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RL/KNTMAI/289851/NCD/0322/28142/101302149
March 16, 2022

Exhibit A

Mr. Gaurav Malhotra
Director
KNR Tirumala Infra Private Limited
KNR House, 4th floor, Plot No. 114,
Phase I, Kavuri Hills, Hyderabad
Hyderabad - 500033

Dear Mr. Gaurav Malhotra,

Re: Review of CRISIL Rating on the Rs.575 Crore Non Convertible Debentures of KNR Tirumala Infra Private Limited

All ratings assigned by CRISIL Ratings are kept under continuous surveillance and review.

CRISIL Ratings has, after due consideration, reaffirmed its CRISIL AAA/Stable (pronounced as CRISIL triple A rating with Stable outlook) rating on the captioned debt instrument. Instruments with this rating are considered to have the highest degree of safety regarding timely servicing of financial obligations. Such instruments carry lowest credit risk.

In the event of your company not making the issue within a period of 180 days from the above date, or in the event of any change in the size or structure of your proposed issue, a fresh letter of revalidation from CRISIL Ratings will be necessary.

As per our Rating Agreement, CRISIL Ratings would disseminate the rating along with outlook through its publications and other media, and keep the rating along with outlook under surveillance for the life of the instrument. CRISIL Ratings reserves the right to withdraw, or revise the rating / outlook assigned to the captioned instrument at any time, on the basis of new information, or unavailability of information, or other circumstances which CRISIL Ratings believes may have an impact on the rating.

As per SEBI circular (reference number: CIR/IMD/DF/17/2013; dated October 22, 2013) on centralized database for corporate bonds/debentures, you are required to provide international securities identification number (ISIN; along with the reference number and the date of the rating letter) of all bond/debenture issuances made against this rating letter to us. The circular also requires you to share this information with us within 2 days after the allotment of the ISIN. We request you to mail us all the necessary and relevant information at debtissue@crisil.com. This will enable CRISIL Ratings to verify and confirm to the depositories, including NSDL and CDSL, the ISIN details of debt rated by us, as required by SEBI. Feel free to contact us at debtissue@crisil.com for any clarification you may need.

Should you require any clarification, please feel free to get in touch with us.

With warm regards,

Yours sincerely,

Saina S Kathawala
Associate Director - CRISIL Ratings

Nivedita Shibu
Associate Director - CRISIL Ratings

CRISIL

Ratings

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Rating Rationale

March 16, 2022 | Mumbai

KNR Tirumala Infra Private Limited

Rating Reaffirmed

Rating Action

Rs.575 Crore Non Convertible Debentures	**CRISIL AAA/Stable (Reaffirmed)**

1 crore = 10 million
Refer to Annexure for Details of Instruments & Bank Facilities

Detailed Rationale

CRISIL Ratings has reaffirmed its 'CRISIL AAA/Stable' rating on the proposed non-convertible debentures (NCDs) of KNR Tirumala Infra Private Limited (KTIPL).

CRISIL Ratings had assigned the rating to the proposed NCDs on December 31, 2021. These NCDs are proposed to be utilised to refinance the project term loan, fund the balance EPC cost of Rs 484 crore (Series A; reduced from Rs 500 crore) and create a debt service reserve account (DSRA, Series B of Rs 37 crore). Furthermore, the rate of interest on the proposed NCDs is likely to be fixed for the first two years post disbursement, against a floating rate proposed earlier.

The rating continues to reflect the healthy debt protection metrics of the project, inherent benefits of the hybrid annuity model (HAM), and the experienced management team of KTIPL. These strengths are partially offset by susceptibility to changes in operational cost and interest rate.

The project received its first annuity (along with interest) and operations and maintenance (O&M) payment from the National Highways Authority of India (NHAI; 'CRISIL AAA/Stable') under provisions of the concession agreement (CA) on December 15, 2021. The annuity was received to the extent of 90.37% of the completed length as on the provisional commercial operations date (PCOD). Further, the existing lenders have confirmed the creation of a DSRA covering obligation for six months.

The ratio of debt to annuities receivable is healthy at 0.55 time (assuming Rs 521 crore debt drawn and receipt of 100% annuity for the completed length) and debt service coverage ratio (DSCR) is expected to be over 1 time throughout the tenure of the debt. Further, buffer of one month between the scheduled annuity payment date and the debt obligation date offers some cushion in case of delay in receipt of annuity. A similar one-month buffer should be maintained between the NCD redemption and annuity receipt dates as well.

The project received the PCOD on May 10, 2021, which was 142 days (including extension of 90 days) ahead of the scheduled commercial operations date (SCOD), i.e., September 29, 2021. Consequently, the Regional Officer (RO), NHAI has recommended to the Project Director (PD), NHAI for re-submitting the bonus payment proposal, considering the actual work completed till PCOD. However, this bonus amount would be passed on to the engineering, procurement, and construction (EPC) contractor, KNR Constructions Ltd (KNRCL; 'CRISIL AA-/Positive/CRISIL A1+') and hence, will not have any bearing on project cash flow. Though physical progress was 95.63% as on November 30, 2021, the entire work has been completed as on date, except on the 1.78 km stretch (expected to be descoped) and land acquisition issues on 0.45 km. However, this stretch of 0.45 km pertains to the service road and not the main carriageway. The cost of pending construction is estimated at Rs 7-8 crore.

