures, please click here. For answers to frequently asked questions regarding ESG Relevance Disclosures and their impact on ratings, please click here.

About the Company

SKRPL was incorporated on 12 April 2019 to carry out the development, maintenance and management of the project - four laning of the 58.626km section from Suryapet (design Ch.0.420/existing km 128.500 of NH-65) to Khammam (design Ch.59.046/existing km 50.750 of old SH42) of NH-365BB (old SH-42) in the state of Telangana under Bharatmala Pariyojana on HAM model.

Key Financials Indicators

Particulars (INR million)	FY24	FY23
Revenue from operations	415	6,856.8
Total revenue	1,552.7	7,363.6
EBITDA	784.8	5,015.4
EBITDA margin (%)	50.5	68.1
Finance cost (interest on borrowings)	612.7	483.3
Interest coverage (EBITDA/interest on borrowings) (x)	1.28	10.38
Gross debt/EBITDA (x)	3.6	0.7
Cash and cash equivalents	10.50	1.93
Source: SKRPL, Ind-Ra		

Status of Non-Cooperation with previous rating agency

Not applicable

Rating History

Instrument Type	Rating Type	Rated Limits (million)	Current Rating/Outlook
Proposed non-convertible debentures	Long-term	INR6,500	IND AAA/Stable

Complexity Level of the Instruments

Instrument Type	Complexity Indicator
Proposed non-convertible debentures	Low

For details on the complexity level of the instruments, please visit https://www.indiaratings.co.in/complexity- indicators.

Contact

APPLICABLE CRITERIA

Rating Criteria for Availability-Based Projects

Evaluating Corporate Governance

The Rating Process

Rating Criteria for Infrastructure and Project Finance

Primary Analyst
Samant Jha
Associate Director
India Ratings and Research Pvt Ltd
DLF Epitome, Level 16, Building No. 5, Tower B DLF Cyber City, Gurugram Haryana - 122002
+91 124 6687221
For queries, please contact: infogrp@indiaratings.co.in

Secondary Analyst
Rishabh Jain
Associate Director
+919619523093

Media Relation
Ameya Bodkhe
Marketing Manager
+91 22 40356121

About India Ratings and Research: India Ratings and Research (Ind-Ra) is committed to providing India's credit markets accurate, timely and prospective credit opinions. Built on a foundation of independent thinking, rigorous analytics, and an open and balanced approach towards credit research, Ind-Ra has grown rapidly during the past decade, gaining significant market presence in India's fixed income market.

Ind-Ra currently maintains coverage of corporate issuers, financial institutions (including banks and insurance companies), finance and leasing companies, managed funds, urban local bodies and project finance companies.

Headquartered in Mumbai, Ind-Ra has seven branch offices located in Ahmedabad, Bengaluru, Chennai, Delhi, Hyderabad, Kolkata and Pune. Ind-Ra is recognised by the Securities and Exchange Board of India, the Reserve Bank of India and National Housing Bank.

India Ratings is a 100% owned subsidiary of the Fitch Group.

For more information, visit www.indiaratings.co.in.

Solicitation Disclosures

Additional information is available at www.indiaratings.co.in. The ratings above were solicited by, or on behalf of, the issuer, and therefore, India Ratings has been compensated for the provision of the ratings.

Ratings are not a recommendation or suggestion, directly or indirectly, to you or any other person, to buy, sell, make or hold any investment, loan or security or to undertake any investment strategy with respect to any investment, loan or security or any issuer.

DISCLAIMER

No. CARE/ARO/RL/2024-25/2484

Shri Magnani Bhavinkumar Rajeshkumar
Director
Suryapet Khammam Road Private Limited
4th Floor, 8-2-120, 112, 88, 89, Aparna Creast,
Banjara Hills, Road No. 02, Banjara Hills,
Hyderabad
Telangana 500034

June 21, 2024

Confidential

Dear Sir,

Credit rating for proposed Non-Convertible Debenture issue

Please refer to your request for rating of proposed long-term Non-convertible Debenture (NCD) issue aggregating to Rs. 650.00 crore of your Company. The proposed NCDs would have tenure of 11 years to be redeemed in unequal semi-annual instalments.

