Press Release

Kalyan Toll Infrastructure Limited

January 10, 2020

Ratings

Sl. No.	Instrument/Facility	Amount (Rs. Crore)	Rating Assigned	Rating Action
1.	Long Term Debt – Term Loan	139.52	IVR A- / Stable Outlook (IVR Single A Minus with Stable Outlook)	Assigned
2.	Long Term Facility – Fund Based – Cash Credit	51.00	IVR A- / Stable Outlook (IVR Single A Minus with Stable Outlook)	Assigned
3.	Long Term / Short Term Facility – Non Fund Based – Bank Guarantee	217.90	IVR A- / Stable Outlook (IVR Single A Minus with Stable Outlook) / IVR A2+ (IVR A Two Plus)	Assigned
4.	(Proposed) Long Term / Short Term Facility – Non Fund Based – Bank Guarantee	2.88	IVR A- / Stable Outlook (IVR Single A Minus with Stable Outlook) / IVR A2+ (IVR A Two Plus)	Assigned

Details of Facilities are in Annexure 1

Detailed Rationale

The aforesaid rating assigned to the bank facilities of Kalyan Toll Infrastructure Limited (KTIL) derives comfort from its experienced board of directors, moderate order book and adequate liquidity margins, strong logistics network, favourable clauses in concession agreement of HAM projects to address execution challenges, low counterparty credit risk, financial assistance in the form of mobilisation advances and escrow mechanism with a well-defined payment waterfall mechanism for debt repayment. However, the rating strengths are partially offset by geographical and segment concentration, stiff competition and tender based contract awarding system, dependency on KTIL by SPVs for support during emergencies, which can affect KTIL's liquidity.

Key Rating Sensitivities

Upward factors:

- Successful commissioning and completion of project without any time or cost overruns.
- Maintaining profitability as projected

Downward factors:

- Sharp changes in leverage
- Delay in annuity payments

Key Rating Drivers with detailed description

Key Rating Strengths

Experienced Board of Directors

KTIL was founded in the year 2002 spearheaded by Mr. Tikamchand Garg who is presently the Chairman of the company; he has over 36 years of experience in real estate and infrastructure. KTIL also has Mr. R.K. Garg having over 28 years of experience in project construction and Mr. Amit Kumar Garg having over 15 years of experience in infrastructure projects who make up the rest of the board members. KTIL undertakes road construction work from the Public Works Department (PWD) and other government and quasi-government entities.

Moderate order book & adequate liquidity margins

As on the 31.03.2019, KTIL has an unexecuted order book amounting to Rs. 2163 cr. which is encouraging when compared to its revenues in FY19 amounting to Rs. 588.41 cr; the orders are distributed between Maharashtra (40%) and Madhya Pradesh (60%). KTIL's comfortable liquidity position is reflected mainly by its GCA which amounted to Rs. 64.94 cr. in FY19 and a healthy current ratio of 4.06x.

Strong logistics network

The company has a good supplier network. Its top ten suppliers constitute around 63% of its total raw material purchases which indicates a fairly concentrated supplier network. Further, majority of its suppliers are located in its close vicinity within the bounds of the states that they operate in; which helps the company to save on logistics and prevent any supply chain disruptions. The suppliers being in close vicinity is advantageous to the company as it helps in avoiding bottlenecks and creates operational efficiencies.

Favourable clauses in concession agreement of HAM projects to address execution challenges

The Government of India has approved HAM projects to increase the pace of award and construction of National Highways apart from de-risking developers and lenders from inherent short comings associated with conventional toll and annuity based model. The favourable clauses of the model include lower sponsor contribution due to high proportion of grant, inflationary adjustment to project cost and O&M cost, disbursement of grant in instalments upon achievement of various milestones.

Low counter-party credit risk

KTIL's clients include government bodies like Nagar Palika Nigam, Madhya Pradesh Municipal Corporation and state PWDs. The Public Works Department (PWD) functions as the nodal agency for planning, designing, construction and maintenance of government assets like roads, bridges, ROB's flyovers and buildings. By virtue of being a quasi-government body with an established & long track record, the counter-party risk on PWD and the likelihood of any default is very minimal. However, at times there can be delays in realisation of revenues.

Financial assistance in the form of mobilisation advances

KTIL receives a portion of the contract costs as mobilisation advances from the client, this enables them to run multiple parallel projects at a time; this acts as a financial assistance to the company and eases the burden of financing from their shoulders. These advances given are interest free and helps the company at different stages of the project life cycle.

Escrow mechanism with a well-defined payment waterfall mechanism for debt repayment

The repayment of the debt is spread out over the concession period, which is expected to provide liquidity buffer for repayment of debt. The waterfall mechanism ensures that annuity receivables are escrowed to meet the principal repayment and interest payments.

Key Rating Weaknesses

Geographical and segment concentration

The company pre-dominantly operates in the states of Maharashtra and Madhya Pradesh. They have Class A contractor registration with the Public Works Department, of Maharashtra and Madhya Pradesh.

