

Madhav (Sehora Silodi Corridor) Highways Private Limited

October 09, 2017

Ratings

Facilities	Amount (Rs. crore)	Ratings ¹	Rating Action
Long term Bank Facilities	67.92 (enhanced from 54.93)	CARE A-; Stable (Single A Minus; Outlook: Stable)	Reaffirmed
Long term / Short term Bank Facilities	11.50	CARE A-; Stable / CARE A2+ (Single A Minus; Outlook: Stable / A Two Plus)	Assigned
Total	79.42 (Rupees Seventy Nine crore and Forty Two lakh only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Madhav (Sehora Silodi Corridor) Highways Private Limited (MSHPL) continue to factor in the assured annuity cash flows for the project with timely receipt of six scheduled annuities and the eligible bonus annuity for early project completion till September 30, 2017, 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)] and 36 months of toll collection track record of the project.

The ratings also continue to derive comfort from creation of debt service reserve account (DSRA, in the form of fixed deposits) 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 traffic risk associated with a toll-based project, alongwith the O&M & interest rate risks.

Change in the credit profile of the annuity provider – MPRDC, deviation in the toll collection or 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 MSHPL.

Established track record of receipt of annuities by MPRDC and of toll collection: MSHPL receives semi-annual annuities from MPRDC and till September 2017, the company received six regular semi-annual annuities of Rs.6.03 crore, apart from the eligible bonus annuity for early project completion. This apart, the company also has toll collection rights on the project stretch till April 2028 and till September 2017, the project has a successful track record of over 36 months of toll collection with an annual toll collection of around Rs.2-3 crore.

Stable cash flows with annuities, alongwith toll collection, result in adequate debt coverage indicators for the company, as indicated by PBILDT interest coverage of 2.18x in FY17.

Low counterparty credit risk: MSHPL'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 (GoI). 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.

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

Creation of DSRA and provisions for MMRA: As per the sanction terms, MSHPL has created DSRA equivalent to next one quarter of interest and installment in the form of fixed deposits of Rs.2.44 crore, as on May 31, 2017. Earlier, the DSRA was in the form of Bank Guarantee (BG) of Rs.3.30 crore executed by MIPL in favour of SBI (lead bank) and escrow agent of MPRDC. Creation of DSRA provides added comfort in case of any liquidity mismatch / in case of any exigencies. MSHPL also intends to create a MMRA from the project cash flows to be utilized to part fund the major maintenance expenditure scheduled in FY27-FY28.

Key Rating Weaknesses

Sensitivity to changes in interest rates: 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 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, which forms the major proportion of the company's total revenue, is fixed for the entire concession period.

Inherent O&M risk: MSHPL is exposed to inherent O&M risk attached to the project. Although the routine O&M requirement is low for MSHPL's project stretch due to low traffic flow and negligible freight/ commercial traffic, which is also evident from an annual toll collection of Rs.2-3 crore, the company is 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](#)

[Criteria for Short Term Instruments](#)

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

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

About the Company

Incorporated in October 2012, MSHPL is a Special Purpose Vehicle (SPV) owned promoted by WAA Solar Private Limited (WSPL; rated CARE A-; Stable; 70% stake) 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 September 2017, MSHPL received six regular bi-annual annuities as scheduled and has collected toll of Rs.0.65 crore in Q1FY18.

Brief Financials (Rs. crore)	FY16 (A)	FY17 (A)
Total operating income	22.11	14.83
PBILDT	13.52	13.41
PAT	0.00	0.38
Overall gearing (times)	2.07	1.94
PBILDT Interest coverage (times)	1.92	2.18

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	-	-	December 2026	67.92	CARE A-; Stable
Non-fund-based - LT/ ST-Derivative Limits	-	-	-	11.50	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.	Fund-based - LT-Term Loan	LT	67.92	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) (07-Apr-14)
2.	Non-fund-based - LT/ ST-Derivative Limits	LT/ST	11.50	CARE A-; Stable / CARE A2+	-	-	-	-

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