2. The following ratings have been assigned by our Rating Committee:

Sr. No.	Instrument	Amount (₹ crore)	Rating[1]	Rating Action
1.	Non Convertible Debentures	650.00	CARE AAA; Stable (Triple A; Outlook: Stable)	Assigned

3. Please arrange to get the rating revalidated, in case the proposed issue is not made within a period of six months from the date of our initial communication of rating to you (that is December 19, 2024).

4. In case there is any change in the size or terms of the proposed issue, please get the rating revalidated.

5. Please inform us the below-mentioned details of issue immediately, but not later than 7 days from the date of placing the instrument:

Instrument type	ISIN	Issue Size (Rs cr)	Coupon Rate	Coupon Payment Dates	Terms of Redemption	Redemption date	Name and contact details of Debenture Trustee	Details of top 10 investors

[1]Complete definitions of the ratings assigned are available at www.careedge.in and in other CARE Ratings Ltd.'s publications.

pu

6. Kindly arrange to submit to us a copy of each of the documents pertaining to the NCD issue, including the offer document and the trust deed.

7. The rationale for the rating will be communicated to you separately. A write-up (press release) on the above rating is proposed to be issued to the press shortly.

8. CARE Ratings Ltd. reserves the right to undertake a surveillance/review of the rating from time to time, based on circumstances warranting such review, subject to at least one such review/surveillance every year.

9. CARE Ratings Ltd. reserves the right to revise/reaffirm/withdraw the rating assigned as also revise the outlook, as a result of periodic review/surveillance, based on any event or information which in the opinion of CARE Ratings Ltd. warrants such an action. In the event of failure on the part of the entity to furnish such information, material or clarifications as may be required by CARE Ratings Ltd. so as to enable it to carry out continuous monitoring of the rating of the bank facilities, CARE Ratings Ltd. shall carry out the review on the basis of best available information throughout the life time of such bank facilities. In such cases the credit rating symbol shall be accompanied by "ISSUER NOT COOPERATING". CARE Ratings Ltd. shall also be entitled to publicize/disseminate all the afore-mentioned rating actions in any manner considered appropriate by it, without reference to you.

10. Our ratings do not factor in any rating related trigger clauses as per the terms of the facility/instrument, which may involve acceleration of payments in case of rating downgrades. However, if any such clauses are introduced and if triggered, the ratings may see volatility and sharp downgrades.

11. Users of this rating may kindly refer our website www.careedge.in for latest update on the outstanding rating.

12. Our ratings are **not** recommendations to buy, sell or hold any securities.

13. If you need any clarification, you are welcome to approach us in this regard. We are indeed, grateful to you for entrusting this assignment to CARE Ratings Ltd.

Thanking you,

Yours faithfully,

Rohit Mishra

Rohit Mishra
Analyst

palak vyas

Palak Sahil Vyas
Associate Director

Rohit Mishra
rohit.mishra@careedge.in

Palak Sahil Vyas
palak.gandhi@careedge.in

Encl.: As above

Disclaimer

The ratings issued by CARE Ratings Limited 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. These ratings do not convey suitability or price for the investor. The agency does not constitute an audit on the rated entity. CARE Ratings Limited has based its ratings/outlooks based on information obtained from reliable and credible sources. CARE Ratings Limited 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. Most entities whose bank facilities/instruments are rated by CARE Ratings Limited have paid a credit rating fee, based on the amount and type of bank facilities/instruments. CARE Ratings Limited or its subsidiaries/associates may also be involved with other commercial transactions with the entity. In case of partnership/proprietary concerns, the rating /outlook assigned by CARE Ratings Limited is, inter-alia, based on the capital deployed by the partners/proprietor and the current financial strength of the firm. The rating/outlook may undergo a change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors. CARE Ratings Limited is not responsible for any errors and states that it has no financial liability whatsoever to the users of CARE Ratings Limited's rating.
Our ratings do not factor in any rating related trigger clauses as per the terms of the facility/instrument, which may involve acceleration of payments in case of rating downgrades. However, if any such clauses are introduced and if triggered, the ratings may see volatility and sharp downgrades.

