

Mhow Agroh Pathways Private Limited

December 24, 2018

Rating

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long Term Bank Facilities	136.88 (Reduced from 138.73)	CARE BBB+ (SO); Stable [Triple B Plus (Structured Obligation)]; Outlook: Stable]	Revised from CARE BBB+ (SO); Negative [Triple B Plus (Structured Obligation)]; Outlook: Negative]
Total Facilities #	136.88 [Rupees One Hundred Thirty Six crore and Eighty Eight lakh only]		

#backed by unconditional and irrevocable corporate guarantee extended jointly and severally by Prakash Asphaltings and Toll Highways (India) Limited (PATH; rated CARE BBB+; Stable / CARE A2) and Agroh Infrastructure Developers Private Limited (AIDPL, rated CARE BBB; Stable/ CARE A3+)

Details of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The rating assigned to the bank facilities of Mhow Agroh Pathways Pvt. Ltd. (MAPPL) is based on the credit enhancement in the form of a joint and several, unconditional and irrevocable corporate guarantee extended by Prakash Asphaltings and Toll Highways (India) Limited (PATH; rated CARE BBB+; Stable / CARE A2; revised from CARE BBB+; Negative / CARE A3+ in December 2018) and Agroh Infrastructure Developers Private Limited (AIDPL, rated CARE BBB; Stable/ CARE A3+; reaffirmed in November 2018).

The revision in the short term rating assigned to the bank facilities of Prakash Asphaltings and Toll Highway (India) Limited [PATH] is mainly on account of improvement in its debt coverage indicators on a combined basis [viz. including PATH and its special purpose vehicles (SPVs) operating road projects] owing to decrease in funding requirement in select SPVs due to improvement in toll collection along with improvement in its profitability.

The ratings continue to favorably factor PATH's established presence in construction and operation of road projects on annuity and toll [build-operate transfer (BOT) and operate-maintain-transfer (OMT)] basis. The ratings also continue to factor its stable scale of operations with diversified segmental revenue profile and healthy operating profitability along with its moderate revenue visibility. The ratings also take into account improvement in its capital structure on account of merger of two of its SPVs in PATH and funding of Jhansi – Orai project through internal accruals and surplus cash generation from SPVs instead of reliance on debt as was previously envisaged.

The ratings, however, continue to be constrained by its exposure to inherent traffic and operations and maintenance (O&M) risks associated with toll-based road projects, exposure to regulatory risks, large amount of 'with recourse' debt in its SPVs where major portion of PATH's net worth is invested, continued funding requirement in select SPVs; and PATH's working capital intensive operations along with geographical concentration of its revenue.

PATH's ability to further increase its scale of operations through greater geographical diversification along with improvement in its profitability and capital structure while efficiently managing its working capital requirement; and its ability to improve the cash flows of its under-performing SPVs to adequate levels shall be the key rating sensitivities. This apart, any major debt funded future projects undertaken by PATH shall also remain a key rating monitorable.

Outlook: Stable

The revision in outlook from 'Negative' to 'Stable' is on account of improvement in PATH's credit risk profile arising from improvement in its profitability and higher toll collections in select SPVs which have ultimately reduced the funding support required for them, thereby leading to improvement in its capital structure and combined debt coverage indicators of the group which is expected to continue in the medium term.

Detailed description of the key rating drivers of the guarantor: PATH

Key Rating Strengths

Established presence in road construction, its operations and toll collection: PATH has an established presence of more than three decades in road construction and toll collection in the state of Madhya Pradesh (MP). It is registered as an 'A' class EPC contractor for civil construction with Government of Madhya Pradesh (GoMP). Apart from EPC activities, the company collects toll from toll collection contracts (TCC) and OMT & BOT projects structured in its own books. PATH also

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

has 11 SPVs operating road projects on annuity and toll (BOT and OMT) basis. PATH, together with its SPVs, is referred to as PATH group.

