

Madhav (Phoolsagar Niwas Shahpura corridor) Highways Private Limited (Revised)

September 21, 2022

Ratings

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long Term Bank Facilities	62.64 (Reduced from 74.22)	CARE BBB+; Stable (Triple B Plus; Outlook: Stable)	Revised from CARE A- (CE); Stable [Single A Minus (Credit Enhancement); Outlook: Stable]
Long Term/ Short Term Bank Facilities	7.75	CARE BBB+; Stable/ CARE A2 (Triple B Plus; Outlook: Stable/ A Two)	Revised from CARE A- (CE); Stable / CARE A2+ (CE) [Single A Minus (Credit Enhancement)]; Outlook: Stable/ A Two Plus (Credit Enhancement)]
Total Bank Facilities	70.39 (₹ Seventy Crore and Thirty-Nine Lakh Only)		

Details of facilities in Annexure-1.

Unsupported Rating² As stipulated vide SEBI circular dated June 13, 2019	Withdrawn
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Detailed rationale and key rating drivers

The rating assigned to the bank facilities of Madhav (Phoolsagar Niwas Shahpura Corridor) Highways Private Limited (MPHPL) was earlier based on credit enhancement in form of an unconditional and irrevocable corporate guarantee extended by WAA Solar Limited (WSL; rated CARE BBB+; Stable). However, due to moderation in WSL's credit risk profile, the corporate guarantee does not provide any additional credit enhancement to the bank facilities of MPHPL. Hence, the revision in rating is pursuant to change in analytical approach by CARE Ratings Limited (CARE Ratings).

The rating assigned to the bank facilities of MPHPL is based on the assessment of its standalone basis and continue to derive strength from established track record of its promoters in the infrastructure sector, satisfactory operational track record of more than seven years, timely receipts of 15 bi-annual annuities till August 31, 2022 from strong counter party i.e. Madhya Pradesh Road Development Corporation [MPRDC, an undertaking of Government of Madhya Pradesh (GoMP)] and low major maintenance (MM) risk on account of presence of fixed price MM contract.

The above strengths are, however, partially offset by performance risk associated with its operations & maintenance (O&M) contractor, inherent O&M and interest rate fluctuation risk, low liquidity cushion since cash surplus has been up-streamed to the group companies and absence of Debt Service Reserve Account (DSRA).

Rating sensitivities

Positive factors – Factors that could lead to positive rating action/upgrade:

- Liquidity cushion in terms of earmarking of surplus or creation of DSRA equivalent to two quarters of debt servicing.

Negative factors – Factors that could lead to negative rating action/downgrade:

- Deterioration in credit profile of the Concessional authority i.e. MPRDC.
- Non-adherence to stipulated O&M and M&M requirements triggering annuity deductions and thereby impacting debt coverage indicators.
- Availing any additional term debt through secularization of cash flows or significant increase in O&M expenditure leading DSCR below 1.15x.

Detailed description of the key rating drivers

Key rating strengths

Operational annuity-based road project with established track record of timely receipt of annuities from MPRDC:

MPHPL achieved Commercial Operations Date (COD) on February 18, 2015 and has long-term revenue visibility due to annuity-based nature of the project. As on August 31, 2022, the project has a satisfactory operational track record of around seven and half years and received 15 bi-annual gross annuities of Rs.12.78 crore each (excluding one bonus annuity) from MPRDC within 5-10 days from its due date without substantial cost deduction.

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

² As stipulated vide SEBI circular no SEBI/ HO/ MIRSD/ DOS3/ CIR/ P/ 2019/ 70 dated June 13, 2019. As per this circular, the suffix 'CE' (Credit Enhancement) is assigned to the ratings with explicit external credit enhancement, against the earlier used suffix 'SO' (Structured Obligation).

Low counterparty credit risk: The Concessioning authority; MPRDC, is wholly owned by GoMP. It is the 'State Highway Authority' for facilitation of construction, maintenance and up-gradation of state highways and major district roads (MDR) assigned to it by GoMP and national highways assigned to it by Ministry of Road Transport & Highways (MORTH) in MP. It receives funds from GoMP and MORTH in advance for meeting viability gap funding, annuity pay-outs and for regular contract works. Furthermore, MPRDC has a strong capital structure with debt free status. The presence of long-term revenue visibility in the form of assured bi-annual annuity payments from MPRDC, having low counterparty credit risk, ensures revenue sustainability.

Presence of fixed price MM contract: MPHPL has entered into an O&M contract and fixed price MM contract with Madhav Infra Projects Limited (MIPL; rated CARE BBB-; Negative/ CARE A3) for the entire duration of the concession period. Lower traffic on the project stretch, regular O&M and undertaking a part of MM every year has resulted in maintenance of roughness index (RI) below maximum permissible levels specified in the concession agreement (CA). Furthermore, fixed price MM contract for the project stretch also mitigates the cost overrun risk to the large extent. As on March 31, 2022, MPHPL has already incurred Rs.25.86 crore towards MM (around 86% of total fixed MM cost of Rs.30 crore), which was largely funded through its internal cash accruals.

Vast experience of the promoters and established presence of the promoter group in infrastructure sector: MPHPL is a part of Vadodara-based Madhav group which has an established track record in executing various projects in the infrastructure sector. MPHPL is promoted by Mr. Ashok Khurana and his son Mr. Amit Khurana, who possess vast experience in the infrastructure industry.

