

**Mhow Agroh Pathways Private Limited**

April 05, 2021

**Ratings**

Facilities	Amount (Rs. Crore)	Rating <sup>1</sup>	Rating Action
Long Term Bank Facilities @	132.91 (Reduced from 136.74)	CARE A- (CE); Stable [Single A Minus (Credit Enhancement); Outlook: Stable]	Revised from CARE BBB+ (CE) [Triple B Plus (Credit Enhancement)] and removed from Credit watch with Developing Implications; Stable outlook assigned
<b>Total Bank Facilities</b>	<b>132.91</b> <b>(Rs. One Hundred Thirty- Two Crore and Ninety-One Lakhs Only)</b>		

*Details of facilities in Annexure-1*

@ The above rating is backed by credit enhancement in the form of unconditional and irrevocable guarantee extended by Prakash Asphaltting Toll Highways (India) Limited (PATH) and Agroh Infrastructure Developers Private Limited (AIDPL) for timely servicing of the said bank facility.

<b>Unsupported Rating</b> <sup>[2]</sup>	<b>CARE D</b>
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Note: Unsupported Rating does not factor in the explicit credit enhancement

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

The rating of the bank facility of Mhow Agroh Pathways Private Limited is primarily based on the credit enhancement available in the form of an unconditional and irrevocable guarantee extended by PATH & AIDPL for ensuring timely debt servicing of this facility.

**Detailed Rationale & Key Rating Drivers of Prakash Asphalttings and Toll Highway (India) Limited**

The ratings assigned to the bank facilities of PATH have been removed from “credit watch with developing implications” on account of smooth transition in business operations of the company post demise of founder promoter; Mr. Puneet Agarwal.

The revision in ratings assigned to the bank facilities of PATH factors in, significant increase in the scale of operations of the company, improved capital structure & debt coverage of the company, improvement in the liquidity profile of the company on account of healthy free cash & bank balance and low utilization of fund based limits; and significant improvement in the standalone credit profile of its Special Purposes Vehicle’s (SPV) as well as generation of healthy cash surplus thereof for PATH.

The ratings continue to favorably factor in its diversified segmental revenue with an established presence in construction and operations of road projects on engineering, procurement and construction (EPC), annuity and toll basis [viz. build-operate-transfer (BOT) operate-maintain-transfer (OMT), Toll-operate-transfer (TOT) and toll collection contracts (TCC)]. The ratings continue to derive strength from the geographically diversified toll collection revenue profile of the group and healthy toll collection under TOT and Toll-OMT projects along with their low leverage aiding healthy cash surplus generation and financial flexibility for the PATH.

The ratings, however, continue to remain constrained by its exposure to inherent traffic risk, operations and maintenance (O&M) risk and regulatory risk associated with toll-based road projects owing to high share of the toll collection income in the group’s total revenue profile and moderate profitability. The ratings also remained constrained on account of high exposure to group SPV’s and shortfall funding requirement in three SPV’s whose debt is backed by joint and several corporate guarantee from PATH. PATH has also extended additional undertaking in March 2021 to the lender to fund the shortfall in two joint venture SPV’s on timely basis; any deviation in the same shall be key rating monitorable. The ratings also take cognizance of fund raising plans of National Highways Authority of India (NHAI, rated CARE AAA; Stable) through TOT and InvIT which can moderate the TCC revenue visibility for PATH in the medium term.

The ratings do take cognizance of the adverse impact of COVID-19 and ongoing farmers protest in the state of Punjab and

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

<sup>2</sup>As stipulated vide SEBI circular no SEBI/HO/MIRSD/DOS3/CIR/P/2019/70 dated June 13, 2019

Haryana on the group's toll collection revenue. However, lower project leverage and growth in toll collection aided liquidity of the PATH reflecting from non-availment of moratorium under Reserve Bank of India Covid-19 relief package.

### Key rating drivers of Mhow Agroh Pathways Private Limited

The unsupported rating of MAPPL is based on its standalone credit assessment and factors in delays in servicing of its term loan principal and interest during last six months as reflected in the term loan statements.

The delays in the past were mainly on account of stretch in liquidity of the company due to low toll income and non-receipt of the requisite capital and O&M grant from the concessioning authority, viz. Madhya Pradesh Road Development Corporation Ltd [MPRDC; rated CARE A (Is); Stable]. The management, on account of non-receipt of this grant and citing various other reasons, has requested termination of the contract to MPRDC. However, MPRDC has started releasing O&M grant from FY21 onwards.

