

Malegaon Manmad Kopergaon Infrastructure and Toll Roads Pvt. Ltd.

March 08, 2021

Ratings

Facilities	Amount (Rs. crore)	Ratings	Rating Action
Long Term Bank Facilities	65.41 (Reduced from 134.40)	CARE B; Stable (Single B; Outlook: Stable)	Rating removed from ISSUER NOT COOPERATING category and Revised from CARE D; (Single D); Stable outlook assigned
Total Bank Facilities	65.41 (Rs. Sixty-Five Crore and Forty-One Lakhs Only)		

Details of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in the rating assigned to the long-term bank facilities of Malegaon Manmad Kopergaon Infrastructure and Toll Roads Pvt. Ltd. (MMKITRPL) takes into account steady improvement in operational performance during FY20 and satisfactory debt servicing track record. Long operational track record for ~13 years with CAGR of 9.87% for FY17-FY20, fixed tariff increase on a periodic basis and absence of any significant alternate viable route continue to be viewed as other credit positives. The above mentioned rating strengths are however tempered by declining traffic volumes and toll revenue over last few years, absence of fixed price contract for major maintenance and substantial long term investment in group companies funded through debt yielding no return since FY10.

Rating Sensitivities

Positive Factors

- Ability to sustain pre Covid-19 traffic volumes and toll revenue
- Receipt of claims from PWD improving the liquidity profile

Negative Factors

- Completion of major maintenance at an escalated cost
- Decline in toll revenue on sustained basis

Detailed description of the key rating drivers

Key Rating Strengths

Operational track record of the stretch for more than 13 years and absence of alternate viable route

The project stretch reported CAGR of 9.87% in toll revenue over a period of FY17-FY20 and the toll revenue stood at Rs.40.32 crore for FY20. Furthermore, during 7MFY21, the toll revenue was reported at Rs.15.55 crore as against Rs. 20.33 crore for 7MFY20; due to imposition of lockdown during Covid-19 pandemic. The Malegaon-Manmad-Kopergaon road traverses through several industrial centres, religious destinations and educational centres; and consequently, caters to a bulk of the intra- and inter-state vehicular and commercial traffic.

Associated with experienced promoter group in infrastructure and media segment

MMKIPL is jointly owned by Essel group through Essel RPW which is a wholly-owned subsidiary of Essel Infraprojects Limited (EIL, rated CARE D; Issuer Not Cooperating) and Lakhani group through Vishvaraj Infrastructure Ltd and Saptarang Commodore Pvt. Ltd.

Promoted by Dr. Subhash Chandra, Essel group has presence in media & entertainment, distribution and packaging. The group is also present in infrastructure space through EIL which has interest in road projects, solar power projects, urban infrastructure, power transmission projects, MSW projects etc. EIL has completed more than 2000 lane kms of roads and is constructing in various states such as Madhya Pradesh, Delhi, Punjab, and Haryana.

In 1999, Mr. Arun Lakhani acquired Vishvaraj Housing Company Pvt Ltd. In the year 2000, the company's name was changed to Vishvaraj Infrastructure Ltd.(VIL). VIL is a firm in the infrastructure space working in the highways, water and wastewater sectoring. It is a company that is focused on developing Water and Highway projects.

Key Rating Weaknesses

Inherent revenue risk related to toll road projects

During FY20, the growth in toll revenue was around 9.5% primarily due to increase in toll rates whereas traffic volumes declined by 4% during the same period. Furthermore, during 7MFY21, there seems to be decline in toll collection primarily due to low

traffic volumes during March to Sep 2020 as a result of Covid-19 pandemic. The average daily toll collection improved from Rs.0.08 crore in FY17 to 0.11 crore in FY20. However, it has reduced for FY21 on account of reduced traffic volumes due to pandemic. The traffic plying through corridor is predominantly commercial vehicular traffic. There is a fixed rate hike of toll rates on periodic basis with last revision done on July 2019 and increase in toll rates was approximately 19%. The next revision is due In July 2022. The project has a tail period of 4 years which provides adequate refinancing flexibility.

