Press Release

Kalyan Toll Infrastructure Limited

March 12, 2021

Ratings

Sl. No.	Instrument/Facility	Amount (INR Crore)	Rating Assigned	Rating Action
1.	Long Term Bank Facility – Fund Based – Term Loan	107.70 (reduced from INR139.52 crore)	IVR A/Stable Outlook (IVR Single A with Stable Outlook)	**Revised**
2.	Long Term Bank Facility – Fund Based – Cash Credit	51.00	IVR A/Stable Outlook (IVR Single A with Stable Outlook)	**Revised**
3.	Long Term/Short Term Bank Facilities – Bank Guarantee	208.00	IVR A/Stable Outlook; IVR A1 (IVR Single A with Stable Outlook; IVR A One)	**Revised**
4.	Long Term/Short Term Bank Facilities – Bank Guarantee	2.88	IVR A/Stable Outlook; IVR A1 (IVR Single A with Stable Outlook; IVR A One)	**Revised**
5.	Short Term Facility – Non Fund Based – Bank Guarantee	9.90	-	**Withdrawn**
	Total	**369.58**		

Details of Facilities are in Annexure 1

Detailed Rationale

The aforesaid rating revision to the bank facilities of the entity derives comfort from the improvement in profitability and capital structure, strong order book position, experienced board of directors, low counter-party credit risk, financial assistance in the form of mobilisation advances, escrow mechanism with a well-defined payment mechanism for debt repayment. However, geographical concentration, stiff competition and tender based contract awarding system along with an inherent project execution risk are the rating constraints.

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
- Decline in profitability and elongation in operating cycle

Key Rating Drivers with detailed description

Key Rating Strengths

Improvement in profitability and capital structure

The top line of the company has increased by 38.47%, from INR588.41 crore in FY19 to INR814.77 in FY20, absolute EBITDA growing by 78.52% from INR102.90 crore in FY19 to INR183.70 crore in FY20 with PAT growing to INR102.25 crore in FY20 with EBITDA margin at 22.55% and PAT margin at 12.23%. The growth in profitability has been on the back of better than before execution rates and increased toll income from existing projects. The capital structure of the company has improved as indicated by a decline in total debt by ~39% to INR157.39 crore leading to an improvement in the overall gearing ratio to 0.43x in FY20. The interest coverage ratio remains strong at 3.82x.

Strong order book position

The company has an unexecuted order book amounting to INR3762.14 crore as on 31.01.21 showing strong revenue recognition in FY21. The company is a Class A contractor which enables them to participate in state level special building contracts without any cap with their clients, which includes the Public Water Works Department of Maharashtra, Madhya Pradesh Road Development Authority, Madhya Pradesh Municipal Corporation among others.

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.

Low counter-party credit risk

KTIL's clients include government bodies like Commercial 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. PWD receives high level of support from the Government of India majorly due to its strategic importance as the state's premier agency for implementing various road sector projects in the country. 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. These advances are backed by bank guarantees

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. KTIL is in the business of construction, maintenance and upgradation of roads and highways.

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 large players. The presence of a tender based contract awarding system also restricts pricing flexibility of all players in the industry.

Inherent 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 collections from customers and saleability of projects, 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. Infrastructure 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: Standalone

Applicable Criteria

Rating Methodology for Infrastructure Companies

Financial Ratios & Interpretation (Non-financial Sector)

Liquidity - Strong

The liquidity is strong, with a strong current ratio of 4.58 gross cash accruals of INR125.55 crore as against short term obligations amounting to INR48.11 crore which can be easily met through the cashflows generated, the company has minimal amounts of leverage in their capital structure. The cash and bank balances amount to INR119.88 crore.

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 (Standalone)*:

(INR crore)

For the year ended/ As On	**31-03-2018**	**31-03-2019**	**31-03-2020**
	(Audited)	**(Audited)**	**(Audited)**
Total Operating Income	429.02	588.41	814.77
EBITDA	69.44	102.90	183.70
PAT	22.49	49.90	102.25
Total Debt	191.61	261.06	159.32
Tangible Net-worth	493.72	531.96	563.70
Ratios			
EBITDA Margin (%)	16.18	17.49	22.55
PAT Margin (%)	5.18	8.36	12.23
Overall Gearing Ratio (x)	0.39	0.49	0.43

* Classification as per Infomerics' standards

Status of non-cooperation with previous CRA: None

Any other information: None

Rating History for last three years:

Sl. No.	Name of Instrument/ Facilities	Current Rating (Year 2020-21)			Rating History for the past 3 years		
		Type	Amount outstanding (INR crore)	Rating	Date(s) & Rating(s) assigned in 2019-20 (PR dated January 10, 2020)	Date(s) & Rating(s) assigned in 2018-19	Date(s) & Rating(s) assigned in 2017-18
1.	Long Term Bank Facility – Fund Based – Term Loan	Long Term	107.70 (reduced from INR139.52 crore)	IVR A/Stable Outlook	IVR A-/ Stable Outlook	--	--
2.	Long Term Bank Facility – Fund Based – Cash Credit	Long Term	51.00	IVR A/Stable Outlook	IVR A-/ Stable Outlook	--	--
3.	Long Term/Short Term Bank Facilities – Bank Guarantee	Long/ Short Term	208.00	IVR A/Stable Outlook; IVR A1	IVR A-/ Stable Outlook; IVR A2+	--	--
4.	(Proposed) Long Term/Short Term Bank Facilities – Bank Guarantee	Long/ Short Term	2.88	IVR A/ Stable Outlook; IVR A1	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 (INR Crore)	Rating Assigned/ Outlook
Long Term Bank Facility – Fund Based – Term Loan	NA	NA	Up to 2025	107.70 (reduced from INR139.52 crore)	IVR A/Stable Outlook
Long Term Bank 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	Up to 60 months	208.00	IVR A/ Stable Outlook; IVR A1
(Proposed) Short Term/Long Term Facility – Non Fund Based – Bank Guarantee	NA	NA	-	2.88	IVR A/ Stable Outlook; IVR A1