Madhav (Sehora Silodi Corridor) Highways Private Limited

October 06, 2021

Rating

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long Term Bank Facilities*	45.40 (Reduced from 49.74)	CARE A- (CE); Stable [Single A Minus (Credit Enhancement); Outlook: Stable]	Reaffirmed
Total Facilities	45.40 (Rs. Forty-Five Crore and Forty Lakh Only)		

Details of 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 [Reaffirmed]

Note: Unsupported Rating does not factor in the explicit credit enhancement

Detailed Rationale & Key Rating Drivers for the Credit enhanced debt

The rating assigned to the bank facilities of Madhav (Sehora Silodi Corridor) Highways Private Limited (MSHPL) 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 MSHPL for unsupported rating

The rating assigned to the bank facilities of MSHPL continues to derive strength from assured annuity cash flows with timely receipt of thirteen bi-annual annuities as on July 31, 2021, adequate credit quality of the counterparty i.e. Madhya Pradesh Road Development Corporation [MPRDC; rated CARE A (Is); Stable, an undertaking of Government of Madhya Pradesh (GoMP)], and presence of debt service reserve account [DSRA] equivalent to more than one quarter of debt servicing.

The rating continues to remain constrained due to moderate debt coverage indicators owing to reduction in toll collection during FY21, operation & maintenance (O&M) and major maintenance risk due to moderate credit profile of its O&M contractor; Madhav Infra Projects Limited (MIPL; rated CARE BBB-; Negative/ CARE A3), interest rate risk and inherent traffic risk associated with the project stretch along with inherent.

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.

[1]*Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications.*

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 (WSL)
Key Rating Strengths
Established operational track record with satisfactory generation levels: WSL's 10.25 MW gird-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 nation-wide 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 bided 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 MSHPL:
Credit Enhancement Rating (CE): Assessment of the Guarantor, WSL. CARE has analysed MSHPL’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 MSHPL.

Unsupported Rating: Standalone

Analytical approach for WSL: Standalone financials of WSL along with combined cash flows of WSL and the SPVs, wherein WSL has extended corporate guarantee to the debt of such SPVs, has been considered while assigning rating to WSL.

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
Rating Methodology: Toll Road Projects
Rating Methodology: Annuity Road Projects
Criteria for Rating Credit Enhanced Debt

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 Rajabhoj 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
Interest coverage (times)	2.77		2.87

A: Audited

About the Company: MSHPL

Incorporated in October 2012, MSHPL is a SPV owned and promoted by WSL (70% stake) and M.S. Khurana Engineering Limited (MSKEL; 30% stake). MSHPL has entered into a 15-year Concession Agreement with MPRDC for intermediate-laning/two-laning of Sehora Majhgawan-Silodi, a major district road of 39.852 km from a T-Junction at NH-7 in Sehora to T-Junction at Silodi in the state of Madhya Pradesh on Design, Build, Finance, Operate and Transfer (DBFOT) on Toll + Annuity basis. The concession agreement included construction period of two years (730 days) from the appointed date on April 9, 2013 and the project was completed on August 30, 2014, more than seven months ahead of its scheduled commercial operation date (SCOD) in April 2015 with a total cost of Rs.90.59 crore, funded in debt equity ratio of 2.28:1. Consequent to COD, toll collection commenced from September 11, 2014.

Brief Financials (Rs. crore)	FY20 (A)	FY21 (A)
Total operating income	16.64	14.00
PBILDT	13.58	11.56
PAT	0.25	0.18
Overall gearing (times)	1.87	1.68
Interest coverage (times)	1.79	2.04

A: Audited

Status of non-cooperation with previous CRA: None

Any other information: Not applicable

Rating History for last three years: Please refer Annexure-2

Covenants of rated instrument / facilities: Please refer 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		-	-	July 2027	45.40	CARE A- (CE); Stable
Un Supported Rating-Un Supported Rating (Long Term)		-	-	-	0.00	CARE BBB

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	Fund-based - LT-Term Loan	LT	45.40	CARE A- (CE); Stable	-	1)CARE A- (CE); Stable (01-Dec-20)	1)CARE A-; Stable (03-Jan-20)	1)CARE A-; Stable (05-Oct-18)
2	Non-fund-based - LT/ ST-Derivative Limits	LT/ST	-	-	-	-	-	1)Withdrawn (05-Oct-18)
3	Un Supported Rating-Un Supported Rating (Long Term)	LT	0.00	CARE BBB	-	1)CARE BBB (01-Dec-20)	-	-

Annexure-3 Detailed explanation of covenants of the rated instrument / facilities - 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
2	Un Supported Rating-Un Supported Rating (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. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

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