Moradabad Bareilly Expressway Limited

September 17, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	1,119.69 (Reduced from 1,170.33)	CARE BBB-; Stable	Upgraded from CARE BB+; Stable
Non Convertible Debentures	353.03 (Reduced from 353.47)	CARE BBB-; Stable	Upgraded from CARE BB+; Stable

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The revision in the rating assigned to the long-term bank facilities and non-convertible debentures (NCDs) of Moradabad Bareilly Expressway Limited (MBEL) takes into account the sustained business operations with satisfactory toll collection over the years (albeit moderate growth in FY24), comfortable debt coverage metrics for the senior debt and substantial progress in the ongoing major maintenance. Average Daily Toll Collection (ADTC) stood at Rs.93 lakh in FY24 (FY23: Rs.92 lakh) and improved to Rs.95 lakh during Q1FY25. Overall toll collections witnessed growth of 1% in FY24; as the traffic was impacted during the year supported largely by tariff hike.

The company commenced the first cycle of major maintenance (MM) in FY21 and progress on same was hindered due to unsatisfactory performance by erstwhile contractor. MBEL has replaced the contractor and with substantial progress achieved with the new contractor, the entire MM expected to be completed by March 2025. There are no separate reserves for the MM of this cycle and the same is being completed from toll collections. Timely completion of the MM within the budgeted cost would be important given penalty recommended by independent engineer (IE) due to delay in MM.

The ratings also factor in the maintenance of debt service reserve account (DSRA) in a funded form and the proposal to maintain major maintenance reserve (MMR) for the next major maintenance cycle.

CARE Ratings Limited (CARE Ratings) take cognisance of the seniority of the external debt in the escrow mechanism with the unsecured loan from parent Roadstar Infra Investment Trust (RIIT) being payable depending on availability of cashflows post maintenance of reserves.

The rating strengths are, however, tempered by the by inherent revenue risk associated with toll-based road projects, no fixed price contract for major maintenance (MM) activity exposing the company to market price fluctuation, operation and maintenance (O&M) risks along with weak credit profile of O&M contractor, risk associated with the traffic leakage/diversion owing to presence of alternate route, upcoming Ganga expressway and interest rate risk.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Sustainable growth in toll collection and improvement in liquidity position
- Average DSCR for senior debt at 1.5x on a sustained basis

Negative factors

- Deterioration in traffic levels or sharp increase in operating costs leading to moderation in average DSCR levels for senior debt below 1.20x.
- Levy of penalties by the authority due to inadequate maintenance of the project impacting the DSCRs

Analytical approach: Standalone

Outlook: Stable

The stable outlook reflects the expectation of sustained traffic on the project aiding the toll collection and cashflows thereby resulting in maintenance of satisfactory debt coverage metrics.

Detailed description of key rating drivers:

Key strengths

Long operational track record and favourable location of the project stretch:

The project has been generating toll income for about 10.5 years. The project stretch is a part of NH-9, NH-530 & NH-30 (earlier NH-24) which mainly connects Delhi/NCR and north/north-eastern Uttar Pradesh and Uttarakhand in northern India. The section

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

of project stretch passes through districts of Moradabad, Rampur and Bareilly in UP and these districts has very strong interaction with the other parts of UP. The project stretch majorly caters to intra state traffic of UP, however, it also serves interstate traffic originated from Delhi, Haryana and Uttarakhand.

Robust toll collections:

The toll collections of the company have improved gradually between FY22 to FY24 from Rs.281 crore to Rs.339 crore. However, compared to FY23 the growth has been modest. The ADTC for FY24 stood at Rs.93 lakh against ADTC of Rs.92 lakh in FY23 and Rs.77 lakh in FY22. The collections have remained robust due sustenance of the traffic levels on the project stretch and tariff hikes. While there has been some moderation in average annual daily traffic (AADT) in FY24 by about 3% to 70,297 PCUs from 72,461 PCUs in FY23 on account of extended Sawan month leading to lower diversion in traffic, the same has improved to 72,613 PCUs in Q1FY25. The ADTC has recuperated to Rs.95 lakhs in Q1FY25.

Satisfactory debt coverage metrics and DSRA:

With transfer of shareholding, the debt from ITNL and its group entities has been assigned to Roadstar InvIT in consideration of units of InvIT. Thus, the unsecured group entity debt which was required to be repaid along with senior debt has now been replaced by InvIT debt. As per the terms of the master terms agreement between the lenders and the company, the repayment of unsecured debt (InvIT debt) is allowed along with external debt (bank facilities and NCD). However, the unsecured lenders would not be repaid in case of non-availability of surplus funds post servicing of senior debt without senior lenders approval and surplus (if any over and above DSCR of 1.10x) shall be utilized proportionately in prepaying outstanding dues of the senior lenders and the IL&FS group companies in the inverse order of maturity. Furthermore, the InvIT has waived the default calling right on its subordinated debt and no penalty shall be paid in case of non-payment thereof which provides higher liquidity for senior lenders.

