Madhya Pradesh Road Development Corporation Limited

April 03, 2020

Rating

Type of Rating	Rating[1]	Rating Action
Issuer Rating	**CARE A (Is); Stable [Single A (Issuer Rating); Outlook: Stable]**	**Reaffirmed**

 # the above 'Issuer Rating' is subject to MPRDC maintaining an overall gearing not exceeding 0.50x
Details of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The credit rating of Madhya Pradesh Road Development Corporation Limited (MPRDC) continues to draw comfort from its strong parentage of Government of Madhya Pradesh (GoMP), its robust business model being the State Highway Authority of GoMP and facilitator for development of state and national highways road projects assigned to it in the state of Madhya Pradesh (MP) and its established track record of facilitating road projects through public-private-partnership (PPP) mode and cash contract route, with majority share of cash contracts in the present road portfolio.

The rating also continues to be underpinned by MPRDC's efficient cash flow arrangements with GoMP for facilitation of road projects, strong liquidity and strong capital structure with nil debt on its books.

The rating, however, continues to be constrained on account of the contractual terms of concession agreement which could give rise to certain liabilities upon occurrence of select force majeure events or termination of contracts, dependence of MPRDC on budgetary support from GoMP. Rating also takes into cognizance restricted scale of operations and profitability of MPRDC with significant dependence on supervision charges earned on cash contracts funded by GoMP.

Rating Sensitivities:

Positive Factors

- Improvement in credit risk profile of GoMP

Negative Factors

- Any change in the business model of MPRDC leading to availment of debt which results in increase in overall gearing to over 0.50x
- Deterioration in the credit risk profile of GoMP
- Any significant delays in remittance of annuity payments to contractors by MPRDC

Detailed Rationale & Key Rating Drivers

Key Rating Strengths

Strong parentage and improvement in economic performance of MP: The state of Madhya Pradesh (MP) has continued its growth trajectory with a 7% growth in its Gross State Domestic Product (GSDP) at constant prices in FY19, along with maintenance of revenue surplus position since FY05 with comfortable liquidity position. Strong economic growth of GoMP, alongwith its focus on infrastructural development, provides MPRDC with the necessary resources for facilitation of the projects.

Role as State Highway Authority; alongwith facilitator for development of NHs in MP: MPRDC is the State Highway Authority of MP for facilitation of construction, maintenance and upgradation of roads in MP, including State Highways (SHs), Major District Roads (MDRs) and National Highways (NHs). It holds the funds received from GoMP and Ministry of Road Transport & Highways (MORTH), Government of India (GoI) as current liabilities in its books until their usage/deployment, which are temporarily parked as fixed deposits. It does not hold the asset ownership or debt on its books.

Established track record of facilitating road development under various models: MPRDC has established track record of development of total road length of 15,106 kms (321 roads) till September 30, 2019. The projects are assigned to it by GoMP and MORTH and are executed on PPP basis, including build-operate-transfer (BOT) – toll, annuity and hybrid annuity, and operate-maintain-transfer (OMT), and on cash contract basis. Funds for these projects are received from GoMP via its budgetary allocation and via Asian Development Bank (ADB) and New Development Bank (NDB) loans, along with funds received from MORTH.

Apart from BOT and cash contracts, MPRDC is also developing 24 border check posts along-with two Central Control Facility (CCF) buildings at Indore and Gwalior, each under toll basis.

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

Continued higher proportion of cash contracts in the current road portfolio: Over last three years ended FY19, share of cash contracts in MPRDC's road portfolio has increased, while share of contracts on PPP basis has reduced.
Out of MPRDC's total road portfolio under development as on September 30, 2019, comprising road length of 4,995 kms to be built at a cost of around Rs.14,067 crore, only around 19% of the roads are being built under PPP basis (P.Y. 22%), while the balance are cash contracts. However, MPRDC manages the operational road portfolio of over 15,000 km in BOT as well as EPC basis. This provides it opportunity to monetize some of these assets for GoMP on operate maintain transfer (OMT) or Toll operate transfer (TOT) basis. These proceeds can be in turn utilized for the road development which can also enhance the prospects of MPRDC.
Cash contracts comprise 30% contracts through funding from MORTH (P.Y. 29%), 19% through funding from ADB via GoMP (P.Y. 16%), 22% funding from NDB via GoMP (P.Y. 21%) and the balance 10% through funding from GoMP via its budgetary allocation (P.Y. 12%).
Increase in proportion of cash contracts was mainly on account of re-award of certain projects earlier awarded on PPP basis, on cash contract basis, due to non-achievement of timely project milestones.

Strong capital structure: Company has a strong capital structure with debt free status. It being a facilitator for the project development, it does not hold asset ownership and simultaneously does not have any loans on its books. However, any change in the present business model and the company resorting to external borrowings leading to an increase in the overall gearing beyond 0.50x shall be one of the key credit monitorables.

