

Madhav (Phoolsagar Niwas Shahpura Corridor) Highways Private Limited

October 09, 2017

Ratings

Facilities	Amount (Rs. crore)	Ratings ¹	Rating Action
Long term Bank Facilities	115.36 (enhanced from 105.28)	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	123.11 (Rupees One Hundred Twenty Three crore and Eleven 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 factor in the assured annuity cash flows for the project with timely receipt of five scheduled annuities and the eligible bonus annuity for early project completion till September 30, 2017 and low counter party credit risk of the annuity provider Madhya Pradesh Road Development Corporation [MPRDC; rated CARE A (Is); an undertaking of Government of Madhya Pradesh (GoMP)].

The ratings also continue to derive comfort from creation of debt service reserve account (DSRA, in the form of bank guarantee) and adequate debt coverage indicators of the company.

The ratings also take cognizance of provision for creation of major maintenance reserve account (MMRA) from annual project cash flows alongwith established track record of the sponsor in the construction industry, mitigating the operations & maintenance (O&M) risk to an extent.

The ratings, however, are constrained on account of inherent O&M & interest rate risks associated with the road project. Change in the credit profile of the annuity provider – MPRDC, deviation in the O&M cost thereby adversely affecting the debt coverage indicators or occurrence of any force majeure event are the key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Strengths

Experienced promoters with strong project execution capabilities in construction sector: The promoters of Madhav group have over three three decades of experience in execution of relatively large-sized projects in various segments of the construction sector, viz. industrial buildings, roads and residential buildings and have also demonstrated sound project execution capability in the solar segment over past few years. The group's infrastructure development activities for both road and solar projects are largely carried out by Madhav Infra Projects Ltd (MIPL; rated CARE BBB+; Positive / CARE A2) as an in-house EPC arm of the group.

Madhav group comprises entities in road and solar segment, including MPHPL.

Established track record of receipt of annuities by MPRDC: MPHPL receives semi-annual annuities from MPRDC and till September 2017, the company received five regular semi-annual annuities of Rs.12.78 crore, apart from the eligible bonus annuity for early project completion. Stable cash flows with annuities result in adequate debt coverage indicators for the company, as indicated by PBILDT interest coverage of 1.89x in FY17.

Low counterparty credit risk: MPHPL's concessionaire, MPRDC, is wholly owned by GoMP. It is the 'State Highway Authority' and facilitator for construction, maintenance and up gradation of state highways (SH) and major district roads (MDR) for GoMP and national highways (NH) for Ministry of Road Transport & Highways (MORTH), Government of India (Gol). MPRDC has track record of timely cash flow receipts from GoMP for facilitation of projects under its various models for onward payment to the contractors. Furthermore, as on March 31, 2016, it had free cash and bank balance of around Rs.180 crore. Thus, MPRDC's liquidity remains comfortable, which is also indicated by timely receipt of annuities by the project developers. The company has a strong capital structure with debt free status as on September 30, 2017.

Creation of DSRA and provisions for MMRA: As per the sanction terms, MPHPL has created DSRA equivalent to next two quarters of interest and installment in the form of Bank Guarantee (BG) of Rs.9.93 crore executed by MIPL in favour of

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

ICICI Bank and escrow agent of MPRDC. Creation of DSRA provides added comfort in case of any liquidity mismatch / in case of any exigencies. However, inherent risk attached with the timely renewal of BG till the tenor of the loan remains and lies with the MIPL.

MPHPL has also commenced building up MMRA from the project cash flows to be utilized to part fund the major maintenance expenditure scheduled in FY21-FY22 and FY27-FY29.

Key Rating Weaknesses

Sensitivity to changes in interest rates: MPHPL remains exposed to adverse variations in interest rate for its project debt, on account of floating interest rate structure with an annual reset clause. Any adverse interest rate movement or change in base rate of bank could lead to higher interest costs and result in lower project returns, as the annuity payment is fixed for the entire concession period.

Inherent O&M risk: MPHPL is exposed to inherent O&M risk attached to the project. Although the routine O&M requirement is low for MPHPL's project stretch due to low traffic flow and negligible freight/ commercial traffic, the company is required to carry out a major maintenance during the concession period and at the time of hand-over of the project. However, experience and established track record of MIPL, the O&M contractor, in undertaking O&M of road projects mitigates this risk to a certain extent.

Analytical approach:

Standalone

Applicable Criteria

[Criteria on assigning Outlook to Credit Ratings](#)

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

[Criteria for Short Term Instruments](#)

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

About the Company

Incorporated in March 2013, MPHPL is a Special Purpose Vehicle (SPV) promoted by WAA Solar Private Limited (WSPL; rated CARE A-; Stable; 49% stake), M.S. Khurana Engineering Limited (MSKEL; 26% stake) and MSK Infrastructure Private Limited (MSKIPL, 25% stake). During FY16, MIPL acquired 41332000 preference shares (99.50% of total shares) of Rs.10 each at face value aggregating Rs.4.13 crore. Consequently, MPHPL is now a subsidiary of MIPL.

MPHPL has entered into a 15-year Concession Agreement 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 concession agreement included construction period of two years (730 days) from the appointed date, i.e. September 4, 2013 and 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. MPHPL received its first annuity, along with the eligible bonus amount, of Rs.23.25 crore on August 21, 2015. Till September 2017, MPHPL received five regular bi-annual annuities, as scheduled.

Brief Financials (Rs. crore)	FY16 (A)	FY17 (A)
Total operating income	25.58	25.61
PBILD T	23.27	23.22
PAT	0.23	0.22
Overall gearing (times)	2.58	2.64
PBILD T Interest coverage (times)	1.90	1.89

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

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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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	-	-	Oct 2026	110.36	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 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015
1.	Term Loan-Long Term	LT	110.36	CARE A-; Stable	-	1)CARE A- (12-Oct-16)	1)CARE A- (09-Oct-15)	1)CARE BBB (SO) (08-Dec-14) 2)CARE BBB (SO) (04-Apr-14)
2.	Fund-based - LT-Bank Overdraft	LT	5.00	CARE A-; Stable	-	1)CARE A- (12-Oct-16)	1)CARE A- (09-Oct-15)	1)CARE BBB (SO) (08-Dec-14) 2)CARE BBB (SO) (04-Apr-14)
3.	Non-fund-based - LT/ ST-Derivative Limits	LT/ST	7.75	CARE A-; Stable / CARE A2+	-	1)CARE A- / CARE A2+ (12-Oct-16)	1)CARE A- / CARE A2+ (09-Oct-15)	1)CARE BBB (SO) / CARE A3+ (SO) (08-Dec-14) 2)CARE BBB (SO) / CARE A3+ (SO) (04-Apr-14)

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