MP Highways Private Limited (Revised)

March 01, 2022

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating[1]	Rating Action
Long Term Bank Facilities	94.73 (Reduced from 156.67)	CARE A; Stable (Single A; Outlook: Stable)	Reaffirmed
Total Bank Facilities	**94.73 (Rs. Ninety-Four Crore and Seventy-Three Lakhs Only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The reaffirmation of rating for the bank facilities of MP Highways Private Limited (MHPL) factors in the company's experienced and resourceful promoter, PNC Infratech Limited (PIL) (rated 'CARE AA'; Stable / 'CARE A1+'), around nine years of operational track record of the toll road with moderate toll collections, maintenance of a two-quarter debt service reserve account (DSRA) in the form of a bank guarantee (BG) from the sponsor, and the build-up of healthy liquidity at special purpose vehicle (SPV) level, which is expected to be maintained in the project. The credit rating is supported by, in addition to the aforesaid adequate project liquidity, the existence of a 'Sponsor Undertaking' extended by PIL in favour of the lenders for supporting the servicing of MHPL's debt, if required. The sponsor has also provided a bank guarantee in favour of the lenders' trustee towards major maintenance expenses against the stipulation for maintenance of major maintenance reserve account (MMRA) during the concession period. The rating also takes note of partial prepayment of loan installments, during the FY21, from the surplus project cash flows, thereby improving the leverage indicators of the company.

The rating is, however, constrained by the risks associated with toll-based projects, viz, sustainability of traffic and acceptability of toll rate hikes, moderate debt coverage indicators due to ballooning repayments and volatility in interest rates.

Rating Sensitivities

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

- Substantial growth in toll revenue on account of increase in traffic on a consistent basis leading to higher DSCR levels in excess of 1.3x on a sustained basis.

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

- Any change in the credit profile of sponsor (PIL) or a downgrade from their current credit ratings.
- Decrease in toll collections or adverse movement in the interest rate and O&M cost affecting the debt coverage indicators
- Significant decline in surplus cash or liquid investment from its current levels
- Non-extension of DSRA or MMRA BG which has been stipulated as per the lender's facility agreement

Detailed description of the key rating drivers

Key Rating Strengths

Experienced and resourceful promoters

MHPL has been promoted by PNC Infra Holdings Ltd. (wholly owned subsidiary of PIL). PIL is engaged in diversified construction activities such as construction of highways, bridges, flyovers, airport runways and allied activities. PIL has over two decades of experience in executing road projects and has received appreciation certificates for some of its projects in the past. The company has successfully executed numerous infrastructure projects in 15 states across India.

Comfortable financial risk profile with healthy liquidity

The leverage metrics of the company have improved with the prepayment of Rs.32 crore during the FY21 from the surplus project cash flows maintained at SPV level, as reflected by debt to toll collections ratio of 2.40 times. The company's comfortable financial risk profile is aided by a steady build-up of liquidity at SPV level with unencumbered cash and cash equivalents of Rs.35 crore as on January 31, 2022 and maintenance of DSRA covering two quarters of debt servicing requirements. Besides, the surplus generated from operations has not been withdrawn till date and is expected to be retained

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

at MHPL's level in future as well, providing comfort to the company's liquidity position. Furthermore, the sponsor (PIL) has extended an undertaking in favor of the lenders to provide additional funds for meeting shortfall in debt servicing during the currency of loans. MHPL's debt coverage indicators are expected to remain moderately comfortable against a ballooning repayment structure.

Key Rating Weaknesses

Modest Toll Collections of the project

During FY21, the company reported toll revenues of Rs.49.26 crore as against toll revenues of Rs.46.69 crore, recording a growth of about 6% in FY21. During 10MFY22, the company collected toll of Rs.41.27 crore as against Rs.41.02 crore during 10MFY21, with an average revenue per day of Rs.13.49 lakh. Toll collections have witnessed decline from FY19 onwards due to reduction in mining related traffic from the state of Uttar Pradesh on the account of imposition of a ban on mining activities to curb illegal sand mining in the state along with reduction in additional revenue from overloaded mining related traffic due to decline in such traffic. Furthermore, Central Government's order to increase the load carrying capacity of heavy vehicles by 20-25% has also been a deterrent towards the additional overloading revenue impacting the collections of the company. The reduced toll collection on the project stretch had resulted in moderation of debt coverage indicators of the company during last 2-3 financial years. While there are lower repayments going forward, any further decline in toll revenues would be a key rating sensitivity.

