

## Madhav (phoolsagar Niwas Shahpura corridor) Highways Private Limited

October 01, 2021

### Ratings

Facilities	Amount (Rs. crore)	Rating <sup>1</sup>	Rating Action
Long Term Bank Facilities*	74.22 (Reduced from 79.89)	CARE A- (CE); Stable [Single A Minus (Credit Enhancement); Outlook: Stable]	Revised from CARE A-; Stable (Single A Minus; Outlook: Stable)
Long Term / Short Term Bank Facilities*	7.75	CARE A- (CE); Stable / CARE A2+ (CE) [Single A Minus (Credit Enhancement)]; Outlook: Stable / A Two Plus (Credit Enhancement)]	Revised from CARE A-; Stable / CARE A2+ (Single A Minus ; Outlook: Stable / A Two Plus)
Total Facilities	81.97 (Rs. Eighty-One Crore and Ninety-Seven Lakh Only)		

Details of instruments/facilities in Annexure-1

\*backed by an unconditional & irrevocable corporate guarantee extended by WAA Solar Limited (WSL; rated CARE A-; Stable)

### Unsupported Rating

As stipulated vide SEBI circular dated June 13, 2019

**CARE BBB+ / CARE A2 [Assigned]**

### Detailed Rationale & Key Rating Drivers for the credit enhanced debt

The rating assigned to the bank facilities of Madhav (phoolsagar Niwas Shahpura corridor) Highways Private Limited (MPHPL) was earlier based on the standalone credit profile of the company and was not deriving any credit enhancement from the unconditional & irrevocable corporate guarantee extended by WSL. However, consequent to moderation in the credit profile of MPHPL, the unconditional & irrevocable corporate guarantee is expected to provide credit enhancement to the bank facilities of MPHPL. Hence, the revision in rating is pursuant to change in analytical approach by CARE Ratings. The rating assigned to the bank facilities of MPHPL is based on the credit enhancement in the form of an unconditional and irrevocable corporate guarantee extended by WAA Solar Limited (WSL).

### Detailed Rationale & Key Rating Drivers of WSL

The rating assigned to the bank facilities of WAA Solar Limited (WSL) continues to derive strength from satisfactory capacity utilisation factor (CUF) levels of its solar power plant of over nine years as on June 30, 2021, long-term revenue visibility due to presence of power purchase agreement (PPA) with a strong counterparty i.e. Gujarat Urja Vikas Nigam Limited (GUVNL; rated CARE AA-; Stable/CARE A1+) at a fixed tariff for twenty five years and an established track record of receipt of payments before due date.

The ratings also continue to factor vast experience of its promoters in the infrastructure sector, WSL's adequate liquidity backed by presence of debt service reserve account (DSRA) equivalent to around one quarter of debt obligations, consistent improvement in WSL's capital structure along with reduction in guaranteed debt, moderate debt coverage indicators and stable industry outlook.

The above rating strengths are, however, partially offset by susceptibility of power generation to variation in climatic conditions & technology risk associated with solar power plants, interest rate fluctuation and client concentration risk. The rating also takes cognizance of increase in loans & advances and investment in group companies as on March 31, 2021 along with marginal support required for debt servicing of one of its three Special Purpose Vehicle (SPV), wherein WSL has extended corporate guarantee.

### Key Rating Drivers of MPHPL for unsupported ratings:

The revision in rating assigned to the bank facilities of MPHPL factors in deterioration in the liquidity cushion due to waiver of the requirement of maintaining DSRA by the banker, at the request of the company.

The rating continues to derive strength from satisfactory operational track record of the project for over six years, timely receipts of thirteen bi-annual annuities till September 02, 2021 from a strong counterparty i.e. Madhya Pradesh Road Development Corporation [MPRDC; rated CARE A (Is); Stable, an undertaking of Government of Madhya Pradesh (GoMP)] and low major maintenance (MM) risk on account of presence of fixed price MM contract.

The above rating strengths are, however, partially offset by performance risk associated with its operations & maintenance (O&M) contractor coupled with inherent O&M and interest rate fluctuation risk.

<sup>1</sup>Complete definitions of the ratings assigned are available at [www.careratings.com](http://www.careratings.com) and in other CARE publications.