The project had outstanding debt of Rs 466 crore as on March 10, 2022, against sanctioned debt of Rs 573 crore. The project may now require lower debt than envisaged before, due to savings in project cost and likely de-scoping of 1.78 kilometre (km) of the road stretch. The existing rupee term loan (RTL) and DSRA are proposed to be refinanced via issuance of the rated NCDs of up to Rs 484 crore (Series A) and up to Rs 37 crore (Series B), respectively. These NCDs are to be repaid over 13 years in semi-annual structured principal instalments (with two annuities). The coupon rate is fixed for the first two years and subject to change, thereafter, as per mutual agreement between the issuer and debenture holders.

The proposed NCDs are also expected to have put/call options exposing the company to refinancing risk. The first put/call option date is two years from deemed date of allotment and at the end of every three years thereafter or as mutually agreed between issuer and debenture holders. Nevertheless, the risk is mitigated given sufficient time available for refinancing the

NCDs, i.e., 90-105 days, stable cash flows and healthy debt protection metrics of the project and extensive experience of Cube Highways.

Analytical Approach

For arriving at the rating, CRISIL Ratings has taken a standalone view of KTIPL.

Key Rating Drivers & Detailed Description

Strengths:

Healthy debt protection metrics

The project will receive 60% of the completion cost through 30 semi-annual payments from NHAI for the next 15 years and interest payments on the balance annuities at a rate equal to the prevailing bank rate plus 3%. Actual debt required for the project would be lower than that sanctioned, due to saving in project cost and expected de-scoping; the project had outstanding debt of Rs 466 crore as on March 10, 2022. The ratio of debt to annuities receivable is healthy at 0.55 time and the DSCR is expected at above 1 time throughout the tenure of the debt, supported by moderate debt obligation and maintenance expenses. Furthermore, a gap of one month between the scheduled annuity payment date and the proposed NCD repayment date shall offer a cushion in case of delay in receipt of annuity. Further, DSRA covering six months of debt servicing obligation has been created in-line with terms of the financing agreements, which is proposed to be refinanced via NCD proceeds.

The first annuity (along with interest) and O&M payment was received on December 15, 2021. Though it was to be received within 15 days from the due date as per the provisions of CA, there was a delay of 21 days. This could be a one-time occurrence, given the procedural delays in submission of revised cost of project completion by PD, NHAI to the RO, NHAI, after adjusting the price index multiple (PIM) considering consumer price index for the circle of the project location. Annuities, interest and O&M payments are expected to be received together and on time, going forward. Any significant delay or deduction in payment from NHAI will remain a rating sensitivity factor.

Inherent benefits of HAM

Benefits such as delinking of unavailable land under HAM, allows for issue of PCOD on completion of construction on the land made available up to 182 days from the appointed date (AD), thereby allowing payment of full annuities assuming all project works are completed. The concessionaire is required to complete construction on the remaining land whenever it is made available after the PCOD. However, this clause is not relevant for the project since PD, NHAI has recommended for de-scoping of unavailable land. There are land acquisition issues on 0.45 km of service road and its estimated cost of completion is Rs 7-8 crore. HAM also provides benefits such as indexation to the bid project cost (BPC) and O&M cost to the extent of inflation and interest payments on residual annuity payments, in the operational phase.

The project received PCOD on May 10, 2021. As per the provisions of the HAM CA, full annuities and O&M payments are to be received starting six months from the PCOD itself. Accordingly, the project has received its first annuity (along with interest) and O&M payment, to the extent of length completed as of PCOD. Furthermore, the company may receive bonus on account of early completion.

Experienced management team

The project sponsor, KNRCL entered into a share purchase agreement (SPA) with Cube Highways and Infrastructure III Pte Ltd (Cube Highways) in February 2019, for sale of its entire shareholding in KTIPL to Cube Highways in a phased manner. The transaction remains subject to shareholding transfer restrictions set out in the CA, and various regulatory and lender approvals. Presently, 49% of equity shares and 100% of promoter loans have been transferred to Cube Highways, and balance shareholding will be transferred post receiving NHAI approvals and fulfillment of conditions as mentioned in the SPA. KNRCL has a track record of more than two decades in the EPC segment. The top management has qualified and experienced members, with average experience of over two decades. Their active involvement across all stages of project execution should ensure timely project completion.

Cube Highways has a well-equipped team of professionals to oversee road maintenance. Its senior management consists of experienced professionals with deep understanding of technical specifications and advanced O&M methods to proactively tackle issues in road maintenance. This is further supported by the experienced finance and legal team. Both sponsors have the financial flexibility to support the project, if needed, and have a related track record in other projects.

Weakness

Susceptibility to changes in operational cost and interest rate

The project remains exposed to risks related to maintenance of the project stretch. If the prescribed standards are not met, annuity payment may be reduced. Any significant delay and deduction in annuities could impact the debt-servicing capability. Nonetheless, the extensive experience of the management should mitigate this risk and aid effective maintenance and avoidance of any structural damage to the road.