Inherent revenue risk related to toll road projects

The toll-based road projects are exposed to inherent revenue risk related to sustainability of traffic and acceptability of toll rate hikes. Besides, with the toll rates linked to the wholesale price index (WPI), any decline in WPI could adversely affect MHPL's revenue growth.

Interest Rate Risk

The company is exposed to the risk of any increase in interest rates going forward, due to floating nature of the interest on term loans availed by the company.

Exposure to O&M and M&M Risk

The entire maintenance activity for the project is handled by an in-house team of MHPL. Going forward, satisfactory completion of routine maintenance (O&M) and major maintenance within the budgeted cost estimates would be critical. This is mitigated to a large extent by the maintenance, as statutorily stipulated, of a major maintenance reserve account (MMRA) during the concession period, against which the sponsor, PIL, has provided a bank guarantee of Rs.23.82 crore.

Liquidity: Strong

MHPL's liquidity position remains comfortable with unencumbered cash and liquid investments of around Rs.35 crore as on January 31, 2022. Furthermore, the company is maintaining DSRA of Rs.20 crore (in the form of fixed deposits of Rs.2 crore and BG of Rs.18 crore from the sponsor), adequately covering debt servicing obligations equivalent to two quarters.

Analytical approach: Standalone while factoring linkages with the parent company- PIL.

Applicable Criteria

CARE's criteria on assigning Outlook to Credit Ratings
CARE's policy on Default Recognition
Rating Methodology-Factoring Linkages
Financial Ratios – Non-Financial Sector
Rating Methodology-Toll Roads
Liquidity Analysis of Non-financial sector entities

About the Company

MHPL is a special purpose vehicle (SPV) promoted by PNC Infra Holdings Ltd., wholly-owned subsidiary of PNC Infratech Ltd., to develop, maintain and manage two-laning of the Gwalior-Bhind road up to Uttar Pradesh border section of NH-92 from 0.00 km to 108 km on Design Build Finance Operate and Transfer (DBFOT - Toll) basis. As per the Concession Agreement (CA) signed between Madhya Pradesh Road Development Corporation Limited (MPRDC, rated 'CARE A (Is)') and MHPL on December 10, 2010, the concession period is 14 years (including a construction period of 2 years) from the Appointed Date (which is June 07, 2011). The company achieved provisional commercial operation date (PCOD) on January 30, 2013 (approximately 4 months ahead of scheduled COD) and toll collection commenced from March 6, 2013.

Brief Financials (Rs. crore)	31-03-2020 (A)	31-03-2021 (A)	9MFY22
Total operating income	48.50	53.39	38.41
PBILDT	34.17	42.93	32.39
PAT	0.27	-1.39	5.60
Overall gearing (times)	3.41	2.45	NA
Interest coverage (times)	2.06	3.06	5.13

A: Audited, NA: Not Available; Financials Classified as per CARE's internal benchmarks

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
Fund-based - LT-Term Loan	NA	-	-	August'24	94.73	CARE A; Stable

NA: Not Applicable

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 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1	Fund-based - LT-Term Loan	LT*	94.73	CARE A; Stable	-	1)CARE A; Stable (08-Mar-21)	1)CARE A; Stable (16-Mar-20)	1)CARE A; Stable (22-Feb-19)

* Long Term

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities

Name of the Instrument	Detailed explanation
A. Financial covenants	
DSCR	Debt Service Coverage Ratio (DSCR) shall not be lower than 1.10 during the tenure of the Facility.
DER	The ratio of Debt to Equity shall not exceed 2.25:1 at all the times during the entire tenure of the Facility.
B. Non-financial covenants	**Not Applicable**

Annexure 4: Complexity level of various instruments rated for this company

Sr. No	Name of instrument	Complexity level
1	Fund-based - LT-Term Loan	Simple

Annexure 5: Bank Lender Details for this Company
To view the lender wise details of bank facilities please click here

Note on complexity levels of the rated instrument: CARE Ratings Ltd. 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.

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About CARE Ratings Limited:

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