

Madhav (Phoolsagar Niwas Shahpura Corridor) Highways Private Limited

December 25, 2018

Ratings

| Facilities | Amount (Rs. crore) | Ratings ¹ | Rating Action |
|--|--|--|-------------------|
| Long term Bank Facilities | 105.51 (reduced from 115.36) | 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 | 113.26 (Rupees One Hundred Thirteen crore and Twenty Six 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 its satisfactory operational track record with timely receipt of seven bi-annual annuities from its counterparty Madhya Pradesh Road Development Corporation [MPRDC; (rated CARE A (Is); Stable, a Government of Madhya Pradesh (GoMP) undertaking)], maintenance of partial debt service reserve account (DSRA) in the form of fixed deposit and comfortable debt coverage indicators. The ratings also continue to derive comfort from its experienced promoters with strong project execution capabilities in the construction sector.

The rating strengths are however, tempered by inherent operation and maintenance (O&M) risk and interest rate risk associated with the project.

Higher than envisaged O&M cost, increase in interest rate, adverse changes in the credit profile of the annuity provider (MPRDC) or raising funds through securitization of project cash flows, thereby adversely affecting the debt coverage indicators or occurrence of any force majeure event would be the key rating sensitivities. Creation of balance amount of DSRA will also be a key rating monitorable.

Detailed description of the key rating drivers

Key Rating Strengths

Timely receipt of annuities from MPRDC: MPHPL's road project was completed within envisaged cost and ahead of scheduled commercial operation date (SCOD), which entitled the company a bonus annuity from MPRDC. As on November 31, 2018, the project has a successful track record of more than 45 months and has received seven bi-annual annuities on time, as scheduled.

Low counterparty credit risk: MPHPL's counterparty, MPRDC, is wholly owned by GoMP. It is the 'State Highway Authority' for facilitation of construction, maintenance and up-gradation of state highways (SH) and major district roads (MDRs) assigned to it by GoMP and national highways (NH) assigned to it by Ministry of Road Transport & Highways (MORTH), Government of India (GoI) in the state of MP. Furthermore, MPRDC has a strong capital structure with nil debt as on August 31, 2017.

Comfortable debt coverage indicators: MPHPL's debt coverage indicators are expected to remain comfortable over the balance tenure of the project term loan on account of assured annuity cash flows, low O&M cost due to low traffic on project stretch and reduction in the rate of interest on project term debt. The surplus generated is sufficient to meet the debt obligations of the company. Debt coverage metrics improved in FY18 marked by PBILDT to interest coverage of 2.03x (FY17: 1.89x). Furthermore, the company has a tail period of over one year.

Comfortable liquidity along with maintenance of partial DSRA and provision for major maintenance: As per the sanction terms, the principal repayments are due after around 30 days from the due date of annuity, which provides added comfort in case of some delay in receipt of annuity. Furthermore, as per sanction terms, MPHPL is required to create DSRA of Rs.9.27 crore, equivalent to two quarters of debt servicing. Till December 6, 2018, the company has created a DSRA of Rs.5.89 crore in the form of lien-marked fixed deposits. Although, MPHPL has not complied with the sanction terms, comfort is derived from annual surplus generated from the project and comfortable debt coverage indicators.

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

MPHPL is also creating a provision for major maintenance from annual project cash flows to fund major maintenance expenditure scheduled in FY21- FY22 and FY27-FY29. As on March 31, 2018, MPHPL has a free cash and bank balance of Rs.12.90 crore.

Vast and rich experience of the promoters: MPHPL is a part of Vadodara-based Madhav group, promoted by Mr Ashok Khurana, who has an extensive experience of more than three decades in executing various projects in the construction sector. He is supported by his son Mr Amit Khurana, who has an experience of more than a decade and overlooks project execution and operations of the company. The group's infrastructure development activities is carried out by Madhav Infra Projects Limited (MIPL), an in-house Engineering, Procurement and Construction (EPC) arm of the group.

Key Rating Weaknesses

Inherent interest rate risk: On account of floating interest rate structure with an annual reset clause on its project debt and fixed annuity receipts for the entire concession period, any adverse movement in interest rate could lead to higher interest cost, resulting in deterioration of debt coverage indicators and return ratios.

Inherent O&M risk: MPHPL is exposed to inherent O&M risk attached to Design Build, Finance, Operate and Transfer (DBFOT) road projects, although the risk is mitigated to a certain extent considering the project stretch is a part of low traffic Major District Road (MDR). Along with this, O&M activity for the project is carried out by the in-house team of Madhav group, which has an established track record in carrying out the O&M of all its group entities.

Analytical approach: Standalone

Applicable Criteria

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

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

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

[Rating Methodology - Infrastructure Sector Ratings](#)

[Criteria for Short term instruments](#)

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 4,13,32,000 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 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 August 31, 2018, MPHPL received seven bi-annual annuities.

| Brief Financials (Rs. crore) | FY17 (A) | FY18 (A) |
|-----------------------------------|----------|----------|
| Total operating income | 25.61 | 25.96 |
| PBILD T | 23.22 | 22.56 |
| PAT | 0.22 | 0.61 |
| Overall gearing (times) | 2.64 | 2.55 |
| PBILD T Interest coverage (times) | 1.89 | 2.03 |

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 | 100.51 | 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 2018-2019 | Date(s) & Rating(s) assigned in 2017-2018 | Date(s) & Rating(s) assigned in 2016-2017 | Date(s) & Rating(s) assigned in 2015-2016 |
| 1. | Term Loan-Long Term | LT | 100.51 | CARE A-; Stable | - | 1)CARE A-; Stable (09-Oct-17) | 1)CARE A- (12-Oct-16) | 1)CARE A- (09-Oct-15) |
| 2. | Fund-based - LT-Bank Overdraft | LT | 5.00 | CARE A-; Stable | - | 1)CARE A-; Stable (09-Oct-17) | 1)CARE A- (12-Oct-16) | 1)CARE A- (09-Oct-15) |
| 3. | Non-fund-based - LT/ ST-Derivative Limits | LT/ST | 7.75 | CARE A-; Stable / CARE A2+ | - | 1)CARE A-; Stable / CARE A2+ (09-Oct-17) | 1)CARE A- / CARE A2+ (12-Oct-16) | 1)CARE A- / CARE A2+ (09-Oct-15) |

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