

Madhav (Sehora Silodi Corridor) Highways Private Limited

October 5, 2018

Ratings

Facilities	Amount (Rs. crore)	Ratings ¹	Rating Action
Long term Bank Facilities	63.54 (reduced from 67.92)	CARE A-; Stable (Single A Minus; Outlook: Stable)	Reaffirmed
Long term / Short term Bank Facilities	0.00 (reduced from 11.50)	-	Withdrawn#
Total	63.54 (Rupees Sixty Three crore and Fifty Four lakh only)		

Details of instruments/facilities in Annexure-1

Long-term/ Short-term rating assigned to the derivative limit (Rs.11.50 crore) has been withdrawn as the company has surrendered the facility.

Detailed Rationale & Key Rating Drivers

The rating assigned to the bank facilities of Madhav (Sehora Silodi Corridor) Highways Private Limited (MSHPL) continue to derive strength from experienced promoter group, low counterparty credit risk associated with annuity provider Madhya Pradesh Road Development Corporation [MPRDC; rated 'CARE A (Is); Stable'; an undertaking of Government of Madhya Pradesh (GoMP)], satisfactory operational track record of over 48 months as on August 2018 with timely receipt of eight bi-annual annuities and toll collection track record of over 48 months as on August 30, 2018, maintenance of debt service reserve account (DSRA) and adequate debt coverage indicators.

The ratings also take cognizance of lender's requirement for creation of provision for major maintenance during FY22-FY26 (FY refers to the period April 1 to March 31) from annual project cash flows along with established track record of the sponsor in the construction industry, mitigating the operations & maintenance (O&M) risk to an extent.

The ratings, however, continue to remain constrained on account of inherent traffic risk, O&M risk and interest rate risk.

Any adverse change in the credit profile of the annuity provider – MPRDC, deviation in envisaged toll collection, interest and O&M cost thereby 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 promoter group: The promoters of MSHPL have over three decades of experience in execution of relatively large-sized projects in various segments of the construction sector, viz. roads, industrial buildings and residential buildings. The promoters have demonstrated strong project execution capability in the solar segment too through execution of multiple solar power projects on EPC basis for third parties and group companies. The group's infrastructure development activities for both road and solar power projects is carried out by in-house EPC arm of the Madhav group i.e. Madhav Infra Projects Ltd (MIPL; rated CARE BBB+; Negative / CARE A3+) and Mi Solar Private Limited.

Timely receipt of annuities along with adequate toll collection: As on August 31, 2018, MSHPL has an operational track record of over 48 months of toll collection and has received eight semi-annual annuities, apart from the eligible bonus annuity for early project completion. During FY18, the toll collection dipped marginally owing to lower traffic due to ban on sand mining in Madhya Pradesh. However, stable cash flows from annuities along with toll collection, result in moderate debt coverage indicators for the company, as indicated by PBILDT interest coverage of 2.30x in FY18.

Maintenance of DSRA: MSHPL continued to maintain DSRA equivalent to next one quarter of debt servicing in the form of fixed deposit, which provided added comfort in case of any liquidity mismatch / exigencies. Also, as per sanction terms, MSHPL is required to create provision for major maintenance from the project cash flows during FY22-FY26 to part fund the major maintenance expenditure scheduled in FY27-FY28.

Low counterparty credit risk: MSHPL'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 debt free status as on September 30, 2017.

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

Key Rating Weaknesses

Interest rate risk: MSHPL 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 movement in interest rate could lead to higher interest cost, resulting in deterioration of debt coverage indicators and return on project, considering the annuity payment, which forms a major proportion of the company's total revenue, is fixed for the entire concession period.

Inherent traffic risk: The toll income is dependent on traffic on the project road which is volatile in nature. 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: MSHPL is exposed to inherent O&M risk attached to the project. Apart from O&M requirement, the company is also required to carry out a major maintenance 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](#)

[CARE's methodology for Toll Road Projects](#)

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

[Policy on Withdrawal of ratings](#)

About the Company

Incorporated in October 2012, MSHPL is a Special Purpose Vehicle (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 MDR 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 SCOD in April 2015 with a total cost of Rs.90.59 crore, funded through term loan of Rs.63 crore and equity commitment of Rs.27.59 crore. Consequent to COD, toll collection commenced from September 11, 2014. MSHPL received Rs.10.61 crore towards the first annuity payment along with the eligible bonus amount for early project completion. Till August 2018, MSHPL received eight regular bi-annual annuities as scheduled and has collected toll of Rs.0.53 crore in Q1FY19.

Brief Financials (Rs. crore)	FY17 (A)	FY18 (A)
Total operating income	14.83	14.38
PBILDT	13.41	12.43
PAT	0.39	0.18
Overall gearing (times)	1.94	2.37
PBILDT Interest coverage (times)	2.18	2.30

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
Fund-based - LT-Term Loan	-	-	June 2027	63.54	CARE A-; Stable
Non-fund-based - LT/ST-Derivative Limits	-	-	-	0.00	Withdrawn

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.	Fund-based - LT-Term Loan	LT	63.54	CARE A-; Stable	-	1)CARE A-; Stable (09-Oct-17)	1)CARE A- (12-Oct-16)	1)CARE A- (09-Oct-15)
2.	Non-fund-based - LT/ ST-Derivative Limits	LT/ST	-	-	-	1)CARE A-; Stable / CARE A2+ (09-Oct-17)	-	-

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