

Madhya Pradesh Road Development Corporation Limited

April 07, 2022

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating ¹	Rating Action
Issuer rating	0.00	CARE A (Is); Stable; ISSUER NOT COOPERATING* [Single A (Issuer Rating); Outlook: Stable ISSUER NOT COOPERATING*]	Rating moved to ISSUER NOT COOPERATING category and Reaffirmed and Placed on Notice on Withdrawal with Non Cooperation for 90 days

the above 'Issuer Rating' is subject to MPRDC maintaining an overall gearing not exceeding 0.50x

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

CARE has been seeking information from Madhya Pradesh Road Development Corporation Limited (MPRDC) to monitor the rating vide e-mail communications/letters dated March 10, 2022, March 14, 2022, March 16, 2022, March 21, 2022 and March 24, 2022 and numerous phone calls.

However, despite our repeated requests, the company has not provided the requisite information for monitoring the ratings. In line with the extant SEBI guidelines, CARE has reviewed the rating on the basis of the best available information which however, in CARE's opinion is not sufficient to arrive at a fair rating. The Issuer rating of MPRDC will now be denoted as CARE A (Is); Stable; ISSUER NOT COOPERATING*.

CARE has also simultaneously kept the rating on 'Notice of Withdrawal' with immediate effect at the request of the company vide email dated March 30, 2022. The rating would continue to remain on 'Notice of Withdrawal' for a period of ninety days, after which it would stand withdrawn.

Users of this rating (including investors, lenders and the public at large) are hence requested to exercise caution while using the above rating(s).

The credit rating of MPRDC continues to draw comfort from its strong parentage of Government of Madhya Pradesh (GoMP), its robust business model being the State Highway Authority of GoMP and facilitator for development of state and national highways road projects assigned to it in the state of Madhya Pradesh (MP) and its established track record of facilitating road projects through public-private-partnership (PPP) mode and cash contract route, with majority share of cash contracts in the present road portfolio.

The rating also continues to be underpinned by MPRDC's efficient cash flow arrangements with GoMP for facilitation of road projects, strong liquidity and strong capital structure with nil debt on its books.

The rating, however, continues to be constrained on account of the contractual terms of concession agreement which could give rise to certain liabilities upon occurrence of select force majeure events or termination of contracts, dependence of MPRDC on budgetary support from GoMP. Rating also takes into cognizance restricted scale of operations and profitability of MPRDC with significant dependence on supervision charges earned on cash contracts funded by GoMP.

Detailed description of key rating drivers

At the time of last rating on March 27, 2021 the following were the rating strengths and weaknesses

Key Rating Strengths

Favorable Economic Growth: The state has registered positive economic growth over the years with an annual average growth of 8% during FY13-FY20. In FY20, the state is estimated to have grown by 7.6% over the 5.8% growth in FY19. GDP growth however was lower than the 12.4% (y-o-y) growth witnessed in FY17. Madhya Pradesh's economy is fairly broad based. While the services sector accounted for 41% of state's GVA, the share of agriculture sector was ~32% and industry had 27% share in GVA in FY20. All the 3 sectors have registered year-on-year positive growth during FY17-20.

Role as State Highway Authority; alongwith facilitator for development of NHs in MP: MPRDC is the State Highway Authority of MP for facilitation of construction, maintenance and upgradation of roads in MP, including State Highways (SHs), Major District Roads (MDRs) and National Highways (NHs). It holds the funds received from GoMP and Ministry of Road Transport & Highways (MORTH), Government of India (GoI) as current liabilities in its books until their usage/deployment, which are temporarily parked as fixed deposits. It does not hold the asset ownership or debt on its books.

Established track record of facilitating road development under various models: MPRDC has established track record of development of total road length of 15,590 kms (346 roads) till January 31, 2021. The projects are assigned to it by GoMP and MORTH and are executed on PPP basis, including build-operate-transfer (BOT) – toll, annuity and hybrid annuity, and operate-maintain-transfer (OMT), and on cash contract basis. Funds for these projects are received from GoMP via its budgetary allocation and via Asian Development Bank (ADB) and New Development Bank (NDB) loans, along with funds received from MORTH.

Apart from BOT and cash contracts, MPRDC is also developing 1 border check post.

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

*Issuer did not cooperate; Based on best available information

Continued higher proportion of cash contracts in the current road portfolio: Over last three years ended FY20, share of cash contracts in MPRDC's road portfolio has increased, while share of contracts on PPP basis has reduced.

Out of MPRDC's total road portfolio under development as on January 31, 2021, comprising road length of 5,324 kms to be built at a cost of around Rs.16,374 crore, only around 7% of the roads are being built under PPP basis (19% during September 30, 2019) while balance are cash contracts. However, MPRDC manages the operational road portfolio of over 15,000 km in BOT as well as EPC basis. This provides it opportunity to monetize some of these assets for GoMP on operate maintain transfer (OMT) or Toll operate transfer (TOT) basis. These proceeds can be in turn utilized for the road development which can also enhance the prospects of MPRDC.

Cash contracts comprise 29% contracts through funding from MORTH (P.Y. 30%), 44% through funding from ADB via GoMP (P.Y. 19%), 18% funding from NDB via GoMP (P.Y. 22%) and the balance 2% through funding from GoMP via its budgetary allocation (P.Y. 10%).

Strong capital structure: Company has a strong capital structure with debt free status. It being a facilitator for the project development, it does not hold asset ownership and simultaneously does not have any loans on its books. However, any change in the present business model and the company resorting to external borrowings leading to an increase in the overall gearing beyond 0.50x shall be one of the key credit monitorables.

