

Madhav (Phoolsagar Niwas Shahpura Corridor) Highways Private Limited

September 21, 2020

Ratings

Facilities	Amount (Rs. crore)	Ratings ¹	Rating Action
Long Term Bank Facilities	79.89 (Reduced from 90.48)	CARE A-; Stable (Single A Minus; Outlook: Stable)	Reaffirmed
Long Term / Short Term Bank Facilities	7.75	CARE A-; Stable / CARE A2+ (Single A Minus; Outlook: Stable / A Two Plus)	Reaffirmed
Total Facilities	87.64 (Rs. Eighty-Seven Crore and Sixty-Four Lakh Only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Madhav (Phoolsagar Niwas Shahpura Corridor) Highways Private Limited (MPHPL) continue to derive strength from satisfactory operational track record of the project for over five years, timely receipts of eleven bi-annual annuities till August 31, 2020 from Madhya Pradesh Road Development Corporation [MPRDC; rated CARE A (Is); Stable, an undertaking of Government of Madhya Pradesh (GoMP)], comfortable debt coverage indicators and adequate liquidity backed by maintenance of funded Debt Service Reserve Account (DSRA) equivalent to more than two quarters of debt obligations. The ratings also continue to factor in low counterparty credit risk, low major maintenance (MM) risk on account of presence of fixed price MM contract and established track record of the promoter group in the infrastructure sector.

The above strengths are, however, partially offset by performance risk associated with its operations & maintenance (O&M) contractor coupled with inherent O&M and interest rate fluctuation risk.

CARE also takes cognizance that MPHPL has not availed moratorium on debt repayment for its bank facilities, available under RBI's COVID relief program during March to August 2020.

Rating Sensitivities

Positive Factor:

- Improvement in the credit profile of the concessioning authority i.e. MPRDC.

Negative Factors:

- Deterioration in the credit profile of the concessioning authority i.e. MPRDC.
- Deterioration in minimum debt service coverage ratio (DSCR) below 1.10 times.
- Increase in routine O&M expenses by 40% on a sustained basis. Non-adherence to stipulated MM requirements by the O&M contractor resulting in delay in/deduction from annuity payment.
- Any further fund raising through securitisation of project cash flows which has detrimental impact on its debt coverage indicators and its liquidity position.

Detailed description of the key rating drivers

Key Rating Strengths

Operational annuity-based road project coupled with an established track record of timely receipt of annuities: 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, 2020, the project has a satisfactory operational track record of more than five years and the company has received eleven bi-annual annuities (excluding one bonus annuity) from MPRDC within 7 days from its due date.

Low counterparty credit risk: MPHPL's 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 payouts & for regular contracts. Furthermore, it has a strong capital structure with debt free status and free cash & bank balance of around Rs.150 crore as on March 31, 2019. 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.

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

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-; Stable/ 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. Furthermore, fixed price MM contract for the project stretch also mitigates the cost overrun risk to the large extent. Till March 31, 2020, the company has incurred Rs.12.77 crore towards MM, which was largely funded through internal accruals.

Vast experience of the promoter group and established presence of the 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. Currently, the group has three project special purpose vehicles (SPVs) operating as annuity &/or toll road projects in MP.

Key Rating Weaknesses

Interest rate risk: Interest rate on debt is a floating rate of interest (Base Rate + Spread), which is reset periodically by the lenders to align with market rates. Any significant adverse variation in base rate or spread could potentially lower project return and impact the overall debt-servicing ability of the company, since the annuity payments are fixed for the entire concession period.

Inherent O&M risk along with performance risk related to the O&M contractor: Although MDR generally have low O&M requirements due to low traffic flow and negligible freight/ commercial traffic, MPHPL continues to remain exposed to O&M risk as non-maintenance of RI/ project facilities as per the standards specified in the concession agreement may result in deduction from/ delay in annuity payment. Significant increase in O&M cost or deduction in annuity could impact project returns and debt coverage indicators of the company.

Liquidity: Adequate

MPHPL's liquidity remained adequate with defined cash flow mechanism in place, maintenance of adequate DSRA and track record of receipt of annuity within a week from its due date. Further, the debt coverage indicators are also expected to remain comfortable over the entire tenor of loan on account of assured cash flow stream in the form of annuity coupled with low O&M requirement due to lower traffic on the project stretch. Furthermore, there is a time gap of more than 30 days between annuity and debt repayment due date, which provides comfort in case of any delay in actual receipt of annuity. Moreover, the project has a tail period of over one year.

MPHPL has created DSRA equivalent to more than two quarters of debt servicing obligations of Rs.10.28 crore, in the form of fixed deposit. Apart from DSRA, MPHPL had free cash & bank balance of Rs.9.39 crore as on March 31, 2020. Furthermore, the company has already prepaid its installment due in October 2020 in August 2020 on receipt of annuity in August 2020.

Going forward, the company is envisaged to generate surplus (available for debt servicing) of around Rs.21-22 crore which is adequate to cater the debt servicing obligations (including interest) of around Rs.18-19 crore.

Analytical approach: Standalone

Applicable Criteria

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

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

[Criteria for Short Term Instruments](#)

[Rating Methodology - Infrastructure Sector Ratings \(ISR\)](#)

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

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

About the Company

Incorporated in March 2013, MPHPL is a Special Purpose Vehicle (SPV) promoted by WAA Solar Limited (WSL; rated CARE A-; Stable; 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 MP 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 (Rs. crore)	FY19 (A)	FY20 (A)
Total operating income	25.87	26.11
PBILDT	21.34	21.75
PAT	0.11	2.56
Overall gearing (times)	2.16	1.99
PBILDT Interest coverage (times)	2.24	2.40

A: Audited

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
Term Loan-Long Term	-	-	October 2026	74.89	CARE A-; Stable
Fund-based - LT-Bank Overdraft	-	-	-	5.00	CARE A-; Stable
Non-fund-based - LT/ ST-Derivative Limits	-	-	-	7.75	CARE A-; Stable / CARE A2+

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.	Term Loan-Long Term	LT	74.89	CARE A-; Stable	-	1)CARE A-; Stable (04-Oct-19)	1)CARE A-; Stable (25-Dec-18)	1)CARE A-; Stable (09-Oct-17)
2.	Fund-based - LT-Bank Overdraft	LT	5.00	CARE A-; Stable	-	1)CARE A-; Stable (04-Oct-19)	1)CARE A-; Stable (25-Dec-18)	1)CARE A-; Stable (09-Oct-17)
3.	Non-fund-based - LT/ ST-Derivative Limits	LT/ST	7.75	CARE A-; Stable / CARE A2+	-	1)CARE A-; Stable / CARE A2+ (04-Oct-19)	1)CARE A-; Stable / CARE A2+ (25-Dec-18)	1)CARE A-; Stable / CARE A2+ (09-Oct-17)

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

Sr. No.	Name of the 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

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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