# Madhav (Phoolsagar Niwas Shahpura Corridor) Highways Private Limited

October 04, 2019

**Ratings**

| Facilities | Amount (Rs. crore) | Ratings[1] | Rating Action |
|---|---|---|---|
| Long term Bank Facilities | 90.48 (reduced from Rs.105.51 crore) | **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** | **98.23 (Rupees Ninety Eight crore and Twenty Three 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 assured annuity cash flows with timely receipt of nine bi-annual annuities till August 31, 2019, healthy financial risk profile of the counterparty viz Madhya Pradesh Road Development Corporation [MPRDC; rated CARE A (Is); Stable, an undertaking of Government of Madhya Pradesh (GoMP)], maintenance of funded debt service reserve account [DSRA, in the form of fixed deposit (FD)] equivalent to two quarters of debt servicing, comfortable debt coverage indicators & liquidity of the company and established track record of promoter group in infrastructure sector.

The ratings also derive strength from downward revision in the fixed price major maintenance (MM) contract, which increases the surplus from the project and mitigates the MM risk to the large extent.

The ratings, however, continue to remain constrained by MPHPL's exposure to interest rate fluctuation risk, inherent operations and maintenance (O&M) risk and performance risk associated with its O&M contractor.

Any change in the credit profile of the annuity provider (i.e. MPRDC), significant delay in receipt of future annuities, higher than envisaged O&M cost, non-adherence to the stipulated MM requirements by O&M contractor, increase in debt obligation either through increase in interest rates or raising funds through securitization of project cash flows or occurrence of any force majeure event shall be the key rating sensitivities.

**Detailed description of the key rating drivers**

**Key Rating Strengths**

***Satisfactory track record of receipt of annuities by MPRDC:*** MPHPL's annuity road project has achieved Commercial Operations Date (COD) on February 18, 2015, around six months ahead of scheduled COD, which entitled it to receive one bonus annuity from MPRDC. Till August 31, 2019, the company has an established track record of more than four years with timely receipt of nine semi-annual annuities (excluding one bonus annuity) within 7 days from its due date.

***Low counterparty credit risk:*** MPHPL's concessioning authority; MPRDC, is a nodal agency of GoMP for facilitating construction, maintenance and up-gradation of state highways and district road projects in the state of MP. It has a robust cash flow stream through budgetary allocation from GoMP for meeting viability gap funding, annuity payouts & for regular contracts. Furthermore, MPRDC has a strong capital structure with debt free status and adequate cash and bank balance as on March 31, 2018. Presence of long term concession agreement with a strong counterparty ensures revenue sustainability and low counterparty credit risk.

***Comfortable debt coverage indicators:*** Stable cash flows from annuities and low O&M cost due to low traffic on project stretch results in comfortable debt coverage indicators for the company. Debt coverage metrics improved in FY19 on account of low interest expenses, as indicated by PBILDT interest coverage of 2.24x (FY18: 2.03x).

***Experienced promoter group and established track record of the group in construction sector:*** MPHPL is promoted by Mr. Ashok Khurana and his son Mr Amit Khurana. Mr Ashok Khurana has an experience of more than three decades in executing various projects in the construction sector. The promoters have an experience in handling relatively large-

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

sized projects and have demonstrated a satisfactory track record of timely execution of the contracts in various segments of the construction sector (road & solar power).
The group's infrastructure development activities for both road and solar projects are carried out by Madhav Infra Projects Limited (MIPL; rated CARE BBB-; Stable/ CARE A3), an in-house Engineering, Procurement & Construction (EPC) arm of the group. Furthermore, Madhav group has six project special purpose vehicles (SPVs) operating as annuity & toll road projects in MP.

**Key Rating Weaknesses**
***Interest rate risk:*** Interest rate on debt is reset periodically to align with market rates by the lenders. Considering the fixed annuity payments for the entire concession period, any adverse movement in interest rates may lead to higher interest cost, which in turn impacts the company's profitability and debt coverage indicators.