### Rating Sensitivities of PATH

#### Positive factors

- Enhanced revenue diversification in segment other than TCC while maintaining leverage and liquidity profile.
- Significant improvement in the three underperforming SPVs of PATH

#### Negative Factors

- Significant decline in toll collection in ongoing projects or increase in major maintenance requirement or equity commitment adversely impacting the combined debt service coverage ratio below 1.50 times.
- Dip in operating margin to below 10%.
- Increase in overall gearing to above unity.
- Exposure to large sized BOT or TOT projects adversely impacting the capital structure and funding requirement of the group.

### Detailed description of the key rating drivers of PATH

#### Key Rating Strengths

**Established presence in toll collection and maintenance of road assets along with vast experienced of promoters:** PATH has an established presence of more than two decades in toll collection and maintenance of road projects. It is mainly engaged in undertaking TCC, Toll-OMT contracts and TOT contracts for National Highways Authority of India (NHAI, rated CARE AAA; Stable) and various state authorities. It is also registered as an 'A' class EPC contractor for civil construction with Government of Madhya Pradesh (GoMP). The company also undertakes EPC work of small to mid-sized roads projects. Furthermore, PATH has 10 operational special purpose vehicles (SPV) and one under construction HAM project as on March 31, 2021. PATH, together with its SPVs, is referred to as PATH group.

Furthermore, there has been a smooth transition in the business operation of company post demise of founder promoter Mr. Puneet Agrawal during December 2019. Currently, the execution and operations of PATH are being looked after by Mr. Nitin Agarwal who has experience of over 22 years in the industry. He is ably assisted by the second line of management viz. Mr. Nipun Agrawal and Mr. Saksham Agrawal, who have around five-six years of experience in this business, along with few family members and a team of professionals.

#### Significant improvement in scale of operations albeit moderate profitability

Total operating Income (TOI) of the company grew significantly by 54% in FY20 to Rs.1545.54 crore from Rs.1002.41 crore in FY19 mainly on account of growth of income from TCC segment and TOT segment. PATH continued to have a segmentally diversified revenue profile during FY20 with 54% of company's income originating from TCC (45% in FY19), 21% from OMT toll projects (36% in FY19), 19% from EPC segment (17% in FY19) and 3% from TOT segment. PATH has achieved TOI of Rs.1017.54 crore i.e. 66% of FY20 TOI; during 9MFY21. The TOI for 9MFY21 remained adversely impacted on account of COVID-19 and farmer's agitation in Punjab and Haryana.

The PBILDT margin moderated from 14.07% during FY19 to 11.78% during FY20 mainly on account of increase in share of lower margin bearing TCC and TOT segment in the TOI of company.

Total toll collection income of PATH group during 11MFY21 remained spread across Uttar Pradesh (32%), Haryana (23%), Madhya Pradesh (18%) and Rajasthan (15%).

#### Healthy toll collection in OMT projects structured in own balance sheet; albeit toll suspension in one OMT project:

PATH has two operational OMT projects structured in its own balance sheet viz., Pathankot – Jalandhar (PJ-OMT) in the state of Punjab which commenced toll collection in March 2017 and Jhansi – Orai (JO-OMT) in the state of Uttar Pradesh which

commenced toll collection in October 2016. During FY20, both OMT projects reported healthy toll collection aggregating to Rs.328.57 crore.

Total toll collection during 11MFY21 from both OMT project declined to Rs.256.17 crore mainly on account of adverse impact of COVID and toll suspension from September 2020 onwards under PJ-OMT project due to farmer agitation. Nevertheless, company is not required to pay concession fees for the toll suspension period and eligible for extension of concession period as well as reimbursement of cost as per the terms of concession agreement.

PJ-OMT has a concession period till March 2026 and JO-OMT has a concession period till October 2025 while aggregate debt against both of these projects was Rs.53.44 crore as on February 28, 2021 rendering strong financial flexibility and generation of healthy cash surplus for PATH. Average Daily Toll collection (ADTC) for JO-OMT grew significantly and remained healthy at Rs.71.67 lakh during September 2020 to February 2021 providing strong cash flow cushion for funding of upcoming major maintenance obligations.

**Improvement in the capital structure and combined debt coverage indicators on account of improved performance of operational SPVs:** PATH's capital structure remains comfortable with a low standalone overall gearing of 0.49x as on March 31, 2020 (0.63x as on March 31, 2019). Adjusted overall gearing including guaranteed debt of SPVs and excluding investments in SPV which rely on shortfall funding from PATH has significantly improved to 1.37x as on March 31, 2020 from 2.61x as on March 31, 2019 mainly on account of improvement in standalone credit profile of two operational SPV's nullifying the benefit derived from corporate guarantee extended.

Debt coverage indicators also remained comfortable during FY20 with PBILDT interest coverage of 5.25x (5.06x during FY19) and Total debt/ Gross Cash Accruals (GCA) of 1.89 years as on March 31, 2020 (2.37 years as on March 31, 2019).