pu

Annexure-1
Details of rated NCDs

Particulars	Description
Facility & Amount	NCD: Rs. 650 crore (Proposed)
Type	Senior, Rated, Listed, Secured, Redeemable NCDs
Tenor and Maturity	11 years
Rate of interest	8.60% fixed for first three and half years and every three years thereafter
Put/call option in NCD	Yes, after every three years
Reserve stipulation	Yes (DSRA, MMRA, and Working Capital)
Financial covenants	DSCR of at least 1.15x to be maintained throughout the tenor of the loan.
Repayment schedule	Payable semi-annually in 22 unequal instalments as below:

FY25	5.50%
FY26	5.70%
FY26	5.50%
FY27	4.40%
FY27	4.60%
FY28	4.80%
FY28	4.90%
FY29	5.10%
FY29	5.20%
FY30	5.30%
FY20	3.80%
FY31	3.60%
FY31	3.50%
FY32	3.80%
FY32	3.70%
FY33	4.00%
FY33	3.80%
FY34	4.20%
FY34	4.10%
FY35	4.40%
FY35	5.10%
FY36	5.00%
Total	**100.00%**

pu

Suryapet Khammam Road Private Limited

June 24, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	275.50 (Reduced from 287.00)	CARE AAA; Stable	Revised from CARE AA; Positive
Non-Convertible Debentures	650.00	CARE AAA; Stable	Assigned

Details of instruments/facilities in Annexure-1.

Suryapet Khammam Road Private Limited (SKRPL) has proposed refinancing of its existing term debt through NCDs of ₹650 crore. The entire existing term debt shall be repaid through the disbursement of refinanced NCDs and hence outstanding debt of the company at any given time shall not exceed ₹650 crore.

Rationale and key rating drivers

The revision in the rating assigned to the existing long-term bank facilities of Suryapet Khammam Road Private Limited (SKRPL) takes into account the operational status of the project with the achievement of the final commercial operations date (COD) on August 10, 2023, for 100% of the project length along with established track record of receipt of first three annuities, on time, without any deductions. Initially, post achievement of provisional COD on September 22, 2022, the first two annuities were received proportionately, basis the physical progress. However, the balance amounts were adjusted and received in entirety with the third annuity.

The rating continues to remain underpinned by low counterparty risk towards annuity receivables from the National Highways Authority of India (NHAI; rated 'CARE AAA; Stable'), the presence of a defined cash flow mechanism by way of an escrow arrangement, liquidity support mechanisms such as the creation of a debt service reserve account (DSRA) aggregating to ₹32 crore (in line with the sanction terms), along with maintenance of major maintenance reserve account (MMRA) post commencement of operations (due to be apportioned from August 2024 onwards). The rating also factors in the lower debt levels as against the bid project cost (BPC), leading to strong debt coverage indicators. The rating also takes the note of receipt of change in law approval related to GST from NHAI, which as per managements articulation is expected to be released along with next annuity and hence expected to be credit neutral in the longer term for SKRPL.

Additionally, the rating assigned to the proposed Non-Convertible Debentures (NCDs) takes into cognizance the presence of Restricted Payment Covenants with threshold debt service coverage ratio (DSCR) of 1.20 times, stipulation of a working capital reserve (over and above DSRA and MMRA), along with superior operations and maintenance (O&M) assumptions. CARE Ratings further notes that notwithstanding the top-up debt availed, the project leverage continues to remain comfortable at 35% of the completion cost and the debt coverage indicators are envisaged to remain healthy throughout the tenor of the refinanced debt.

The rating also takes into account, presence of a 'put' option exercisable at the end of three and a half years initially and every three years thereafter, thus exposing SKRPL to refinancing risk. However, the strong credit profile of the counterparty and low project leverage mitigates the aforementioned refinancing risk to a large extent.

The above rating strengths for SKRPL are, however, tempered by interest rate risk as well as O&M risk.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Not Applicable

Negative factors

- Deterioration in the credit profile of the authority, i.e., NHAI.
- Non-adherence or deviation from the existing or proposed debt terms.
- Significant delays or deduction in annuities, resulting in moderation in the average debt service coverage ratio (DSCR) below 1.20 times.
- Significant delay in receipt of change in law envisaged under Goods and Services Tax (GST), impacting the average debt coverage indicators below current levels.
- Any adverse movement in O&M expenses or bank rate, thus lowering the DSCR below 1.20 times.

