

Madhav (Sehora Silodi Corridor) Highways Private Limited

December 01, 2020

Ratings

Facilities	Amount (Rs. crore)	Ratings ¹	Rating Action
Long term Bank Facilities*	49.74 (reduced from 55.25)	CARE A- (CE); Stable [Single A Minus (Credit Enhancement); Outlook: Stable]	Revised from CARE A-; Stable (Single A Minus; Outlook: Stable)
Total	49.74 (Rs. Forty-Nine crore and Seventy-Four Lakhs only)		

Details of facilities in Annexure-1

*backed by an unconditional & irrevocable corporate guarantee extended by WAA Solar Limited (WSL; rated CARE A-; Stable)

Unsupported Rating²	CARE BBB (Triple B) [Assigned]
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Note: Unsupported Rating does not factor in the explicit credit enhancement

Detailed Rationale & Key Rating Drivers for the credit enhanced debt

The rating assigned to the bank facilities of Madhav (Sehora Silodi Corridor) Highways Private Limited (MSHPL) was earlier based on the standalone credit profile of the company and was not deriving any credit enhancement from the unconditional & irrevocable corporate guarantee extended by WSL. However, consequent to moderation in the credit profile of MSHPL, the unconditional & irrevocable corporate guarantee is expected to provide credit enhancement to the bank facilities of MSHPL. Hence, the revision in rating is pursuant to change in analytical approach by CARE Ratings.

The rating assigned to the bank facilities of MSHPL is based on the credit enhancement in the form of an unconditional and irrevocable corporate guarantee extended by WAA Solar Limited (WSL).

Detailed Rationale & Key Rating Drivers of WSL

The rating assigned to the bank facilities of WSL continues to derive strength from its experienced promoter group with an established track record in infrastructure sector, satisfactory operational track record of the project of over eight years, long term revenue visibility due to presence of power purchase agreement (PPA) with Gujarat Urja Vikas Nigam Limited (GUVNL; rated CARE AA-; Stable/CARE A1+) at a fixed tariff for twenty five years, timely receipts of monthly payments from GUVNL, moderate debt coverage indicators, adequate liquidity marked by maintenance of funded Debt Service Reserve Account (DSRA) equivalent to one quarter of debt obligations and stable industry outlook.

The rating also takes cognizance of consistent improvement in WSL's capital structure along with reduction in loans and advances granted to group companies and guaranteed debt as on March 31, 2020 and satisfactory track record of operations of three Special Purpose Vehicles (SPVs) wherein WSL has extended corporate guarantee.

The strengths, however, are partially offset by susceptibility of power generation to variation in climatic conditions & technology risk associated with solar power plants, interest rate fluctuation and client concentration risk.

CARE also takes cognizance that WSL has not availed moratorium on debt repayment for its bank facilities, as a COVID-19 relief measure.

Key Rating Drivers of MSHPL for unsupported ratings:

The revision in rating assigned to the bank facilities of MSHPL factors the envisaged deterioration in its debt coverage indicators owing to significant reduction in toll collection during 7MFY21 (refers to the period April 1 to October 31) and volatility witnessed in the toll collection in the past. The rating revision also factors in moderate credit profile of its operation & maintenance (O&M) contractor; Madhav Infra Projects Limited (MIPL; rated CARE BBB-; Negative/ CARE A3).

The rating continues to derive strength from assured annuity cash flows with timely receipt of twelve bi-annual annuities as on September 30, 2020, adequate credit quality of the counterparty i.e. Madhya Pradesh Road Development Corporation [MPRDC; rated CARE A (Is); Stable, an undertaking of Government of Madhya Pradesh (GoMP)], and presence of debt service reserve account [DSRA] equivalent to more than one quarter of debt servicing.

The rating, however, continues to be tempered by inherent traffic risk associated with the project stretch along with inherent interest rate risk, O&M and major maintenance risk.

CARE also takes cognizance that MSHPL has availed moratorium on interest obligation on its term loan, available under RBI's COVID relief program during March to August 2020.

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

² As stipulated vide SEBI circular no SEBI/ HO/ MIRSD/ DOS3/ CIR/ P/ 2019/ 70 dated June 13, 2019. As per this circular, the suffix 'CE' (Credit Enhancement) is assigned to the ratings with explicit external credit enhancement, against the earlier used suffix 'SO' (Structured Obligation).

Rating Sensitivities (WSL)**Positive Factors:**

- Ability of the company to demonstrate a sustained improvement in its CUF levels above 20% along with improvement in its profitability.
- Improvement in credit profile of off taker i.e. GUVNL.

Negative Factors:

- Reduction in CUF levels below 16.00% on sustained basis which will result in decline in profitability and weakening of liquidity position of the company.
- Delay in receipt of payments from GUVNL beyond 30 days on a sustained basis.
- Deterioration in credit profile of off taker i.e. GUVNL.
- Any change in business activity including venturing into Engineering, Procurement & Construction (EPC) business which results in deterioration of WSL's financial risk profile.
- Investment in group companies or extending corporate guarantees which has a detrimental impact on its debt coverage indicators and liquidity position.