Along with fixed annuities, the project will receive interest payments on the balance annuities that are linked to the prevailing bank rate. However, significant drop in the bank rate in the past 18-24 months, thereby impacting project inflow, as a large proportion of cash inflow is from interest on balance annuities. While the coupon rate on the proposed NCDs is fixed for the first two years, it may follow the trend in bank rates thereafter, thus supporting DSCR.

Liquidity: Superior

Liquidity will be supported by receipt of semi-annual annuities (along with interest) and O&M pay-out from NHAI. The DSCR should remain comfortable at over 1 time throughout the tenure of the debt. Further, DSRA is proposed to be funded via NCDs of up to Rs 37 crore (Series B). Additionally, a buffer of one month between the scheduled annuity receipt date and the NCD repayment date, will provide a cushion in case of delay in annuity. The proposed NCDs are expected to have put/call options exposing the company to refinancing risk. However, the conditions around redemption provide the company sufficient time to arrange for refinancing.

Outlook: Stable

CRISIL Ratings believes KTIPL should continue to benefit from the receipt of PCOD, leading to stable semi-annual payments from NHAI.

Rating Sensitivity Factors

Downward Factors:

- Substantial delay in receipt of subsequent annuities from NHAI
- Considerable deduction in annuities and O&M payments
- Draw down of higher-than-expected additional debt

About the Company

KTIPL is a special-purpose vehicle, incorporated on April 13, 2018 and is a wholly-owned subsidiary of KNRCL. It has been set up to undertake six-laning (from the existing two lanes) of the Chittoor-Mallavaram section of NH 140 in Andhra Pradesh, on a design, build, operate and transfer basis. The total length of the road to be developed is 61.128 km. The pavement will be flexible (bitumen).

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The CA was signed on May 9, 2018, and the concession period includes construction period of 910 days from the AD and fixed operations period of 15 years from the COD. AD was received on January 4, 2019, and the project has been given an extension of 90 days, owing to challenges induced by the Covid-19 pandemic. The project received PCOD on May 10, 2021, ahead of schedule. The revised project cost is Rs 1,316 crore, funded through NHAI grant to the extent of Rs 671 crore, debt of Rs 484 crore, and the balance through equity and funding contribution from the promoters.

KNRCL entered into a SPA with Cube Highways for KTIPL in February 2019, wherein it will sell its entire shareholding in KTIPL to Cube Highways, in a phased manner. Presently, 49% of shareholding has been transferred to Cube Highways, and balance shareholding is expected to be transferred post receiving NHAI approvals and fulfillment of conditions as mentioned in the SPA.

Key Financial Indicators

Financials as on/for the period ended March 31	Unit	2021	2020
Revenue*	Rs.Crore	390	522
Profit After Tax (PAT)	Rs.Crore	36	19
PAT Margin	%	9.4	3.6
Adjusted debt/adjusted networth	Times	1.1	0.0
Interest coverage	Times	0.0	0.0

**Revenue includes the construction cost incurred in the project as per IND AS accounting requirements*

Any other information:

- **Goods and Service Tax (GST) notice:** The company has received a tax notice of Rs 250 crore from GST authorities, equivalent to GST on annuities expected to be received over the tenure of the project, and this also includes penalty and interest thereof. The matter is currently sub-judice. CRISIL Ratings will continue to monitor the related developments.

- **Put/call option on the proposed NCDs**: First put/call option date is two years from deemed date of allotment and at the end of every three years thereafter or as mutually agreed between issuer and debenture holders

- **Step-up in coupon rate**: The coupon rate shall be revised upwards by 0.25% for every notch downgrade in the credit rating of the debentures

Financial covenant

- DSCR >= 1.10x

Note on complexity levels of the rated instrument:

CRISIL Ratings' complexity levels are assigned to various types of financial instruments. The CRISIL Ratings' complexity levels are available on www.crisil.com/complexity-levels. Users are advised to refer to the CRISIL Ratings' complexity levels for instruments that they consider for investment. Users may also call the Customer Service Helpdesk with queries on specific instruments.

Annexure - Details of Instrument(s)

ISIN	Name of instrument	Date of allotment	Coupon rate (%)	Maturity date	Issue size (Rs.Crore)	Complexity level	Rating assigned with outlook
NA	Non-convertible debentures*	NA	NA	NA	535	Complex	CRISIL AAA/Stable
NA	Non-convertible debentures*	NA	NA	NA	40	Complex	CRISIL AAA/Stable

**Not yet issued*
NA: Not applicable

Annexure - Rating History for last 3 Years

	Current			2022 (History)		2021		2020		2019		Start of 2019
Instrument	Type	Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Non Convertible Debentures	LT	575.0	CRISIL AAA/Stable		--	31-12-21	CRISIL AAA/Stable		--		--	--

All amounts are in Rs.Cr.

Criteria Details

Links to related criteria
The Rating Process
CRISILs criteria for rating annuity and HAM road projects

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Note for Media:

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