Key Rating Weaknesses

Restricted scale of operations and profitability: MPRDC has significant dependence on income earned through supervision charges for work executed on cash contracts basis funded by GoMP, which limits its scale of operations, depending upon the pace of award of these projects. This apart it also earns annual grant from MORTH for facilitation of NHs and interest on unencumbered deposits.
With reduction in award of projects during recent years alongwith reduction in cash contracts funded by GoMP, MPRDC's income from supervision charges has reduced over last two years ended FY19. This apart, income from interest on unencumbered deposits has also reduced owing to management's strategy to restrict idle cash and bank balance in the company. This has thus restricted scale of operations and profitability of the company with a total operating income of Rs.48.88 crore in FY19 and PBILDT margin of around 13% (as against TOI of Rs.127.30 crore and PBILDT margin of 55%, in FY17).

Dependence on budgetary support from GoMP; albeit efficient cash flow arrangement with GoMP: MPRDC's role as a facilitator makes it dependent on budgetary support from GoMP and timely availability of funds, to honor its contractual obligations. However, MPRDC has an established track record of receipt of funds from GoMP for viability gap funding, annuity payouts and cash contracts (both funded through budgetary allocation of GoMP and through ADB and NDB) quarterly in advance.

Contractual terms of concession agreement likely to trigger certain liabilities upon occurrence of select force majeure events or termination of contracts: MPRDC, as per the terms of concession agreement entered into with project concessionaries, is liable to reimburse certain project costs and make termination payments to the concessionaries in case of select force majeure events or event of default. However, in case of devolvement of such liabilities, the payments to be made to the concessionaires are to be funded by GoMP, as the ownership of the assets rests with GoMP. During FY17, MPRDC had deposited a sum of Rs.65.00 crore pertaining to a disputed terminated BOT project, at the directive of Hon'ble High Court of MP, and has filed a petition with Hon'ble Supreme Court. Modus operandi of the termination payment to the concessionaire, in case of devolvement of this liability, shall be crucial from credit perspective.

Liquidity: Strong

MPRDC receives funds from GoMP and MORTH for facilitation of road projects quarterly in advance, which provides it with adequate liquidity at any given point in time to meet its payment obligations towards contracts / concessionaires and thus results in strong liquidity profile of the company.
Furthermore, company also has a free Cash and bank balance of around Rs.150 crore at FY19 end.

Analytical Approach: Standalone with support from GoMP and strategic importance for GoMP

MPRDC is dependent on funds received from GoMP for facilitation of road projects, while it also earns revenue from project facilitation, interest income on free deposits and penalties and forfeiture. Furthermore, MPRDC is the facilitator for development of roads in the state of Madhya Pradesh, on behalf of GoMP.
Thus, standalone financials of MPRDC, alongwith cash flow support from GoMP and MPRDC's strategic importance for GoMP has been considered for analysis purpose.

Applicable Criteria
[Criteria on assigning 'outlook' and 'credit watch']
[CARE's Policy on Default Recognition]
[Financial ratios - Non- Financial Sector]
[Rating Methodology: Factoring Linkages in Rating]
[CARE's Issuer Rating]
[Rating Methodology - State Governments]

About the Company
Incorporated on July 14, 2004 as a successor to Madhya Pradesh Rajya Setu Nirman Nigam Ltd (MPRSNNL), MPRDC is wholly owned by GoMP.
The company is the 'State Highway Authority' for facilitation of construction, maintenance and upgradation of SHs and MDRs assigned to it by GoMP and NHs assigned to it by MORTH, GoI, in the state of MP. MPRDC's mission is to develop and maintain a safe and effective transportation system in MP via PPP route, which includes projects on BOT and OMT basis, and also on cash contract basis.
MPRDC has a well-defined organization structure and is managed by the Board of Directors, which is headed by Hon'ble Chief Minister of Madhya Pradesh.

Brief Financials of MPRDC (Rs. crore)	FY18 (A)	FY19 (Prov.)
Total Operating Income	78.18	48.88
PBILDT	20.57	6.49
PAT	14.24	3.88
Overall Gearing (times)	0.00	0.00
Interest Coverage (times)	NM	NM

A: Audited; Prov. – Provisional; NM: Not meaningful since the company does not have any debt on its books

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History (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
Issuer Rating-Issuer Ratings	-	-	-	0.00	CARE A (Is); 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.	Issuer Rating-Issuer Ratings	Issuer rating	0.00	CARE A (Is); Stable	-	1)CARE A (Is); Stable (28-Mar-19)	1)CARE A (Is); Stable (15-Mar-18)	1)CARE A (Is); Stable (29-Mar-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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