Key Rating Weaknesses

Restricted scale of operations and profitability: MPRDC has significant dependence on income earned through supervision charges for work executed on cash contracts basis funded by GoMP, which limits its scale of operations, depending upon the pace of award of these projects. This apart it also earns annual grant from MORTH for facilitation of NHs and interest on unencumbered deposits.

With reduction in award of projects during recent years alongwith reduction in cash contracts funded by GoMP, MPRDC's income from supervision charges has reduced over last two years ended FY19. This apart, income from interest on unencumbered deposits has also reduced owing to management's strategy to restrict idle cash and bank balance in the company. This has thus restricted scale of operations and profitability of the company with a total operating income of Rs.48.88 crore in FY19 and PBILDT margin of around 13% (as against TOI of Rs.127.30 crore and PBILDT margin of 55%, in FY17). As per provisional FY20 results, MPRDC has registered total operating income (TOI) of Rs.47.20 crore and profit after tax (PAT) of Rs.2.94 crore.

Dependence on budgetary support from GoMP; albeit efficient cash flow arrangement with GoMP: MPRDC's role as a facilitator makes it dependent on budgetary support from GoMP and timely availability of funds, to honor its contractual obligations. However, MPRDC has an established track record of receipt of funds from GoMP for viability gap funding, annuity payouts and cash contracts (both funded through budgetary allocation of GoMP and through ADB and NDB) quarterly in advance.

Contractual terms of concession agreement likely to trigger certain liabilities upon occurrence of select force majeure events or termination of contracts: MPRDC, as per the terms of concession agreement entered into with project concessionaries, is liable to reimburse certain project costs and make termination payments to the concessionaries in case of select force majeure events or event of default. However, in case of devolvement of such liabilities, the payments to be made to the concessionaires are to be funded by GoMP, as the ownership of the assets rests with GoMP. During FY17, MPRDC had deposited a sum of Rs.65.00 crore pertaining to a disputed terminated BOT project, at the directive of Hon'ble High Court of MP, and has filed a petition with Hon'ble Supreme Court. Modus operandi of the termination payment to the concessionaire, in case of devolvement of this liability, shall be crucial from credit perspective.

Liquidity: Strong

MPRDC receives funds from GoMP and MORTH for facilitation of road projects quarterly in advance, which provides it with adequate liquidity at any given point in time to meet its payment obligations towards contracts / concessionaires and thus results in strong liquidity profile of the company. Furthermore, company also had cash balance of around Rs.855.67 crore as on March 31, 2020.

Analytical Approach: Standalone with support from GoMP and strategic importance for GoMP

MPRDC is dependent on funds received from GoMP for facilitation of road projects, while it also earns revenue from project facilitation, interest income on free deposits and penalties and forfeiture. Furthermore, MPRDC is the facilitator for development of roads in the state of Madhya Pradesh, on behalf of GoMP.

Thus, standalone financials of MPRDC, alongwith cash flow support from GoMP and MPRDC's strategic importance for GoMP has been considered for analysis purpose.

Applicable Criteria

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

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

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

[Rating Methodology: Notching by factoring linkages with Government](#)

[CARE's Issuer Rating](#)

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

[Policy in respect of Non-cooperation by Issuer](#)

[Withdrawal of Ratings](#)

About the Company

Incorporated on July 14, 2004 as a successor to Madhya Pradesh Rajya Setu Nirman Nigam Ltd (MPRSNNL), MPRDC is wholly owned by GoMP.

The company is the 'State Highway Authority' for facilitation of construction, maintenance and upgradation of SHs and MDRs assigned to it by GoMP and NHs assigned to it by MORTH, GoI, in the state of MP. MPRDC's mission is to develop and maintain a safe and effective transportation system in MP via PPP route, which includes projects on BOT and OMT basis, and also on cash contract basis.

MPRDC has a well-defined organization structure and is managed by the Board of Directors, which is headed by Hon'ble Chief Minister of Madhya Pradesh.

Brief financials

Standalone Financials (Rs. crore)	FY20 (A)	FY21 (A)	9MFY22 (Prov)
TOI	NA	NA	NA
PBILDT	NA	NA	NA
PAT	NA	NA	NA
Overall gearing including acceptances (times)	NA	NA	NA
Interest coverage (times)	NA	NA	NA

NA: Not available

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
Issuer Rating- Issuer Ratings		-	-	-	0.00	CARE A (Is); Stable; ISSUER NOT COOPERATING* and Placed on Notice on Withdrawal with Non Cooperation for 90 days

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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 2022-2023	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020
1	Issuer Rating-Issuer Ratings	Issuer rat	0.00	CARE A (Is); Stable; ISSUER NOT COOPERATING* and Placed on Notice on Withdrawal with Non Cooperation for 90 days	-	1)CARE A (Is); Stable (06-Apr-21)	1)CARE A (Is); Stable (03-Apr-20)	-

*Issuer did not cooperate; Based on best available information

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	Issuer Rating-Issuer Ratings	Simple

Annexure 5: Bank Lender Details for this Company- Not applicable

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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With an established track record of rating companies over almost three decades, we follow a robust and transparent rating process that leverages our domain and analytical expertise backed by the methodologies congruent with the international best practices. CARE Ratings Limited has had a pivotal role to play in developing bank debt and capital market instruments including CPs, corporate bonds and debentures, and structured credit.

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