Absence of fixed price contract for operational and maintenance expenses and MME

MMKIPL has not entered fixed price contract for operational and maintenance expenses (OME) and sub-contractor is decided by both the promoters. The total pricing is estimated based on actual work done. Further any substantial increase in these expenses would impact project cash flows especially when MMKIPL has huge back ended debt servicing obligations. Going forward, any substantial de-growth in traffic volume and non-receipt of claim amount from PWD would impact project cash flows. The total cost for ongoing Major Maintenance Overlay which is to be carried out on the entire stretch of 75.6 KMs is estimated at Rs 29.49 Crores. As on Dec 31, 2020, MMR work has been completed on 44 KMs out of envisaged 75.6 km and cost incurred till Dec 31, 2020 was Rs 18.27 crores. Balance work on remaining 31 km is under process.

Substantial long term investments funded through debt

As on March 31, 2020, MMKIPL has Rs.67 crore as other long term investments made during FY10. These investments were made out of new term loan proceeds (Rs.150 crore) after repaying the original term debt of banks (Rs.64.85 crore) and the subordinate debt (Rs.6.08 crore) in FY10. This excess amount has been invested in the promoter group companies (being investment companies in nature). In the absence of any financial details of these companies CARE does not expect any recovery of the same over the tenure of debt. Since FY10, the above investments have not earned any revenues, thereby affecting the overall financial position of MMKIPL.

Liquidity: Stretched

MMKITRPL has stretched liquidity on account of upcoming principal debt repayments of Rs.8.1 crore during Q4FY21 against liquid investments in the form of DSRA balance of Rs.8.47 crore and cash and bank balance of Rs.0.65 crore as on December 31, 2020. However, they have been servicing interest component in timely manner.

Analytical approach: Standalone

The credit assessment of MMKITRPL takes into account the standalone operational and financial performance.

Applicable Criteria

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

[Financial Ratios – Non-financial sector](#)

[Toll Roads Methodology](#)

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

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

About the Company

Malegaon Manmad Kopergaon Infrastructure & Toll Roads Pvt Ltd (MMKITRPL) is a Special Purpose Vehicle (SPV) promoted by Lakhani group [through Vishwaraj Infrastructure Limited and Saptrang Commodore Pvt Ltd.] & Essel group [through Essel RPW Projects Private Limited (ERPW)], with each group having an equity stake of 50%.

MMKITRPL was incorporated to undertake the improvement and strengthening of the 75.6km long Malegaon-Manmad-Kopergaon road on a Build, Operate & Transfer (BOT) basis for a concession period of 20 years, 10 months and 17 days ending in October 2026 (tail period of 4 years). The project was awarded by the Public Works Department (PWD), Government of Maharashtra. The project was completed at a total cost of Rs.115 crore, funded at a project debt-equity ratio (DER) of 1.77x and achieved its commercial operation date (COD) on July 12, 2007.

Brief Standalone Financials (Rs. crore)	FY19 (A)	FY20 (A)
Total operating income	37.99	41.60
PBILDT	25.16	23.52
PAT	3.89	1.66
Overall gearing (times)	-3.20	-4.77
Interest coverage (times)	1.92	1.72

A: Audited; Note: Financials are classified as per CARE's internal standards

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

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

Complexity level of various instruments rated for this company: Annexure 3

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	-	-	Sep 2022	65.41	CARE B; Stable

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	65.41	CARE B; Stable	-	1)CARE D; ISSUER NOT COOPERATING* (10-Dec-19) 2)CARE C (CE); Negative; ISSUER NOT COOPERATING* (28-Jun-19)	1)CARE BB (SO) (CWN) (12-Feb-19) 2)CARE BBB- (SO) (CWD) (18-Sep-18) 3)CARE BBB+ (SO) (CWD) (24-Jul-18) 4)CARE BBB+ (SO); Positive (07-Apr-18)	-

Annexure 3: Complexity level of various instruments rated for this Company

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based - LT-Term Loan	Simple

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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