Debt coverage indicators of PATH on a combined basis, viz. considering PATH and its project SPVs, also improved significantly as compared to earlier review mainly on account of generation of healthy cash surplus from its operational SPVs after creating required reserves. Three operational SPVs with balance concession period of 3-4 years had repaid their entire debt in last one year which augur well for the upstreaming of their cash surplus to the extent of PATH's stake.

**Stabilisation of toll collection under TOT Project:** PATH has 1 TOT project structured into its balance sheet viz., Vidyasagar Setu in state of West Bengal. PATH commenced toll collection under the said TOT project from October 01, 2019 onwards. Total toll collection for FY20 remained healthy at Rs.44.63 crore. The Toll collection however, remained subdued at Rs.65.84 crore during 11MFY21 mainly on account of adverse impact of COVID-19. However, toll collection on the project stretch has stabilised and surpassed pre-COVID levels from October 2020 onwards.

Furthermore, PATH has achieved financial closure for the project and requisite bank guarantee has been furnished during FY21.

**Various initiatives undertaken by the Government of India (GOI) to improve the prospects of the road construction sector:** GOI through National Highways Authority of India (NHAI; rated 'CARE AAA; Stable') has taken various steps to improve the prospects of the road sector. These include bidding of tenders only after 80% land has been acquired for the project, release of 75% of arbitration award against submission of bank guarantee and 100% exit for developers after two years of project completion. NHAI has made favourable changes in the clauses of model concession agreement of HAM projects in November 2020 and linked interest annuities to average MCLR of top five schedule commercial banks in place of bank rate. This move is expected to resurrect investor confidence and improve bidding appetite for HAM projects. Furthermore, to ease the funding and smoothen the cash flows of the projects during construction phase due to on-going COVID-19 pandemic, NHAI has also permitted to disburse monthly grant/bills against the work billed as against the previous milestone-based payments till June 2021. In addition, recent policy changes made by NHAI with respect to 100% exit for developers after six months of COD as against two years is also positive for the industry. However, competition has increased in the sector during FY21 due to relaxation of norms by NHAI and improved bidding appetite owing aforesaid initiatives

### Key Rating Weaknesses

**Inherent traffic risk, regulatory risk and O&M risk associated with toll projects:** PATH derived over 78% of its TOI from toll projects during FY20. Toll road projects are exposed to inherent traffic risk due to errors in estimation of traffic at the time of bidding, threat from alternate routes, competing facility and economic slowdown. Further, state highways projects are also exposed to inherent regulatory risk due to past instances of toll exemption of cars announced by some of the states. NHAI has also planned to raise the funds through TOT and InvIT which is expected to moderate the revenue visibility of TCC segment of PATH in the medium term. Concessionaire is also required to undertake O&M and MM activity on the stretch for maintaining good riding quality. This exposes the company to inherent O&M risk of higher than

envisaged cash outflow towards maintenance of project stretches. Under EPC business, PATH is exposed to inherent project execution risk apart from challenges in managing working capital requirements.

**Exposure to group SPV's and continued funding requirement in three operational SPVs:** PATH has extended joint and several corporate guarantee towards debt of most of the SPVs; resulting in significant off-balance sheet exposure. Furthermore, around 41% of PATH's net worth remained invested in its SPVs as on March 31, 2020 (reduced from over 57% as on March 31, 2019) in the form of investments and loan & advances. Exposure to BOT projects increases the propensity to support the SPVs due to inherent traffic risk and regulatory risk associated with such projects. PATH is envisaged to fund shortfall in three operational SPV's namely Allahabad Bypass Pathways Private Limited (ABPPL), Mhow Agroh Pathways Private Limited (MAPPL) and Khandwa Agroh Pathways Private Limited (KAPPL) on account significantly low toll collection in these SPV's. Although PATH group generated cash surplus on combined basis, there were delays in the debt servicing of KAPPL and MAPPL mainly due to joint ownership in these SPVs.

Further, PATH has applied for termination of concession under MAPPL and KAPPL on account of delay in disbursement of O&M grant by Madhya Pradesh Road Development Corporation Ltd (MPRDC). Although MPRDC has started releasing O&M grant to these SPVs, timely support to these joint venture SPVs from PATH is until emergence of clarity on termination is crucial from credit perspective.

#### Liquidity Analysis: Adequate

The liquidity profile of PATH derives comfort from significant surplus cash flow generation in select SPVs, aiding the financial flexibility of the group. Average utilization of its fund based working capital limits also remained low at 49% during trailing 12 months ended February 2021. The entire fund-based limit of PATH remained unutilized during February and March 2021. Against scheduled debt repayments obligation of Rs.21.46 crore for FY22, PATH had free cash and bank balance of Rs.26.17 crore as on January 31, 2020.