### Rating Sensitivities (WSL)

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

- Ability of the company to demonstrate a sustained improvement in its CUF levels above 20% which will result in improvement in its profitability.
- Improvement in credit profile of off taker i.e. GUVNL
- Recovery of loans & advances/ investments in group companies or release of corporate guarantee resulting in improvement in liquidity and guaranteed debt.

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

- Reduction in CUF levels below 16% on a sustained basis leading to lower cash accruals and an impact on debt coverage indicators and weakening of liquidity position of the company.
- Delay in receipt of payments from GUVNL beyond 30 days on a sustained basis.
- Any change in business activity including venturing into Engineering, Procurement & Construction (EPC) business which has detrimental impact on WSL's financial risk profile

### Detailed description of the key rating drivers of the guarantor: WSL

#### Key Rating Strengths

**Established operational track record with satisfactory generation levels:** WSL's 10.25 MW grid-connected solar plant was commissioned in January 2012 and as on June 30, 2021, it has an operational track record of more than nine years. Since commissioning, the average CUF level of the solar power plant remained healthy at 19.72%. During FY21, WSL reported average CUF at 18.64% which was largely in line with that of previous year (18.43%). WSL reported total operating income of Rs.25.44 crore during FY21 (FY20: 26.81 crore). Further, as per the clarifications issued by Ministry of New & Renewable Energy, the must run status granted to the renewable power assets remains unchanged during nationwide lockdown following outbreak of COVID-19 pandemic. Consequently, it had minimal impact on operations of WSL.

**Long-term PPA with GUVNL having strong credit profile and satisfactory payment track record:** WSL has signed PPA for the entire capacity with GUVNL for a term of 25 years at a fixed tariff of Rs.15 per kWh for the first 12 years and Rs.5 per kWh for the remaining 13 years. The presence of long-term PPA at a fixed tariff for the tenure of 25 years with a strong counterparty ensures cash flow sustainability & low off take risk. Furthermore, WSL has a satisfactory track record of receiving payments within 5-8 days from GUVNL against the monthly invoices drawn on it for sale of power. Nevertheless, considering GUVNL is the sole procurer of power generated by SPVs, the later are exposed to client concentration risk.

**Comfortable capital structure and moderate debt coverage indicators:** WSL's capital structure continued to remain comfortable marked by below unity overall gearing, which further improved to 0.37x as on March 31, 2021 (0.45x as on March 31, 2020). The improvement in overall gearing was on account of scheduled repayment of term loan and accretion to reserves. The debt coverage indicators remained moderate during FY21 as indicated by interest coverage (PBILDT/Interest) of 2.87x (FY20: 2.77x) and total debt to GCA at 5.00x (FY20: 3.27x).

**Satisfactory operations of guaranteed group entities:** WSL has guaranteed debt for three operational SPVs of the Madhav group. Out of three SPVs, two SPVs are self-sustainable and one SPV [Madhav Solar (Vadodara Rooftop) Private Limited; MSVRPL: Rated CARE A-(CE); Stable) requires need-based support from promoters due to its subdued operational performance. Overall gearing adjusted for recourse nature of debt of SPVs, albeit high, improved as on balance sheet date due to reduction in amount of debt guaranteed by WSL for its SPVs.

**Experienced promoter group and established presence of the group in infrastructure sector:** WSL is a part of Vadodara-based Madhav group which has an established track record in executing various solar power projects on EPC basis for third parties as well as for group companies. Till date, the group has executed solar power projects of around 88 MW in various states. WSL is promoted by Mr Ashok Khurana and his son Mr Amit Khurana, who possess vast experience in the infrastructure industry. The promoter group is ably supported by team of experienced professionals in day-to-day operations of the group companies.

**Favorable renewable energy framework with stable industry outlook:** With the great thrust from the government, there had been significant solar power capacity additions in the last 5 years. However, capacity additions remained muted during last three years ended FY21 on the back of imposition of safeguard duty on import of solar cells & modules w.e.f. July 2018 for two years, which was later extended till July 2021, roll out of GST, attempts to renegotiate tariffs for concluded PPAs, cancellation of multiple concluded auctions on the back of declining tariffs and Covid-19 pandemic induced lockdown. However, capacity additions picked up from June 2020 onwards and with large amount of already bid out capacity, large capacity additions are expected in FY22 & FY23. Solar projects have relatively lower execution risks, long-term revenue visibility with long term off take arrangements at a fixed tariff, minimal O&M requirements,

