CARE Ratings
Professional Risk Opinion

No. CARE/HRO/RL/2020-21/1839

Shri Mr. K N Reddy
Director
Patel KNR Infrastructures Limited
Ground Floor,KM.493,Camp on NH-7,Arur Village
Chickballapur, karnataka
Chitradurga
Karnataka 562104

December 31, 2020

Confidential

Dear Sir,

Credit rating for Non-Convertible Debenture issue

On the basis of recent developments including operational and financial performance of your Company for FY20 (Audited) and H1FY21 (UnAudited), our Rating Committee has reviewed the following ratings:

Sr. No.	Instrument	Amount (Rs. crore)	Rating[1]	Rating Action
1.	Non Convertible Debentures	205.38 (Reduced from 238.26)	CARE AA+; Stable (Double A Plus; Outlook: Stable)	Reaffirmed
	Total Instruments	205.38 (Rs. Two Hundred Five Crore and Thirty-Eight Lakhs Only)		

2. The NCDs are repayable by April 14, 2027 in 34 semi annual unequal instalments.

[1]*Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications.*

3. 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, a draft of which is enclosed for your perusal as **Annexure 2**. We request you to peruse the annexed document and offer your comments if any. We are doing this as a matter of courtesy to our clients and with a view to ensure that no factual inaccuracies have inadvertently crept in. Kindly revert as early as possible. In any case, if we do not hear from you by January 04, 2021, we will proceed on the basis that you have no any comments to offer.

4. CARE 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.

5. CARE 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 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 so as to enable it to carry out continuous monitoring of the rating of the bank facilities, CARE 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 shall also be entitled to publicize/disseminate all the afore-mentioned rating actions in any manner considered appropriate by it, without reference to you.

6. 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.

7. Users of this rating may kindly refer our website www.careratings.com for latest update on the outstanding rating.

8. CARE ratings are not recommendations to buy, sell, or hold any securities.

If you need any clarification, you are welcome to approach us in this regard.

Thanking you,

Yours faithfully,

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Encl.: As above

Disclaimer

CARE's 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. CARE's ratings do not convey suitability or price for the investor. CARE's ratings do not constitute an audit on the rated entity. CARE has based its ratings/outlooks on information obtained from sources believed by it to be accurate and reliable. CARE does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE have paid a credit rating fee, based on the amount and type of bank facilities/instruments. CARE or its subsidiaries/associates may also have other commercial transactions with the entity. In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is, inter-alia, based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo 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 is not responsible for any errors and states that it has no financial liability whatsoever to the users of CARE'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.

Annexure 2

Patel-KNR Infrastructure Limited

Rating

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long Term Instrument	205.38 (reduced from 238.26)	CARE AA+; Stable [Double A Plus; Outlook: Stable]	Reaffirmed
Total Instrument	205.38 (Rs. Two Hundred and Five Crore and Thirty Eight lakhs Only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The rating assigned to Non-Convertible Debenture (NCD) issued by Patel-KNR Infrastructures Limited (PKIL) continues to take into account track record of receipt of annuity payments, significant sponsor experience, presence of structured payment mechanism for servicing the NCD by way of escrowing semi-annual annuity receivables from National Highways Authority of India (NHAI), creation & maintenance of Major Maintenance Reserve Account (MMRA) & Debt Service Reserve Account (DSRA) as per stipulations of the NCD issuance, undertaking from sponsors confirming that they will not withdraw any surplus from the project and fund any cash shortfall in meeting the major maintenance expenditure and strong liquidity position.

The rating also factors in successful receipt of twenty second and twenty third semi- annuity payments with a delay, however without any deductions and Successful completion of significant portion second major maintenance albeit pending completion certificate from NHAI

The rating is however constrained by higher-than-envisaged increase in the operations and maintenance (O&M) expenses and revision in the cost of third major maintenance (MM) cycle, delay in the annuities received, interest rate risk and inherent maintenance risks associated with Build operate Transfer (BOT) projects

Key Rating Sensitivities:

Positive Factors- Factors that could lead to positive rating action/upgrade:

- Minimum Debt service coverage ratio (DSCR) should be more than 1.10 x for every year for the projected period (post factoring all the requisite provisions and excluding interest income)

Negative factors-Factors that could lead to negative rating action/downgrade:

- Non-receipt/significant delayed/reduced receipt of annuities and increase in O&M and MM than envisaged
- Withdrawal of cash balance lying in escrow account

Detailed description of the key rating drivers

Key Rating Strengths

Low credit risk associated with the Annuity provider – NHAI: Incorporated by the Government of India 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. By virtue of being a quasi-government body, the risk arising from NHAI defaulting on the annuity payments is very low.

