

Mahakaleshwar Tollways Private Limited

July 5, 2017

Rating

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long-term Bank Facilities	164.84	CARE BB+; Stable (Double B Plus; Outlook: Stable)	Revised from CARE BB; Stable (Double B; Outlook; Stable)
Total	164.84 (Rupees One Hundred Sixty Four crore and Eighty Four Lakh only)		

Details of facilities in Annexure-1

Detailed Rationale

The revision in the rating assigned to the bank facilities of Mahakaleshwar Tollways Private Limited is on account of improvement in toll collection since Q4FY17, proposed upward revision in toll rate w.e.f. September 01, 2017 and measures taken to eliminate unlawful exemption on vehicles. The rating continues to be constrained by loss of revenue due to suspension of toll collection for part of FY17 (refers to the period April 01 to March 31), weak financial performance in FY17, non-payment of premium to Madhya Pradesh Road Development Corporation Ltd (MPRDC), revenue risk associated with toll-based projects, adverse traffic mix and operational and maintenance risk for the road stretch. The rating, however, derives strength from the experience of the promoters, maintenance of DSRA, low threat from alternative routes and benefits expected from the development of adjoining highways.

The ability of the company to achieve growth in toll revenue as envisaged, any adverse impact of non-payment of premium to MPRDC and funding of major maintenance of road shall be the key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Weaknesses

Revenue risk associated with toll-based projects

Revenue in a toll-based road project is dependent on rate of traffic growth, traffic-mix and growth in toll rates. Being a toll-based project, MTPL is associated with the inherent revenue risks arising from toll rate revision and traffic fluctuations thereby translating into unpredictable cash inflows.

The company incurred cash loss during the past three years in view of lower than envisaged toll collection due to weak traffic flow.

After being impacted by demonitisation, the toll collection has improved since January 2017. Monthly toll collection during Jan-May 2017 have been approximately Rs.2.0 crore which is sufficient to meet the opex and interest servicing during the period. Further, the company has increased its tollable traffic base w.e.f. May 24, 2017 by reducing the exempted vehicles through various means, which shall provide growth to the revenue. Moreover the toll rate shall be revised upward (by approximately 8%) w.e.f. September 01, 2017, which is expected to increase the revenue in H2FY18.

Adverse traffic mix with higher share of passenger cars and LCVs

The share of passenger cars and LCVs have consistently been on the higher side, accounting for over 75% of total traffic as Ujjain is place of Pilgrimage with balance traffic contributed by buses, trucks and MAVs. Gujarat and Maharashtra have already exempted toll of cars on state highways. In the event of implementation of similar policy by Government of Madhya Pradesh, toll collection can be adversely affected.

Operation and maintenance risk

MTPL has entered into an O&M contract with Koshier Infrastructure Private Limited (KIPL) for carrying out the toll collection activities in accordance with the concession agreement w.e.f. June 01, 2016. However due to continuous losses for the company, it has not created any major maintenance reserve account.

Non-payment of premium to MPRDC

As per the concession agreement, MTPL has to pay a premium of 26.38% of the total realizable fee for the first year post achievement of COD of the project. However, due to persistent losses faced by the project since the date of its achieving COD, this fee was not been paid by MTPL.

Key Rating Strengths

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

Experienced promoters

MTPL was promoted by SREI Infrastructure Finance Ltd (through Bharat Road Network Ltd (BRNL), 48%), Varaha Infra Limited (VIL, 26%), Galfar Engineering & Contracting SAOG, Oman (GEC, 26%). The promoters have demonstrated support operationally as well as financially by providing corporate guarantee on behalf of MTPL and also by bringing in unsecured loans from time to time.

Compensation for suspension of tolling

MTPL was directed by the Concessioneing Authority (CA), to suspend the toll collection during April and May 2016 due to Simhastha Festival in Ujjain. Due to heavy flow of traffic during these two months, the loss of revenue is estimated to be Rs.10.14 crore and MTPL has claimed reimbursement for the same from MPRDC. The toll collection was again suspended for a period of 23 days due to demonetization in November 2016. MTPL has claimed Rs.4.62 crore for the same from MPRDC. Receipt of adequate and timely compensation from MPRDC shall remain crucial.

Low threat from alternate routes

As per the CA, neither MPRDC nor any Government shall at any time before the 10th anniversary of the Appointed Date (that is May 26, 2009), construct or cause to be constructed any Competing Road.

Development of the SEZ in Pithampur and adjoining highways to benefit the company going forward

Indore is also expected to attract lot of investment with proposed development of SEZ in Pithampur (25 kms from Indore). An 8 lane expressway is being constructed from Airport to the Project highway (Indore-Ujjain), by Indore Development Authority in order to save time and reduce congestion by bypassing the city traffic of Indore. Once the road from Indore Airport to Project highway gets completed, this will attract traffic which is currently originating from Pithampur SEZ for Rajasthan, Punjab and Haryana and is plying through longer routes via Dewas and Biaora.

Analytical approach: Standalone

Applicable Criteria

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

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

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

[Rating Methodology - Infrastructure Sector Ratings](#)

[Rating Methodology for Toll Road Projects](#)

About the Company

Mahakaleshwar Tollways Private Limited (MTPL), promoted by a consortium of SREI Infrastructure Finance Ltd (SREI through Bharat Road Network Ltd (48%)), Galfar Engineering & Contracting SAOG, Oman (GEC; 26%) and Varaha Infra Limited (VIL; 26%), is a Special Purpose Vehicle (SPV) to undertake the four-laning, strengthening and up-gradation of the Indore-Ujjain Section of SH-27 (49 km), in the State of Madhya Pradesh (MP), on Build, Operate and Transfer (BOT) – Toll basis. The project, awarded by Madhya Pradesh Road Development Corporation Limited (MPRDC), was completed in Oct. 2010 and the commercial date of operation (COD) was announced on Feb 17, 2011. The Concession Agreement (CA) was executed between MTPL (Concessionaire) and MPRDC on September 17, 2008 for a concession period of 25 years.

MTPL incurred a loss of Rs.14.76 crore in FY17 (loss of Rs.16.87 crore in FY16) on an operating income of Rs.18.59 crore in FY17 (Rs.22.46 crore in FY16).

Status of non-cooperation with previous CRA: Not Applicable

Any Other Information: Nil

Rating History (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 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	-	-	March 2030	164.84	CARE BB+; Stable

Annexure 2

Rating History:-

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	164.84	CARE BB+; Stable	-	1)CARE BB; Stable (24-Feb-17)	-	-

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