Stiff competition and tender based contract awarding system

KTIL faces competition from other contractors while bidding and securing construction works. The construction industry is intensely competitive on account of its fragmented nature with the presence of many large players & small players. The presence of a tender based contract awarding system also restricts pricing flexibility of all players in the industry.

Dependency on KTIL by SPVs for support during emergencies, which can affect KTIL's liquidity

KTIL(sponsor), is required to bring in its share of equity amounting to Rs. 62 crores for projects that are under-construction in the current year, which is 6% of the total cost of the project. Also, as per the terms of the Concession Agreement (CA) and sanction, the sponsor is required to provide financial and operational support to the SPV during the construction period, as well as to provide corporate guarantee for the debt.

Project execution risk

The value of a project is measured by the ability of the entity to complete any project in a timely manner and in compliance of all committed specifications. Any delays in project execution can have a negative impact on cash flows, which can lead to constrained liquidity. The project costs are dependent on a variety of variables such as the nature of the terrain, environmental clearances and other externalities. Road construction companies also face challenges relating to shortage of labour, equipment and availability of key raw materials on time. Weather, labour problems and difficulty in terrain may lead to construction delays and cost escalations.

Analytical Approach & Applicable Criteria:

Standalone Approach

Rating Methodology for Infrastructure Companies

Financial Ratios & Interpretation (Non-financial Sector)

Liquidity

Liquidity is adequate, characterised by sufficient cushion in gross cash accruals of Rs. 64.94 crore in FY19, supported by an above unity current ratio of 4.06x. Though, the average utilisation of the bank limits was high at around 94.98% since December 2018.

About the Company

Kalyan toll Infrastructure Limited (KTIL) is a public limited company incorporated in 2002 as a special purpose entity for developing and operating road projects under BOT (Build-Operate-Transfer) model basis by Keti Constructions India Limited. The company has its office in Indore, Madhya Pradesh and all the projects executed by the company since inception have been mostly in the states of Maharashtra and Madhya Pradesh. The company is primarily engaged in infrastructure construction, mainly roads, pipelines, buildings on BOT-Toll basis and Hybrid Annuity Model basis under which 60% of the project costs are paid by the government upfront and the remaining 40% is made in annuity payments. The company has a CLASS A contractor classification certificate which enables them to participate in state level special building contracts and the company will be able to take part in contracts without any cap for five years from the date of issue.

Financials:

For the year ended/ As On	**31-03-2018**	**31-03-2019**
	(Audited)	**(Audited)**
Total Operating Income	429.02	588.41
EBITDA	69.44	102.90
PAT	22.49	49.90
Total Debt	191.61	261.06
Tangible Net-worth	493.72	531.96
Ratios		
EBITDA Margin (%)	16.18	17.49
PAT Margin (%)	5.18	8.36
Overall Gearing Ratio (x)	0.39	0.49

* Classification as per Infomerics' standards

Status of non-cooperation with previous CRA: CARE has moved the rating of Kalyan Toll Infrastructure Limited into the Issuer Non-Cooperating category as the company did not cooperate in the rating procedure despite repeated follow ups as per the Press Release dated November 23, 2018.

Any other information: N.A

Rating History for last three years:

Sl. No.	Name of Instrument/ Facilities	Current Rating (Year 2019-20)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2018-19	Date(s) & Rating(s) assigned in 2017-18	Date(s) & Rating(s) assigned in 2016-17
1.	Long Term Debt– Term Loan	Long Term	139.52	IVR A-/ Stable Outlook	--	--	--
2.	Long Term Facility – Fund Based - Cash Credit	Long Term	51.00	IVR A-/ Stable Outlook	--	--	--
3.	Long Term / Short Term Facilities – Non Fund Based – Bank Guarantee	Long/ Short Term	217.90	IVR A-/ Stable Outlook / IVR A2+	--	--	--
4.	Long Term / Short Term Facilities – Non Fund Based – Bank Guarantee (Proposed)	Long/ Short Term	2.88	IVR A-/ Stable Outlook / IVR A2+	--	--	--

Note on complexity levels of the rated instrument: Infomerics has classified instruments rated by it on the basis of complexity and a note thereon is available at www.infomerics.com.

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About Infomerics:

Infomerics commenced rating & grading operations in April 2015 after having spent over 25 years in various segments of financial services. Infomerics is registered with the Securities and Exchange Board of India (SEBI) and accredited by Reserve Bank of India. Company's long experience in varied spectrum of financial services is helping it to fine tune its product offerings to best suit the market.

Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Long Term Debt –Term Loan	NA	NA	2025	139.52	IVR A- / Stable Outlook
Long Term Facility – Fund Based - Cash Credit	NA	NA	Revolving	51.00	IVR A- / Stable Outlook
Long Term / Short Term Facility – Non Fund Based – Bank Guarantee	NA	NA	Less than 60 months	217.90	IVR A- / Stable Outlook / IVR A2+
Long Term / Short Term Bank Facility – Non Fund Based – Bank Guarantee (Proposed)	NA	NA	NA	2.88	IVR A- / Stable Outlook / IVR A2+