

Madhav (Sehora Silodi Corridor) Highways Private Limited

January 03, 2020

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long term Bank Facilities	55.25 (reduced from 63.54)	CARE A-; Stable (Single A Minus; Outlook: Stable)	Reaffirmed
Total	55.25 (Rupees Fifty Five crore and Twenty Five lakh only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The rating assigned to the bank facilities of Madhav (Sehora Silodi Corridor) Highways Private Limited (MSHPL), continues to derive strength from its successful operational track record of over five years with stable toll collection and timely receipt of ten bi-annual annuities till December 15, 2019 from its counterparty i.e. Madhya Pradesh Road Development Corporation [MPRDC; rated CARE A (Is); Stable, an undertaking of Government of Madhya Pradesh (GoMP)], adequate liquidity profile with maintenance of funded debt service reserve account [DSRA; in the form of fixed deposit(FD)] for ensuing three months of debt servicing, low counterparty risk and experienced promoter group with an established track record of operations in infrastructure sector.

The rating also take cognizance of the significant increase in toll income during 9MFY20 (till Dec 15, 2019), reduction in rate of interest on term loans, and envisaged creation of provision for major maintenance (MM) during FY22-FY26 (FY refers to the period April 1 to March 31) from project cash flows as per sanction terms which in turn mitigates the MM risk to an extent.

The rating, however, continues to remain constrained by MSHPL's exposure to interest rate fluctuation risk, inherent traffic and operations & maintenance (O&M) risk.

The rating weakness also takes cognizance of moderation in the credit profile of the O&M & MM contractor i.e. Madhav Infra Projects Limited (MIPL; Rated CARE BBB-; Stable / CARE A3).

Rating Sensitivities

Positive Sensitivities:

- Sustained growth in traffic by more than 5% over actual traffic.
- Improvement in credit profile of the concessioning authority i.e. MPRDC.

Negative Sensitivities:

- Increase in ROI on project debt by more than 100 bps
- Deterioration in minimum debt service coverage ratio (DSCR) below 1.05 times.
- Deterioration in credit profile of MPRDC or significant delay in receipt of annuity on a sustained basis.
- Non-creation of major maintenance reserve account (MMRA) as envisaged as per sanction terms

Detailed description of the key rating drivers

Key Rating Strengths

Operational toll-plus-annuity road project and established track record of timely receipt of annuities: Till December 15, 2019, the project has a successful operational track record of more than five years of toll collection and receipt of ten bi-annual annuities (excluding one bonus annuity; for early completion). While toll collection income remained stable at Rs.2.15 crore in FY19 (FY18: Rs.2.17 crore), it increased substantially to Rs.2.32 crore during 9MFY20 (till Dec 15, 2019) on account of increase in traffic on the project stretch and toll rates.

Low counterparty credit risk: MSHPL'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 and for other 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.

Moderate debt coverage indicators: Stable cash flows from annuities & toll collection income with moderate O&M cost results in moderate debt coverage indicators during FY19 as indicated by PBILDT interest coverage of 2.12x (FY18: 2.30x).

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

Debt coverage indicators is envisaged to improve in the near term on account of reduction in rate of interest by the lender in December 2019.

Experienced promoter group and established track record of the group in construction sector: MSHPL is promoted by Mr. Ashok Khurana and his son Mr. Amit Khurana. The promoters have an experience in handling relatively large-sized projects and have demonstrated a satisfactory track record of execution of road and solar power projects without any time or cost overrun. The group has executed multiple projects in Madhya Pradesh and has six operational project specific special purpose vehicles (SPVs) operating as annuity &/or toll road projects.

The group's infrastructure development activities for both road and solar power projects is carried out by MIPL, in-house Engineering Procurement & Construction (EPC) arm of the group. However, the credit profile of MIPL has deteriorated on account of stretched liquidity and delay in execution of few contracts on account of delay in receipt of requisite clearances.