Detailed description of the key rating drivers of the guarantor: WSL**Key Rating Strengths**

Vast experience of the promoter group and established presence of the group in infrastructure sector: WSL is a part of Vadodara-based Madhav group which has an established track record in executing various solar power projects on EPC basis for third parties as well as for group companies. Till date, the group has executed solar power projects of around 84MW in various states.

WSL is promoted by Mr Ashok Khurana and his son Mr Amit Khurana, who possess vast experience in the infrastructure industry. The promoter group is ably supported by team of experienced professionals in day to day operations of the group companies.

Satisfactory operational performance of the solar project: WSL's solar plant was commissioned in January 2012 and has an operational track record of more than eight years till June 2020. During FY20, average CUF declined marginally to 18.43% (FY19: 19.33%) due to adverse weather conditions. Resultantly, WSL reported total operating income of Rs.26.81 crore during FY20 (FY19: 27.01 crore). Further, as per the clarifications issued by MNRE, the must run status granted to the renewable power assets remains unchanged during nation-wide lockdown. Consequently, it had minimal impact on operations of the company.

Long-term PPA with GUVNL having strong credit profile and satisfactory payment track record: WSL has signed PPA for the entire capacity with GUVNL for a term of 25 years at a fixed tariff of Rs.15 per kWh for the first 12 years and Rs.5 per kWh for the remaining 13 years. The presence of long-term PPA at a fixed tariff for the tenure of 25 years with a strong counterparty ensures cash flow sustainability & low off take risk. Further, WSL has a satisfactory track record of receiving prompt payments from GUVNL against the monthly invoices drawn on it for sale of power.

Comfortable capital structure and moderate debt coverage indicators: Owing to scheduled repayment of term loan and accretion to reserves, WSL's overall gearing improved further to 0.45x as on March 31, 2020 (0.55x as on March 31, 2019). Further, overall gearing adjusted for recourse nature of debt of SPVs, albeit high, also improved as on balance sheet date due to reduction in amount of debt guaranteed by WSL for its SPVs.

The debt coverage indicators are expected to remain moderate over the tenor of the loan. However, going forward decline in CUF levels, leading to decline in GCA and debt coverage indicators will remain a key rating monitorable.

Satisfactory operations of guaranteed group entities with changes in group structure: WSL has guaranteed debt for three SPVs of Madhav group, all of which are operational and requiring marginal support in two of them. Further, during FY20, WSL sold its entire stake in two of its subsidiaries to third parties and acquired stake in one entity from a related party. On sale of stake, WSL earned profit of Rs.9.43 crore resulted in improvement in its PAT and GCA during FY20.

Stable industry outlook: There is great thrust from Govt. for improving the share of solar power in India's overall power mix which is reflected from various policy initiatives. There had been muted solar power generation capacity additions during last two years due to imposition of safeguard duty on import of solar modules and cancellation of large amount of solar auctions among others. However, looking at the already allotted capacity and government's push for achieving targeted solar capacity of 100 GW by end of FY22, capacity additions are likely to improve in next two to three years. However, there are concerns like increased difficulties in land acquisition, poor evacuation infrastructure, very high dependence on imported solar cells & modules, regulatory haze in terms of renegotiation of tariff in concluded PPAs and cancellation of concluded auctions, weak financial risk profile of few Discoms resulting in significant delays in payment and increased difficulties in debt tie-up. Overall, positive and negative developments in the sector counterbalance each other, thereby resulting in a stable outlook.

Key Rating Weaknesses

Exposure of the project towards climatic conditions and technological risk: The CUF level of a solar power plant primarily depends upon solar radiation levels, climatic conditions, degradation of modules and technology used. Furthermore, the performance track record of the thin film type PV modules, used by WSL, in Indian conditions is relatively limited. Although, the modules and other equipment have been sourced from reputed suppliers, technological risk persists for the project duration.

Interest rate risk: Interest rate on debt is reset periodically to align with market rates by the lenders. Any significant adverse variation in the interest rates could potentially lower project return and affect the debt coverage indicators, since the tariff is fixed as per PPA.

Client concentration risk: GUVNL is the sole off-taker of the solar power generated from the WSL's plant, which exposes it to client concentration risk. However, strong financial risk profile of GUVNL and its established track record of prompt payments mitigate this risk to a certain extent.

Further, in case WSL terminates the PPA on GUVNL's default, GUVNL shall be liable to make payment equivalent to three years billing based on first year's tariff considered on normative CUF within 30 days as compensation to WSL. However, in such a case, for subsequent years, WSL will be able to sell the produced power at market rates which are currently much below rate as per the PPA.

Liquidity: Adequate

WSL's liquidity position remained adequate with defined cash flow mechanism in place, maintenance of adequate DSRA along with healthy free cash & bank balance and receipt of payments within 7 days of submission of monthly bill. Further, WSL's solar project has a comfortable tail period of five years.