***Inherent O&M risk along with performance risk related to the O&M contractor:*** MPHPL is responsible for maintenance of project's road stretch in motorable conditions for the entire concession period. Although the routine O&M requirement is low for MPHPL's project stretch due to low traffic flow and reduction in raw material prices, it is still exposed to inherent O&M risk attached to the road project. Further, the company is required to undertake MM during the concession period and at the time of hand-over of the project. Hence, currently MPHPL is undertaking MM and till March 31, 2019, the company has incurred Rs.9.86 crore towards MM, which was largely funded through internal accruals.
Furthermore, during FY19, considering revision in raw material prices, fixed price MM contract with MIPL was revised downwards, which increases the surplus from the project and mitigates the MM risk to the large extent. However, non-adherence to stipulated O&M and MM requirements by the O&M contractor (i.e. MIPL) shall be a key rating sensitivity.
Cash surplus from the project, low traffic on project stretch and experienced O&M contractor mitigates the O&M risk to an extent.

***Liquidity: Adequate***
Liquidity position of MPHPL remains comfortable with established track record of annuity receipts within 7 days of its due date from MPRDC. Furthermore, there is a time gap of more than 30 days in annuity and loan repayment due date, thereby providing adequate cushion for debt repayment.
MPHPL has created a DSRA of Rs.10 crore in form of fixed deposit, equivalent to two quarters of debt servicing as on March 31, 2019. Creation of DSRA provides added comfort in case of any liquidity mismatch or in case of any exigencies. Moreover the project has a tail period of around 16 months.
Apart from repayment of scheduled debt repayment obligation in FY19, MPHPL prepaid instalment due in April 2019 in March 2019. Consequently, free cash and bank balance remained low at Rs.0.04 crore as on March 31, 2019. During FY20, surplus available for debt servicing is expected to be around Rs.22 crore as against scheduled debt servicing obligation (including interest) in FY20 of around Rs.14 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**
**CARE's methodology for infrastructure companies**
**Financial ratios - Non- Financial Sector**

**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). During FY19, MIPL has sold around 57% of its preference stake to WSL.
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 with a total cost of Rs.140 crore, funded in debt: equity ratio of 2.33 times.

| Brief Financials (Rs. crore) | FY18 (A) | FY19 (A) |
|---|---|---|
| Total operating income | 25.96 | 25.87 |
| PBILDT | 22.56 | 21.34 |
| PAT | 0.61 | 0.11 |
| Overall gearing (times) | 2.55 | 2.16 |
| PBILDT Interest coverage (times) | 2.03 | 2.24 |

**Status of non-cooperation with previous CRA:** Not applicable

**Any other information:** Not applicable

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

**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 | 85.48 | 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 2019-2020 | Date(s) & Rating(s) assigned in 2018-2019 | Date(s) & Rating(s) assigned in 2017-2018 | Date(s) & Rating(s) assigned in 2016-2017 |
| 1. | Term Loan-Long Term | LT | 85.48 | CARE A-; Stable | - | 1)CARE A-; Stable (25-Dec-18) | 1)CARE A-; Stable (09-Oct-17) | 1)CARE A- (12-Oct-16) |
| 2. | Fund-based - LT-Bank Overdraft | LT | 5.00 | CARE A-; Stable | - | 1)CARE A-; Stable (25-Dec-18) | 1)CARE A-; Stable (09-Oct-17) | 1)CARE A- (12-Oct-16) |
| 3. | Non-fund-based - LT/ ST-Derivative Limits | LT/ST | 7.75 | CARE A-; Stable / CARE A2+ | - | 1)CARE A-; Stable / CARE A2+ (25-Dec-18) | 1)CARE A-; Stable / CARE A2+ (09-Oct-17) | 1)CARE A- / CARE A2+ (12-Oct-16) |

***Note on complexity levels of the rated instrument:*** *CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

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**About CARE Ratings:**

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