Key Rating Weaknesses

Interest rate risk: MSHPL remains exposed to adverse variations in interest rate, on account of floating interest rate structure with an annual reset clause. Considering fixed annuity payments (which forms a major proportion of the MSHPL's total revenue) for the entire concession period, any adverse movement in interest rates may lead to higher interest cost, which in turn impacts the MSHPL's profitability and debt coverage indicators.

Inherent traffic risk: The toll collection income is dependent on traffic on the project stretch and toll rates, which are revised every year on the basis of change in wholesale price index (WPI) for the previous year. Furthermore, although annual annuity receipts exceed the annual debt servicing requirements, adequate toll collection is necessary in order to meet O&M cost for the project road.

Inherent O&M risk along with performance risk related to the O&M contractor: MSHPL is responsible for maintenance of the project stretch in a motorable condition for the entire concession period. Although the routine O&M requirement is moderate, it is still exposed to inherent O&M risk in the absence of fixed price O&M contract. MSHPL is also required to undertake MM at the time of hand-over of the project for which it is required to create MMRA during FY22-FY26 as per sanction conditions.

Liquidity: Adequate

Liquidity position of MSHPL remains comfortable with established track record of annuity receipts within 7 days from its due date from MPRDC and stable toll receipts. Furthermore, there is a time gap of around four months in annuity and loan repayment due date, thereby providing adequate cushion for debt repayment. Furthermore, MSHPL has prepaid its last two installments within five days of receipt of annuity (in March 2019 and September 2019) for all three loans.

MSHPL has also created DSRA of Rs.2.91 crore in form of fixed deposit, equivalent to one quarter of debt servicing as on December 15, 2019 as against requirement of Rs.2.60 crore as per sanction terms. 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 one year.

MSHPL had free cash and bank balance of Rs.0.67 crore as on March 31, 2019 (apart from maintenance of DSRA in FD form). During FY20, surplus available for debt servicing is expected to be around Rs.13 crore as against scheduled debt servicing obligation (including interest) of around Rs.10 crore.

Analytical approach: Standalone

Applicable Criteria

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

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

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

[Rating Methodology-Toll Road Projects](#)

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

About the Company

Incorporated in October 2012, MSHPL is a SPV owned and promoted by WAA Solar Limited (WSL; rated CARE A-; Stable; 70% stake) and M.S. Khurana Engineering Limited (MSKEL; 30% stake).

MSHPL has entered into a 15-year Concession Agreement with MPRDC for intermediate-laning/two-laning of Sehora-Majhgawan-Silodi, a major district road of 39.852 km from a T-Junction at NH-7 in Sehora to T-Junction at Silodi in the state of Madhya Pradesh on Design, Build, Finance, Operate and Transfer (DBFOT) on Toll + Annuity basis. The concession agreement included construction period of two years (730 days) from the appointed date on April 9, 2013 and the project

was completed on August 30, 2014, more than seven months ahead of its scheduled commercial operation date (SCOD) in April 2015 with a total cost of Rs.90.59 crore, funded in debt equity ratio of 2.28:1. Consequent to COD, toll collection commenced from September 11, 2014.

Brief Financials (Rs. crore)	FY18(A)	FY19(A)
Total operating income	14.39	15.87
PBILDT	12.44	13.38
PAT	0.17	(0.48)
Overall gearing (times)	2.37	2.13
PBILDT Interest coverage (times)	2.30	2.12

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

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
Fund-based - LT-Term Loan	-	-	July 2027	55.25	CARE A-; Stable

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.	Fund-based - LT-Term Loan	LT	55.25	CARE A-; Stable	-	1)CARE A-; Stable (05-Oct-18)	1)CARE A-; Stable (09-Oct-17)	1)CARE A- (12-Oct-16)
2.	Non-fund-based - LT/ST-Derivative Limits	LT/ST	-	-	-	1)Withdrawn (05-Oct-18)	1)CARE A-; Stable/CARE A2+ (09-Oct-17)	-

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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