Structured payment mechanism: PKIL has opened and maintained an 'Escrow account' with the Escrow bank with the first priority assigned towards O&M expenses followed by debt servicing of the NCD and appropriation to Major Maintenance Reserve Account (MMRA), Debt Service Reserve Account (DSRA) and other relevant expenses, in that

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

order. A ‘T+20’ structure has been provided for NCD repayment with ‘T’ being the NHAI annuity receipt date to take care of any operational delay in receipt of annuity from NHAI. Furthermore, as provided in the CA a ‘Letter of Credit’ equivalent to one annuity payment is issued by NHAI in order to take care of any procedural delays in disbursal of annuity payment to the SPV.

Operational project with track record of receipt of Annuities: Being an NHAI annuity project, the revenue risk is minimal. PKIL is an annuity project and is not exposed to any traffic risk. Further, as it is already operational project for more than 10 years, no construction risk exists. PKIL also has a track record of timely receipt of most of the annuity payments from NHAI and has received twenty three semi-annual payments from the Concession Authority till October 2020.

Creation of DSRA: As per stipulation, PKIL is to create fund-based DSRA of Rs.15 crore to address any cash-flow mismatch for payment to O&M contractor and/or debt servicing, invested in approved securities yielding at least 6% annually. The post-tax returns on the DSRA of Rs.15 crore shall always be retained in the escrow account till the maturity of the NCD. As on October 31, 2020, PKIL has created fund based DSRA of Rs. 30.46 crore by way of fixed deposits, which has been lien marked to lenders.

Significant portion of Second major maintenance is completed with no time or cost overrun: As per company’s estimate, the second major maintenance activity scheduled in FY20 and FY21 at a total cost of Rs 52.81 crore. The 2nd major maintenance had commenced during June 2019 and the same is expected to be completed by December 2020 as envisaged. The company had expensed Rs.50.48 crore as against the envisaged cost of Rs.52.81 as on September 28, 2020. The company has requested the Independent Engineer through its letter dated October 20, 2020, to issue letter for substantial completion certificate for 2nd renewal coat

Significant Sponsor Experience: KNRCL 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. In the last decade, KNRCL has earned a reputation in undertaking and executing large projects with precision in large turnkey infrastructure projects such as highways and irrigation projects. On a total income of Rs.2,517 crore in FY20 (refers to the period April 1 to March 31), KNRCL earned profit after tax (PAT) of Rs.244.52 crore (consolidated) compared with a PAT of Rs.261.81 crore on a total income of Rs.2,365 crore in FY19. Further, the company has a strong outstanding order book of Rs 7,848 crore as on June 30, 2020.

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. PEL has also forayed into development of power, road and real estate projects in the past. The Company has a consistent track record in executing complex domestic and international projects. During FY20 on a consolidated basis, PEL reported total income of and PAT of Rs. 2822.94 crore (Rs.2,210 crore in prev. yr.) and Rs.11.12 crore (Rs.159.42 crore prev. yr.)

Key Rating Weaknesses

Revision in the third major maintenance cost albeit sponsors undertaking in place: The company has revised the 3rd major maintenance cost from Rs.67.40 crore to Rs.55.40 crore. The revised estimates are not vetted by the lenders/Investors. The sponsors have given undertaking vide letter dated February 20, 2020 that, Patel KNR (JV) will support for any shortfall of fund, other than envisaged and will not withdraw free cash available in the project.

Receipt of 22nd and 23rdt annuities with no deductions albeit delay in receipt: PKIL has received its 22nd annuity i.e. Rs.32.28 crore partly on March 27, 2020(Rs.31.62 crore) and the balance of Rs.0.65 crore on March 30, 2020 as against its due date March 26, 2020 with a delay of 4 days, however without any deductions except TDS. Further, PKIL has received its 23rd annuity i.e. Rs. 32.44 crore as against its due amount of Rs.32.44 crore on October 01, 2020 as against its due date of September 24, 2020 with a delay of 6 days, however without any deduction except TDS. The TDS was revised from 2% to 1.5%.