Analytical approach: Standalone

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

Outlook: Stable

The stable outlook assigned to the bank facilities (also put NCD when accepted) of SKRPL is on account of expectation of timely receipt of annuities from NHAI, thereby maintaining healthy debt coverage indicators along with maintenance of requisite reserves as per the sanctioned terms.

Detailed description of key rating drivers

Key strengths

Operational status of the project with track record of receipt of annuities

The project achieved final COD on August 10, 2023, for 100% of the project length with receipt of first three annuities, on time, without any deductions. Initially, post achievement of provisional COD on September 22, 2022, the first two annuities were received proportionately, basis the physical progress. However, the balance amounts were adjusted and received in entirety with the third annuity. SKRPL has also received CIL approval from NHAI for GST rates on annuities, which is expected to be received from next annuity onwards.

Low counterparty credit risk

Incorporated by the Government of India (GoI) under an Act of the Parliament as a statutory body, NHAI functions as the nodal agency for development, maintenance, and management of the national highways in the country. The outlook on NHAI reflects the outlook on the sovereign, whose direct and indirect support continues to be the key rating driver.

Assured cash flow due to annuity nature of the revenue stream

During operational phase, cash flow in HAM-projects is assured in the form of annuity payments from NHAI on semi-annual basis covering 60% of the project completion cost along with interest at 'bank rate plus 3%' on reducing balance and inflation indexed O&M payment. However, non-linear transmission of bank rate over lending rate may impact the company's debt coverage indicators to an extent.

Healthy debt coverage indicators to persist post refinancing

Of the initially sanctioned debt of ₹600 crore, SKRPL has availed debt to the tune of only ₹400 crore, while the balance project cost was funded from the inflation component received on construction grants along with the infusion of funds by promoters by way of additional equity and project creditors. As per the existing sanctioned terms and restricted payment covenants, the surplus from two annuity receipts has been utilised for pre-paying the debt. Due to the same, the project leverage stands at about 15% of the completion cost, resulting in strong debt coverage indicators. The average DSCR for the entire term debt tenure stands strong as well.

SKRPL is in the process of refinancing its existing debt with issuance of NCDs amounting to ₹650 crore. The debt coverage indicators are expected to be strong due to the low project leverage, marked by debt (including proposed top-up loan)/adjusted bid project cost (BPC) of 35%. Furthermore, the refinanced debt will have a tail period of 2.40 years, leaving a cushion of five semi-annuities. Lower rate of interest on the proposed NCDs and a strengthened covenant structure to bolster the credit risk profile of SKRPL.

Key weaknesses

Inherent O&M risk

Although inflation indexed O&M annuity partly mitigates the O&M risk, developers would still face the risk of a sharp increase in the O&M cost due to the more-than-envisaged wear and tear and aggressive bidding in O&M cost. The project stretch consists of flexible (bituminous) pavement, which is prone to higher O&M cost compared to a rigid pavement. SKRPL has entered into a fixed-price and fixed-time O&M contract with the sponsor, which provides some comfort. Also, SKRPL is also required to maintain an MMRA from the project cash flows to conduct major maintenance (MM) of the project stretch. As per sanction terms of the existing debt, the same is stipulated to be created from one year post achievement of final COD. Accordingly, the management has articulated apportioning of funds towards MMRA from August 2024 onwards. Moreover, terms of the proposed NCDs also stipulate creation of a working capital reserve equivalent to six months of O&M expense, which provides additional comfort from an O&M risk perspective. CARE Ratings also takes the note of the superior O&M assumptions mitigates the substitution challenges in case of replacement requirement of O&M contractor and therefore mitigating O&M risk to an extent.

Inherent interest rate risk and presence put option in refinanced debt

For the existing term debt, SKRPL is exposed to inherent interest rate risk considering floating rate of interest, with spread reset periodically. While the risk is partially mitigated on account of the receipt of interest annuity at the applicable bank rate + 300

bps, SKRPL remains exposed to inherent interest rate risk owing to the timing lag between the changes in bank rates and lending rates and the non-linear transmission of changes in bank rates to lending rates.
In case of proposed NCDs, the coupon rate is fixed with a periodic reset at the end of three years along with presence of call/put option, thereby exposing it to refinancing risk and risk related to decline in bank rates in comparison to fixed coupon rate of three years. However, the strong credit profile of the counterparty and the established track record of annuity receipts mitigate the risk in the event of the exercise of the 'put' option to a larger extent.