Key rating weaknesses

Inherent O&M and MM along with performance risk related to the O&M contractor:

MPHPL is mandated to operate and maintain the road as per specifications set out in the CA for the entire concession period, non-compliance of which could result in penalties/ deduction of annuities by MPRDC. To mitigate this MPHPL has entered into a fixed price MM contract with MIPL. Nevertheless, MPHPL continues to remain exposed to O&M and MM risk due to moderate credit risk profile of its O&M contractor i.e. MIPL.

Interest rate risk: Interest rate on MPHPL's debt is floating in nature and reset periodically by the lenders to align with market rates. Since the annuity payments are fixed for the entire concession period, any significant adverse variation in base rate or spread could potentially lower project return and impact the overall debt-servicing ability of the company.

Liquidity: Adequate

MPHPL's liquidity continued to remain adequate with presence of defined cash flow mechanism, established track record of receipt of annuity within 5-10 days from its due date, availability of sufficient cushion of around 40 days between annuity and debt repayment due date, which provides comfort in case of any operational delay in actual receipt of annuity and comfortable tail period of over one year. Further, average utilisation of fund-based overdraft facility remained at around 62% for trailing 12 months ended on June 30, 2022.

During FY22, at the request of MPHPL, lender has waived off the requirement of maintaining DSRA as per sanction terms and the amount so release from DSRA was extended as advance to group company, resulting in depletion of MPHPL's liquidity cushion. Going forward, MPHPL envisaged to generate surplus (available for debt servicing) of around Rs.19-23 crore which will be adequate for servicing its debt servicing obligations (incl. interest) of around Rs.10-17 crore.

Analytical approach: Standalone

Applicable criteria

[Policy on default recognition](#)

[Financial Ratios – Non financial Sector](#)

[Liquidity Analysis of Non-financial sector entities](#)

[Rating Outlook and Credit Watch](#)

[Short Term Instruments](#)

[Annuity Road Projects](#)

[Infrastructure Sector Ratings](#)

[Policy on Withdrawal of Ratings](#)

About the company

Incorporated in March 2013, MPHPL is a Special Purpose Vehicle (SPV) promoted by WSL (49% stake), M.S. Khurana Engineering Limited (26% stake) and MSK Infrastructure Private Limited (25% stake). MPHPL has entered into a 15-year

concession agreement (including 2 years of construction period) with MPRDC for intermediate-laning/ two-laning of Phoolsagar-Niwas-Shahpura MDR of 83.70 km, under the MDR's Package-VII in the state of Madhya Pradesh on Design, Build, Finance, Operate and Transfer (DBFOT) on Annuity basis. The project was completed on February 18, 2015, more than six-months ahead of schedule, at a total cost of Rs.140 crore funded in debt: equity ratio of 2.33 times.

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	June 30, 2022 (P)
Total operating income	25.56	25.56	NA
PBILDT	17.05	18.45	NA
PAT	0.56	2.75	NA
Overall gearing (times)	1.55	1.21	NA
Interest coverage (times)	2.32	3.14	NA

A: Audited; P: Provisional; NA: Not Available; Till August 31, 2022, MPHPL has received bi-annual annuity of Rs.12.48 crore (net).

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating history for the last three years: Please refer Annexure-2.

Covenants of the rated instruments/facilities: 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 (₹ crore)	Rating Assigned along with Rating Outlook
Term Loan-Long Term	-	-	-	October, 2026	57.64	CARE BBB+; Stable
Fund-based - LT-Bank Overdraft	-	-	-	-	5.00	CARE BBB+; Stable
Non-fund-based - LT/ ST-Derivative Limits	-	-	-	-	7.75	CARE BBB+; Stable/ CARE A2
Un Supported Rating-Un Supported Rating (LT/ST)	-	-	-	-	0.00	Withdrawn

Annexure-2: Rating history for the 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 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Term Loan-Long Term	LT	57.64	CARE BBB+; Stable	-	1)CARE A-(CE); Stable (01-Oct-21)	1)CARE A-; Stable (21-Sep-20)	1)CARE A-; Stable (04-Oct-19)
2	Fund-based - LT-Bank Overdraft	LT	5.00	CARE BBB+; Stable	-	1)CARE A-(CE); Stable (01-Oct-21)	1)CARE A-; Stable (21-Sep-20)	1)CARE A-; Stable (04-Oct-19)
3	Non-fund-based - LT/ ST-Derivative Limits	LT/ST*	7.75	CARE BBB+; Stable/ CARE A2	-	1)CARE A-(CE); Stable/ CARE A2+ (CE) (01-Oct-21)	1)CARE A-; Stable/ CARE A2+ (21-Sep-20)	1)CARE A-; Stable / CARE A2+ (04-Oct-19)
4	Un Supported Rating-Un Supported Rating (LT/ST)	LT/ST*	-	-	-	1)CARE BBB+ / CARE A2 (01-Oct-21)	-	-

*Long term/Short term.

Annexure-3: Detailed explanation of the covenants of the rated instruments/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-Bank Overdraft	Simple
2	Non-fund-based - LT/ ST-Derivative Limits	Simple
3	Term Loan-Long Term	Simple
4	Un Supported Rating-Un Supported Rating (LT/ST)	Simple

Annexure-5: Bank lender details for this company

To view the lender wise details of bank facilities please [click here](#)

Note on complexity levels of the rated instruments: CARE Ratings 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 us:

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