Interest rate risk: PKIL shall remain exposed to variations in interest rate on the project debt as the loans are subject to interest rate resets.

Impact of Covid-19 pandemic and MORTH Support: The receipt of annuity from NHAI is fixed and is not linked to the Toll revenue on the project road, the risk of non-payment of annuities for the FY2020-2021 is very low. During the FY20 and H1FY21, the company have received 2 annuities with a delay of 3-6 days without deductions and had no impact of covid-19 on the performance of the company. Further, the company did not avail any moratorium relief provided by the RBI.

Ministry of Road Transport & Highway (MORTH) in its circular “Relief for Contractors/ Developers of Road Sector under Atmanirbhar Bharat” dated June 3, 2020 have given under Sl. No. (ii) Extension of Time to Contractor / Concessionaire for meeting their Obligations under the Contract for 3 months to 6 months depending on site Conditions. In addition to the above, Government has decided to extend the relief measures notified in MORTH Letter No. COVID-19/RoadMap/JS(H)/2020 dated 03/06/2020 for a further period of 3 months. Thereby the Concessionaire/ Contractor eligible for a total extension of up to 9 months.

Liquidity position: Strong

The company has strong liquidity characterized by presence of liquid investments of Rs 30.46 crore for DSRA (6 months interest & principal), lien marked to lender and Rs 13.26 crore towards major maintenance reserve & other exigencies as on October 30, 2020.

Analytical Approach: Standalone

Applicable criteria:

Criteria on assigning ‘Outlook’ and ‘credit watch’ to Credit Ratings
CARE's Policy on Default Recognition
Financial Ratios - Non-Financial Sector
Rating Methodology – Annuity based road Projects
Liquidity analysis of Non-financial sector entities
Rating Methodology - Infrastructure Sector Ratings

About the Company

Patel-KNR Infrastructures Limited (PKIL/the company) is a special purpose vehicle (SPV) incorporated on June 26, 2006 for developing four laning of national highways section “Km 463.6 (AP/Karnataka border) to Km 524.0 (Avathi Village), covering 60.42 Kms" on NH-7 in the state of Karnataka on Build Operate and Transfer (BOT) Annuity Basis. The Concession was awarded to the consortium Patel KNR JV based on its quote for lowest semi-annual annuity of Rs.32.94 crore. The Concession Agreement (CA) between PKIL and National Highways Authority of India (Authority) was signed on September 28, 2006. The concession is for a period of 20 years including construction period of 24 months.

The Company is jointly promoted by Patel Engineering Limited (PEL) with 60% and KNR Constructions Limited (KNRCL) with 40%. The Company envisaged project cost at Rs 496.56 crore, which was envisaged to be funded by way of promoters’ contribution (equity/unsecured loans) and debt at a D/E ratio of 3:1. PKIL entered into EPC agreement for Rs 350 crore plus escalations with KNRCL on December 4, 2006.

The project achieved PCOD December 21, 2009 against the scheduled COD of March 28, 2009 on account of delay in handing over of RoW, which resulted in cost overrun to the tune of Rs 26.90 crore and the same was funded by infusion of unsecured loans by Promoters. The company refinanced its debt by way of NCD aggregating to Rs 409 crore at a coupon of 9.57% (fixed), payable half-yearly, having tenure of 17 years with 34 semi-annual structured payments commencing from October 14, 2010. PKIL has been receiving annuities since March 2010 (due in March and September every year) from NHAI.

Brief Financials (Rs. crore)	FY19 (A)	FY20(A)
Total operating income	53.10	39.15
PBILDT	28.34	30.13
PAT	2.17	5.91
Overall gearing (times)	6.24	4.78
Interest coverage (times)	1.15	1.34

*A: Audited; *All the ratios are calculated based on IND AS methodology; Analysis is done based on cash flow method and company has generated sufficient cash flows for debt servicing*

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
Debentures-Non Convertible Debentures	INE057L07016	October 23, 2010	9.57%	April 14, 2027	205.38	CARE AA+; Stable

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	205.38	CARE AA+; Stable	-	1)CARE AA+; Stable (24-Mar-20)	1)CARE AA+ (SO); Stable (26-Mar-19)	1)CARE AA+ (SO); Stable (30-Mar-18)

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

Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. 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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