Liquidity: Strong
SKRPL is envisaged to generate adequate cash flows, backed by a steady cash flow stream of annuity payments throughout the tenor of the term loan. As per existing sanction terms, DSRA amounting to ₹32 crore has been created to date by way of lien marked fixed deposits (FDs), which is more than six months of debt servicing requirements considering the disbursed debt and MMRA creation is also due from August 2024 onwards. Furthermore, as per terms of the refinanced debt, the incremental DSRA and MMRA required shall be created upfront upon disbursement, in addition to creation a working capital reserve.

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-Hybrid Annuity
Infrastructure Sector Ratings

About the company and industry
Industry classification

Macro-economic Indicator	Sector	Industry	Basic Industry
Services	Services	Transport Infrastructure	Road Assets – Toll, Annuity, Hybrid-Annuity

SKRPL is a special purpose vehicle (SPV) incorporated by Adani Road Transport Limited (ARTL), which is a wholly owned subsidiary of Adani Enterprises Limited (AEL; rated 'CARE A+; Positive/CARE A1+; 74% ownership) in partnership with Prakash Asphalting and Toll Highways (India) Limited (PATH; rated 'CARE A+; Negative/CARE A1; 26% ownership). It has entered into a 17.50-year CA (including a construction period of 910 days from the appointed date) with the NHAI for the design, build, finance, operate and transfer (DBFOT) of 58.626 km (i.e., 234.504 lane km) road project on HAM basis.
The project road is NH-365BB (old SH-42), which starts at Suryapet, lying on NH-65 (old NH-9), and ends after Thallampadu village in Telangana on NH-365BB (old SH – 42). The project achieved final COD on August 10, 2023.

Brief Financials (₹ crore)	March 31, 2023 (A)	March 31, 2024 (A)
Total Operating Income	736.35	155.27
PBILDT	501.53	78.48
PAT	338.88	11.88
Overall Gearing (times)	1.64	1.48
Interest Coverage (times)	10.38	1.28

A: Audited; UA: Unaudited; NA: Not Available. Note: The above results are the latest financial results available.

Note: Financials are as per IND-AS, wherein, it has recognised financial assets as the present value of annuities receivables under its concession (discounted based on effective interest rate method) and interest income on these assets as it accrues during the year. Hence, these financials are less meaningful.

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for the last three years: Please refer Annexure-2

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

Complexity level of the various 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 along with Rating Outlook
Debentures-Non Convertible Debentures		Proposed	-	Proposed	650.00	CARE AAA; Stable
Term Loan-Long Term		-	-	30-04-2034	275.50	CARE AAA; Stable

Annexure-2: Rating history for the 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 2024-2025	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022
1	Term Loan-Long Term	LT	275.50	CARE AAA; Stable	-	1)CARE AA; Positive (10-Nov-23)	1)CARE A; Positive (05-Sep-22)	1)CARE A-; Stable (31-Dec-21)
2	Debentures-Non Convertible Debentures	LT	650.00	CARE AAA; Stable				

LT: Long term

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

Annexure-4: Complexity level of the various instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Debentures-Non Convertible Debentures	Complex
2	Term Loan-Long Term	Simple

Annexure-5: Lender details

To view the lender wise details of bank facilities please click here

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

Contact us

Media Contact	Analytical Contacts
Mradul Mishra Director **CARE Ratings Limited** Phone: +91-22-6754 3596 E-mail: mradul.mishra@careedge.in **Relationship Contact** Saikat Roy Senior Director **CARE Ratings Limited** Phone: +91-22-6754 3404 E-mail: saikat.roy@careedge.in	Rajashree Murkute Senior Director **CARE Ratings Limited** Phone: +91-22-6837 4474 E-mail: rajashree.murkute@careedge.in Maulesh Desai Director **CARE Ratings Limited** Phone: 079-4026 5605 E-mail: maulesh.desai@careedge.in Palak Sahil Vyas Associate Director **CARE Ratings Limited** Phone: 079-4026 5620 E-mail: palak.gandhi@careedge.in

About us:

Established in 1993, CARE 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 RBI. With an equitable position in the Indian capital market, CARE 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, CARE 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. CARE 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 the detailed Rationale Report and subscription information, please visit www.careedge.in