With respect to the senior debt, the project has a debt to toll 4.38x as on FY24 with a remaining repayment period of 10 years which translates to comfortable debt coverage metrics. Furthermore, the company has been maintaining a DSRA of Rs.66.94 crore as on June 30, 2024 which presently works out to be more than three months of debt servicing.

Substantial progress on major maintenance:

The company commenced the first cycle of major maintenance (MM) in FY21 and progress on same was hindered due to unsatisfactory performance by erstwhile contractor. MBEL has replaced the contractor with which substantial progress has been achieved and entire MM expected to be completed by March 2025. There are no separate reserves for the MM of this cycle and the same is being completed from toll collections. Therefore, post completion of the MM works, the additional burden on the cash flows for the MM expenses shall also reduce.

Going forward, the company is also proposing to maintain a major maintenance reserve for the next major maintenance cycle from the project cash flows which would aid in liquidity support. The maintenance of MMR remains critical from credit perspective.

Key weaknesses

Inherent revenue risk associated with toll projects and interest rate risk:

For any toll project, there is an inherent risk associated with the sustainability and growth of traffic. As the revenue depends upon the traffic that plies on the stretch along with yearly toll rate revision, the company is exposed to the uncertainties with respect to revenue. The toll rate for the company is linked to 3%+WPI (max. up to 40% increase) y-o-y.

As per the master term agreement (MTA), the interest rate on NCDs, term loans and group loans were 8.75% till March 31, 2022. However, from April 01, 2022; the interest rate on the respective debt is based on the floating rates (MCLR + spread) leading to MBEL exposed to variations in interest rate.

O&M and MM risk and penalties from the delayed first major maintenance:

MBEL is mandated to maintain the road stretch as per the terms of the concession agreement (CA) and hence, there is an element of O&M risk associated. By virtue of being transferred to InvIT, the O&M for the project would be undertaken by project manager of InvIT i.e., M/s Elsamex Maintenance Services Ltd. (Elsamex), a group company instead of ITNL. As ITNL had subcontracted the O&M activity of MBEL to Elsamex, effectively the O&M contractor remains unchanged. The existing fixed price contract has been novated to Elsamex without any change in the contracted costs. Elsamex is the EPC arm of IL&FS Transportation Network Limited (ITNL) group having considerable experience in handling road projects. However, being part of ITNL group, its credit profile continues to remain weak. Hence, no comfort is drawn from the fixed price contract.

With respect to Major Maintenance, there is no fixed price contract, and the MM activity will continue to be undertaken through item rate contract to be executed as and when required. MM cost being based on item rate contract continues to remain open to market price fluctuations.

In view of delayed MM and delay in appointment of new MM contractor, a penalty of ₹7 crore has been recommended by IE during April 2023. However, as the new contractor was appointed, the company had presented to the authority for the waiver of the penalties. NHAI is yet to give their opinion on the same and the decision shall be made post completion of the MM works. Timely completion of MM works without any impact on the debt coverage indicators remains a key credit monitorable.

Threat from alternate routes and upcoming Ganga Expressway:
The project stretch passes through three districts of Moradabad, Rampur and Bareilly in Uttar Pradesh (UP), with presence of an alternate route (SH-43) running parallel to the project road from Gajraula/Moradabad to Bareilly and then to Farrukhabad, Kanpur and Lucknow. SH-43 has no toll and hence, no penalty is charged on the overloaded vehicles leading to number of overloaded vehicles taking SH-43 resulting in risk associated with traffic leakage.
Furthermore, the Ganga expressway is an upcoming road connecting eastern UP with western UP vice-versa, while the route is not competing parallelly to MBEL, but it may divert the traffic bound from east to west of UP and vice-versa. The Ganga expressway project is 57% complete as on August 20, 2024. The target commissioning timeline for the same is December 2024. Ganga Expressway is expected be put into operation in year FY26 which may have an impact on the traffic.