WSL has funded DSRA equivalent to one quarter of debt servicing obligations of Rs.4.71 crore in the form of fixed deposit which provides added cushion to the liquidity. Apart from DSRA, WSL had free cash and bank balance of Rs.13.21 crore (apart from lien marked fixed deposits of Rs.17.85 crore) as on March 31, 2020 and reported healthy cash accruals of Rs.22.40 crore during FY20. Going forward, the company is envisaged to generate cash accruals of around Rs.15-16 crore which is sufficient to cater the debt servicing obligations of around Rs.10-11 crore in FY21.

Analytical approach for MSHPL: Standalone approach was being followed earlier by CARE to analyse MSHPL's rating as the company's rating was not deriving any credit enhancement from the unconditional & irrevocable corporate guarantee extended by WSL. However, consequent to moderation in credit profile of MSHPL, corporate guarantee is expected to provide credit enhancement to the bank facilities of MSHPL. Hence approach has been changed from standalone to assessment of the guarantor.

Credit Enhancement Rating (CE): Assessment of the Guarantor, WSL.

CARE has analysed MSHPL's credit profile by considering credit enhancement in the form of an unconditional & irrevocable corporate guarantee extended by WSL for the rated bank facilities of MSHPL.

Unsupported Rating: Standalone

Analytical approach for WSL: CARE has analyzed the credit profile of WSL by considering its standalone financial statements while factoring corporate guarantee extended by WSL to its SPVs.

Applicable Criteria

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

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

[Rating Methodology-Toll Road Projects](#)

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

[Rating Methodology – Annuity-based Road Projects](#)

[Rating Methodology: Solar Power Projects](#)

[Rating Methodology - Power Generation Projects](#)

[Liquidity Analysis of Non-Financial Sector Entities](#)

[Rating Methodology: Notching by factoring linkages in Ratings](#)

[Criteria for Rating Credit Enhanced Debt](#)

About the Credit enhancement provider: WSL

Incorporated in November 2009, Vadodara-based WSL is a subsidiary of Madhav Power Private Limited, promoted by Mr Ashok Khurana and Mr Amit Khurana. The promoters of WSL were the erstwhile promoters of MSK Projects India Ltd., which was

subsequently taken over by the Welspun group [now known as Welspun Enterprises Limited (WEL; rated CARE A1+)]. Further, on June 12, 2018, WSL got listed on BSE SME exchange.

WSL has set-up a 10.25-MW (AC -10MW) grid interactive solar PV power project and signed a PPA for 25 years with GUVNL under the Gujarat Solar Policy 2009 framework for the sale of generated power. The project is located at Surendranagar district in Gujarat. This apart, WSL has also commissioned a 0.10 MW grid interactive solar PV power project at Rajabhoj Airport, Bhopal, which commenced its operations in July 2013.

Apart from the above, WSL has sponsored Madhav group's various project-specific SPVs in the road construction and solar power segments.

Brief Financials (Rs. crore)	FY19 (A)	FY20 (A)
Total operating income	27.01	26.81
PBILDT	25.17	23.74
PAT	5.29	10.29
Overall gearing (times)	0.55	0.45
PBILDT Interest coverage (times)	2.65	2.77

A: Audited

About the Company: MSHPL

Incorporated in October 2012, MSHPL is a SPV owned and promoted by WSL (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)	FY19(A)	FY20(A)
Total operating income	15.87	16.64
PBILDT	13.38	13.58
PAT	(0.48)	0.25
Overall gearing (times)	2.13	1.87
PBILDT Interest coverage (times)	2.13	1.79

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

Complexity level of various instruments rated for this company: Annexure-3

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	49.74	CARE A- (CE); Stable
Un Supported Rating-Un Supported Rating (Long Term)	-	-	-	0.00	CARE BBB

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 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based - LT-Term Loan	LT	49.74	CARE A-(CE); Stable	-	1)CARE A-; Stable (03-Jan-20)	1)CARE A-; Stable (05-Oct-18)	1)CARE A-; Stable (09-Oct-17)
2.	Non-fund-based - LT/ ST-Derivative Limits	LT/ST	-	-	-	-	1)Withdrawn (05-Oct-18)	1)CARE A-; Stable / CARE A2+ (09-Oct-17)
3.	Un Supported Rating-Un Supported Rating (Long Term)	LT	0.00	CARE BBB	-	-	-	-

Annexure 3: Complexity level of various instruments rated for this Company

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based - LT-Term Loan	Simple
2.	Un Supported Rating-Un Supported Rating (Long Term)	Simple

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.

Contact us

Media Contact

Mr. Mradul Mishra
Contact no. – +91-22-6837 4424
Email ID – mradul.mishra@careratings.com

Analyst Contact

Mr. Ujjwal Patel
Contact no.- +91- 79-4026 5649
Email ID- ujjwal.patel@careratings.com

Relationship Contact

Mr. Deepak Prajapati
Contact no. - +91-79-4026 5656
Email ID – deepak.prajapati@careratings.com

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