#### Analytical approach:

**Unsupported rating:** Standalone alongwith factoring in linkages with and track record of the sponsor PATH

**Credit Enhancement (CE) rating:** Assessment of the guarantor Prakash Asphaltting Toll Highways (India) Limited.

CARE has analyzed MAPPL's credit profile by considering credit enhancement provided by an irrevocable and unconditional guarantee deed by PATH & AIDPL to the lenders of MAPPL for the rated bank facilities.

Standalone financials of PATH, along with combined cash flows of PATH group SPV's are considered for assessment.

#### Applicable Criteria

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

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

[Rating Methodology - Toll Road Projects](#)

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

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

[Rating Methodology - Factoring linkages in rating](#)

[Criteria for Rating Credit Enhanced Debt](#)

#### About the Company (PATH)

Promoted in 1996 by Agrawal family of Indore, PATH is engaged in road construction activities, along with collection of toll through TCC, TOT, BOT & OMT projects. Furthermore, PATH has 10 operational SPVs and 1 under construction SPV as on March 31, 2021. Operational SPV's constitute a mix of toll (BOT), annuity and OMT projects.

Brief standalone financials of PATH:

Brief Financials (Rs. crore)	FY19 (A)	FY20 (A)
Total operating income	1002.41	1545.54
PBILDT	141.09	182.12
PAT	78.57	113.07
Overall Gearing (times)	0.63	0.49
Interest Coverage (times)	5.06	5.25

A: Audited

Further, as per provisional results for 9MFY21 (Provisional), PATH reported a PBT of Rs.138.20 crore on a total operating income of Rs.1036.24 crore.

#### About the Company (MAPPL)

Incorporated in July 2011, MAPPL is a special purpose vehicle (SPV) sponsored by PATH group (60% stake in MAPPL) and AIDPL (40% stake) to undertake two-laning of Rau-Mhow-Mandleshwar road from chainage of 14.780 km (near Rau) to 0.00 km (Mandleshwar) on State Highway 38 (SH-38) in the Madhya Pradesh. Length of the tollable stretch is approximately 69.40 km.

The project was concessioned by Madhya Pradesh Road Development Corporation Ltd (MPRDC; rated CARE A (Is); Stable) on design-build-finance-operate-transfer (DBFOT) - toll basis for a period of thirty years (incl. two years of construction period) from the appointed date viz. June 18, 2012. The Concession agreement (CA) was signed on July 28, 2011.

The project comprises two road stretches. MAPPL achieved provisional COD for section-I of the project from Rau to Mhow on February 03, 2014 and started toll collection on this section from this date. Final completion certificate for this stretch was received on June 06, 2014.

Provisional COD for section – II of the project from Mhow to Mandleshwar was achieved on March 31, 2019 and started toll collection on this section from this date.

Total project cost was around Rs.227 funded through equity of Rs.35.21 crore, term loan of Rs.138.73 crore, equity grant from MPRDC of Rs.31.33 crore and balance through unsecured loans from promoters / project creditors.

Brief Financials of MAPPL (Rs. Crore)	FY19 (A)	FY20 (A)
Total Operating Income	3.35	18.45
PBILDT	2.76	17.62
PAT	(4.33)	(7.22)
Overall Gearing (times)	10.13	21.27
Interest Coverage (times)	0.52	1.02

A: Audited

**Status of non-cooperation with previous CRA:** Not Applicable

**Any other information:** Not Applicable

**Rating History (Last three years):** Please refer Annexure-2

**Covenants of rated facility:** Detailed explanation of covenants of the rated facilities is given in Annexure-3

**Complexity level of various facilities rated for this company:** Annexure-4

#### Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Term Loan	-	-	March 2027	132.91	CARE A- (CE); Stable
Un Supported Rating-Un Supported Rating (Long Term)	-	-	-	0.00	CARE D

#### 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 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based - LT-Term Loan	LT	132.91	CARE A-(CE); Stable	-	1)CARE BBB+ (CE) (CWD) (06-Jan-20)	1)CARE BBB+ (SO); Stable (24-Dec-18)	1)CARE BBB+ (SO); Negative (04-Jan-18) 2)CARE BBB+ (SO) (24-Apr-17)
2.	Un Supported Rating- Un Supported Rating (Long Term)	LT	0.00	CARE D	-	1)CARE D (06-Jan-20)	-	-

**Annexure-3: Covenants of the rated facilities- Not applicable**
**Annexure-4: Complexity of the instruments**

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based - LT-Term Loan	Simple
2.	Un Supported Rating-Un Supported Rating (Long Term)	Simple

**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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