Modest credit profile of sponsor group:
The complete shareholding of the company was transferred Roadstar InvIT in FY24 and with the transfer ITNL ceases to be the direct project sponsor. The role of ITNL has reduced from being sponsor of MBEL to unitholder of InvIT with no role in operations of InvIT as the same would be managed by independent board of investment manager thereby improving corporate governance and better control. While transfer to InvIT has resulted in the company out of various restrictions placed on the IL&FS group entities, the benefits are yet to strongly accrue and remain to be seen. As of now, there has been a liquidity infusion of Rs.13 crore as unsecured loan towards major maintenance. The InvIT has three operational toll road projects, two operational annuity projects and one toll project under tolling and construction phase expected to be acquired in a few months.

Liquidity: Adequate

The liquidity position of MBEL is adequate with moderate cash flow from toll collection leading to available cash balance of Rs.1.66 crore & DSRA of Rs.66.94 crore as on June 30, 2024. As per MTA, the minimum maintenance of debt service coverage ratio is 1.10x for the external debt throughout the loan tenure. Furthermore, the senior debt will be amortized over a period of 17 years on quarterly instalment basis leading to a tail period of 1.7 years.

Assumptions/Covenants: Not applicable

Environment, social, and governance (ESG) risks: Not applicable

Applicable criteria

Definition of Default
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Rating Watch
Financial Ratios – Non financial Sector
Infrastructure Sector Ratings
Road Assets-Toll

About the company and industry

Industry classification

Macroeconomic indicator	Sector	Industry	Basic industry
Services	Services	Transport Infrastructure	Road Assets–Toll, Annuity, Hybrid-Annuity

MBEL is a special purpose vehicle (SPV) incorporated on January 11, 2010 for undertaking widening of the existing two lanes to four lanes on the Moradabad Bareilly Section of NH-24 from Km 148.00 To Km 262.00 for a total length of 121 km in the state of Uttar Pradesh under NHDP Phase III on design, build, finance, operate and transfer basis for a concession period of 25 years (incl construction period of 2.5 years). The project also involved toll collection on the existing two-lane road stretch. MBEL was initially promoted by IL&FS Transportation Network Limited (ITNL, rated CARE D; INC), however, the entire shareholding of ITNL was transferred during FY22 to Roadstar Infra Investment Trust, an Invit for which ITNL is the sponsor.
The project was issued completion certificate on August 02, 2019 with COD w.e.f July 30, 2019 for entire 121 Km (PCOD-I on January 06, 2015 for 103.52 km and PCOD-II on November 04, 2015 for additional 15.3 Km).

Brief Financials (₹ crore)	March 31, 2023 (A)	March 31, 2024 (A)
Total operating income	334.10	339.40
PBILDT	233.66	302.14
PAT	-85.19	-42.29
Overall gearing (times)	NM	NM
Interest coverage (times)	1.01	1.20

A: Audited; NM: Not meaningful; Note: these are latest available financial results

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years: Annexure-2

Detailed explanation of covenants of rated instrument / facility: Annexure-3

Complexity level of instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned and Rating Outlook
Fund-based - LT-Term Loan	-	-	-	31-Mar-2034	1031.98	CARE BBB-; Stable
Fund-based - LT-Term Loan	-	-	-	31-Mar-2034	87.71	CARE BBB-; Stable
Non Convertible Debentures	INE447T07012	31-Mar-2017	10.25% (1MCLR+Spread)	30-Sep-2033	353.03	CARE BBB-; Stable

Annexure-2: Rating history for last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2024-2025	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022
1	Debentures-Non Convertible Debentures	LT	353.03	CARE BBB-; Stable	-	1)CARE BB+; Stable (06-Sep-23)	1)CARE B+; Stable (09-Dec-22)	1)CARE BB+; Stable (06-Jan-22) 2)CARE B+; ISSUER NOT COOPERATING* (30-Aug-21)
2	Fund-based - LT-Term Loan	LT	1031.98	CARE BBB-; Stable	-	1)CARE BB+; Stable (06-Sep-23)	1)CARE B+; Stable (09-Dec-22)	1)CARE BB+; Stable (06-Jan-22) 2)CARE B+; ISSUER NOT COOPERATING* (30-Aug-21)
3	Fund-based - LT-Term Loan	LT	87.71	CARE BBB-; Stable	-	1)CARE BB+; Stable (06-Sep-23)	1)CARE D (09-Dec-22)	-

*Issuer did not cooperate; based on best available information.
LT: Long term;

Annexure-3: Detailed explanation of covenants of rated instruments/facilities: Not applicable

Annexure-4: Complexity level of instruments rated

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

Annexure-5: Lender details

To view the lender wise details of bank facilities please click here

Note on complexity levels of rated instruments: CARE Ratings has classified instruments rated by it based on complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for clarifications.

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About us:

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