Segmentally diversified and stable scale of operations along with improvement in profitability: PATH has a segmentally diversified revenue profile with 38% of company's sales from TCC (60% in FY17), 35% from BOT and OMT toll projects (7% in FY17) and 28% from EPC segment (33% in FY17). Path's TOI remained stable in FY18 at Rs.901.56 crore which was mainly supported by toll income from TCC and OMT projects as income from EPC segment witnesses a dip of 22% y-o-y during FY18. PBILDT margin improved to 12.05% in FY18 (7.97% in FY17) on account of higher share of revenues from OMT projects which have healthy operating profitability. However, TCCs inherently yield thin profitability on account of fixed payment obligations to the concessioning authority.

Moderate revenue visibility: Revenue visibility of PATH remained moderate with order book of around Rs.1,228 crore as on October 31, 2018, which translates into 1.36x of its FY18 TOI. The order book comprises EPC orders of Rs.595 crore, expected revenue from TCC of around Rs.318 crore and expected toll collection of Rs.315 crore from OMT and BOT projects structured in PATH's balance sheet. During H1FY19, PATH registered a TOI of Rs.373 crore.

Healthy toll collection in OMT projects structured in own balance sheet: PATH has two operational OMT projects structured in its own balance sheet viz., Pathankot – Jalandhar (PJ-OMT) which commenced toll collection in March 2017 and Jhansi – Orai (JO-OMT) which commenced toll collection in October 2016. During FY18, both OMT projects reported healthy toll collection largely offsetting the lower execution of orders from EPC segment. Further, these OMT projects have reported revenues of Rs.154.92 crore in H1FY19 with sustainable performance in medium term. PJ-OMT has a concession period till March 2026 and has major maintenance in FY20 while JO-OMT has a concession period till March 2025 and has major maintenance in FY22.

Improvement in overall gearing and debt coverage indicators: Growth in infrastructure is critical for the development of the economy and hence, the construction sector, which contributes around 8% of the GDP, assumes an important role. The sector was marred by varied challenges during the last few years on account of economic slowdown, regulatory changes and policy paralysis which had adversely impacted the financial and liquidity profile of players in the industry. Government of India has undertaken several steps for boosting the infrastructure development and reviving the investment cycle. The same has gradually resulted in increased order inflow and movement of passive orders in existing order book. The focus of the government on infrastructure development is expected to translate into huge business potential for the construction industry in the long-run. In the short to medium term (1-3 years), projects from transportation and urban development sector are expected to dominate the overall business for construction companies.

Stable demand outlook for road construction industry; albeit with execution challenges: Outlook for Indian road construction sector is expected to be stable in medium term on account of increased thrust of Government on development of road infrastructure to support economic growth. However, the road construction sector is highly fragmented and involves tendering process for order procurement, which results in intense competition. Additionally, execution challenges including delays in land acquisition, regulatory clearances and elongated working capital cycle due to longer gestation period of the projects beleaguer the industry.

Key Rating Weaknesses

Sizeable guaranteed debt in PATH's SPVs which are inherently exposed to traffic and O&M risks; along with continued funding requirement in some under-performing SPVs due to shortfall in their cash flows: PATH has significant off-balance sheet exposure through corporate guarantees extended for bank facilities availed by its various SPVs, which has resulted in a high adjusted overall gearing (including outstanding guaranteed debt of SPVs) of 2.63x as on March 31, 2018. Around 70% of PATH's net worth was invested in its SPVs as on March 31, 2018. Majority of these SPVs operate toll road projects, which, along with PATH's own toll projects, exposes the PATH group to risks associated with adverse variations in traffic volume or O&M expenses on the project stretch. With a trend of improvement in toll collection in select SPVs during FY18 and H1FY19, the propensity of PATH to support their operations and meet their debt servicing in the medium term is expected to reduce to an extent. However, debt servicing in some SPVs where there is shortfall is still being largely met through sponsor support of PATH and other JV partners like Agroh Infrastructure Developers Pvt Ltd (rated CARE BBB; Stable / CARE A3+) and Oriental Structural Engineers Private Limited (rated CARE A-; Stable / CARE A2+). Also, there is delayed commissioning in one SPV which requires support.