stable power generation, distribution of solar capacity across many states, lower tariffs compared to conventional power generation, must run status of these projects, greater investor interest due to ESG compliance features with attractive returns. However, there are concerns like increased difficulties in land acquisition, inadequate grid connectivity on account of poor evacuation infrastructure, evolving technology advancements with limited satisfactory operational track record in India, very high dependence on imported solar cells and modules, regulatory haze in terms of renegotiation of tariff in concluded PPAs, weak financial risk profile of Discoms with significant delays in payment by few state Discoms, increased difficulties in debt tie-up etc. Overall, positive and negative developments in the sector counterbalance each other, thereby resulting in a stable outlook. Going forward the key monitorables would be prices of solar modules, performance of the modules in Indian conditions, technology advancements, effectiveness of BCD regime & PLI scheme to boost domestic solar cell and module manufacturing. Project implementation risks associated with innovative concepts like wind-solar hybrid projects, battery storage solar projects and pumped storage solar projects also remains crucial.

#### Key Rating Weaknesses

**Exposure of the project towards climatic conditions and technological risk:** The CUF level of a solar power plant primarily depends upon solar radiation levels, climatic conditions, degradation of modules and technology used. Furthermore, the performance track record of the thin film type PV modules, used by WSL, in Indian conditions is relatively limited. Although, the modules and other equipment have been sourced from reputed suppliers, technological risk persists for the project duration.

**Interest rate risk:** Considering the term loan availed is on a floating rate basis and the power tariff with discom is fixed, WSL is exposed to risk of any major adverse movement in interest rates.

#### Liquidity: Adequate

WSL's liquidity position remained adequate with defined cash flow mechanism in place, maintenance of adequate DSRA and receipt of payments within 5-8 days of submission of monthly bill. Further, WSL's solar project has a comfortable tail period of five years. As on June 30, 2021, WSL has funded DSRA equivalent to around one quarter of debt servicing obligations amounting to Rs.4.70 crore in the form of fixed deposit (FD) & subordinated FD of Rs.1.03 crore with the lender in line with sanction conditions. Moreover, WSL had free cash & bank balance of Rs.0.93 crore as on March 31, 2021. Cash flow available for debt servicing is expected to be around Rs.20-21 crore which is adequate to cater its debt obligations (including interest) of around Rs.16-17 crore in FY22. However, surplus after debt servicing, is up streamed to group companies and hence had low free cash and bank balance of Rs.0.93 crore as on March 31, 2021.

**Analytical approach for MPHPL:** Standalone approach was being followed earlier by CARE to analyse MPHPL's rating as it was not deriving any credit enhancement from the unconditional & irrevocable corporate guarantee extended by WSL. However, consequent to moderation in liquidity profile of MPHPL, corporate guarantee is expected to provide credit enhancement to the bank facilities of MPHPL. Hence approach has been changed from standalone to assessment of the guarantor.

**Credit Enhancement Rating (CE):** Assessment of the Guarantor, WSL.

CARE has analysed MPHPL's credit profile by considering credit enhancement in the form of an unconditional & irrevocable corporate guarantee extended by WSL for the rated bank facilities of MPHPL.

**Unsupported Rating:** Standalone

**Analytical approach for WSL:** CARE has analyzed the credit profile of WSL by considering its standalone financial statements while factoring corporate guarantee extended by WSL to its SPVs.

#### Applicable Criteria

[Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings](#)

[CARE's Policy on Default Recognition](#)

[Rating Methodology: Power Generation Projects](#)

[Rating Methodology: Solar Power Projects](#)

[Financial ratios – Non- Financial Sector](#)

[Liquidity Analysis of Non-Financial Sector Entities](#)

[Rating Methodology: Factoring Linkages in Ratings](#)

#### About the Credit enhancement provider: WSL

Incorporated in November 2009, Vadodara-based WSL is a subsidiary of Madhav Power Private Limited, promoted by Mr Ashok Khurana and Mr Amit Khurana. The promoters of WSL were the erstwhile promoters of MSK Projects India Ltd., which was subsequently taken over by the Welspun group (now known as Welspun Enterprises Limited). Further, on June

12, 2018, WSL got listed on BSE SME exchange. WSL has set-up a 10.25-MW (AC -10MW) grid interactive solar PV power project and signed a PPA for 25 years with GUVNL under the Gujarat Solar Policy 2009 framework for the sale of generated power. The project is located at Surendranagar district in Gujarat. This apart, WSL has also commissioned a 0.10 MW grid interactive solar PV power project at Rajabhaj Airport, Bhopal, which is operational since July 2013. Apart from the above, WSL has sponsored Madhav group's various project-specific SPVs in the road construction and solar power segments.

Brief Financials (Rs. crore)	FY20 (A)	FY21 (A)
Total operating income	26.81	25.44
PBILDT	23.74	22.63
PAT	10.29	3.31
Overall gearing (times)	0.45	0.37
PBILDT Interest coverage (times)	2.77	2.87

A: Audited

#### About the Company: MPHPL

Incorporated in March 2013, MPHPL is a Special Purpose Vehicle (SPV) promoted by WAA Solar Limited (WSL; rated CARE A-; Stable; 49% stake), M.S. Khurana Engineering Limited (26% stake) and MSK Infrastructure Private Limited (25% stake). MPHPL has entered into a 15-year concession agreement (including 2 years of construction period) with MPRDC for intermediate-laning / two-laning of Phoolsagar-Niwas-Shahpura MDR of 83.70 km, under the MDR's Package-VII in the state of MP on Design, Build, Finance, Operate and Transfer (DBFOT) on annuity basis.

The project was completed on February 18, 2015, more than six-months ahead of schedule, at a total cost of Rs.140 crore funded in debt: equity ratio of 2.33 times.

Brief Financials (Rs. crore)	FY20(A)	FY21(A)
Total operating income	26.11	25.96
PBILDT	21.75	17.46
PAT	2.56	0.56
Overall gearing (times)	1.99	1.84
PBILDT Interest coverage (times)	2.40	2.37

A: Audited

**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:** Please refer Annexure-3

**Complexity level of various instruments rated for this company:** Please refer Annexure-4

**Bank lender details:** Please refer Annexure-5

#### 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
Term Loan-Long Term		-	-	October 2026	69.22	CARE A- (CE); Stable
Fund-based - LT-Bank Overdraft		-	-	-	5.00	CARE A- (CE); Stable
Non-fund-based - LT/ ST-Derivative Limits		-	-	-	7.75	CARE A- (CE); Stable / CARE A2+ (CE)
Un Supported Rating-Un Supported Rating (LT/ST)		-	-	-	0.00	CARE BBB+ / CARE A2

**Annexure-2: Rating History of last three years**

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type 2021-2022	Amount Outstanding (Rs. crore) 2021-2022	Rating 2021-2022	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	Term Loan-Long Term	LT	69.22	CARE A-(CE); Stable	-	1)CARE A-; Stable (21-Sep-20)	1)CARE A-; Stable (04-Oct-19)	1)CARE A-; Stable (25-Dec-18)
2	Fund-based - LT-Bank Overdraft	LT	5.00	CARE A-(CE); Stable	-	1)CARE A-; Stable (21-Sep-20)	1)CARE A-; Stable (04-Oct-19)	1)CARE A-; Stable (25-Dec-18)
3	Non-fund-based - LT/ ST-Derivative Limits	LT/ST*	7.75	CARE A-(CE); Stable / CARE A2+ (CE)	-	1)CARE A-; Stable / CARE A2+ (21-Sep-20)	1)CARE A-; Stable / CARE A2+ (04-Oct-19)	1)CARE A-; Stable / CARE A2+ (25-Dec-18)
4	Un Supported Rating-Un Supported Rating (LT/ST)	LT/ST*	0.00	CARE BBB+ / CARE A2				

**Annexure 3: Covenants of rated instrument/facility:** Not Applicable

**Annexure 4: Complexity level of various instruments rated for this Company**

Sr. No	Name of instrument	Complexity level
1	Fund-based - LT-Bank Overdraft	Simple
2	Non-fund-based - LT/ ST-Derivative Limits	Simple
3	Term Loan-Long Term	Simple

**Annexure 5: Bank Lender Details**

To view the lender wise details of bank facilities please [click here](#)

**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](http://www.careratings.com). Investors/market intermediaries/regulators or others are welcome to write to [care@careratings.com](mailto:care@careratings.com) for any clarifications.



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### About CARE Ratings:

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