Liquidity Analysis

Moderate liquidity due to working capital intensive nature of operations: PATH's liquidity remained moderate on account of high utilization of its fund based working capital limits averaging at 97% during trailing 12 months ended October 2018. Working capital intensive nature of construction business entails large fund requirement due to long construction period of around two years and milestone based payment terms associated with it. However, PATH had free

cash and bank balance of Rs.6.74 crore as on March 31, 2018 and its operating cycle remained stable at 20 days in FY18 as compared to 24 days in FY17.

Geographically concentrated operations: Majority of PATH's orders are in the state of Madhya Pradesh, which exposes the company to geographical concentration risk and closely ties its fortunes to the incremental development of roads in the state.

Exposure to regulatory risk: Regulatory risk associated with any adverse announcements by state governments on toll collection on state highways may affect the credit profile of the company.

Analytical approach: Assessment of the Guarantor, PATH

CARE has analysed MAPPL's credit profile by considering credit enhancement provided in the form of an unconditional and irrevocable corporate guarantee extended jointly and severally by PATH and AIDPL to the lenders of MAPPL for the rated facilities.

Standalone financials of PATH, along with cash flow support to its SPVs, are considered for assessment. PATH, apart from the initial equity infusion in the project funding of its 11 SPVs, has extended corporate guarantee to the bank facilities of eight out of its 11 SPVs and has also invested incremental funds in few SPVs to support their operations. Hence, standalone financials of PATH along with combined cash flows of PATH group are considered for credit assessment of PATH. List of SPVs considered for combining cash flows are presented in **Annexure -3**.

Applicable Criteria

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

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

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

[Rating Methodology – Factoring Linkages of Group companies in Ratings](#)

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

[Rating Methodology - Infrastructure Sector Ratings](#)

About the Company: MAPPL

Incorporated in July 2011, MAPPL is an SPV sponsored by PATH group (60% stake of PATH group in MAPPL) and AIDPL (40% stake) to undertake two-laning of Rau-Mhow-Mandleshwar road from chainage of 14.780 km (near Rau) to 0.00 km (Mandleshwar) on State Highway 38 (SH-38) in the Madhya Pradesh. Length of the tollable stretch is approximately 69.40 km. The project was concessioned by Madhya Pradesh Road Development Corporation Ltd (MPRDC; rated CARE A (Is); Stable) on design-build-finance-operate-transfer (DBFOT) - toll basis for a period of thirty years (incl. two years of construction period) from the appointed date viz. June 18, 2012. The Concession agreement (CA) was signed on July 28, 2011. The project comprises two road stretches. MAPPL achieved provisional commercial operations date (COD) for section-I of the project from Rau to Mhow on February 03, 2014 and started toll collection on this section from this date. Final completion certificate for this stretch was received on June 06, 2014. Toll collection of the company has remained inadequate, resulting in stressed liquidity. Consequently, MAPPL is dependent on the financial support from its sponsors for meeting its operational expenses and debt servicing obligations. Construction of Section-II of the project has however been delayed by around 54 months. The company achieved provisional COD for the same on December, 2017 and final COD is expected by January 2019.

Total project cost is envisaged to be around Rs.230.00 crore, to be funded through equity of Rs.35.21 crore, term loan of Rs.138.73 crore, equity grant from MPRDC of Rs.35.21 crore and balance through unsecured loans from promoters / project creditors.

Brief Financials: MAPPL (Rs. crore)	FY17 (A)	FY18 (A)
Total operating income	2.76	3.11
PBILDIT	2.10	2.19
PAT	(5.05)	(4.98)
Overall gearing (times)	4.98	7.00
Interest coverage (times)	0.39	0.40

A: Audited

About the Guarantor: PATH

Promoted in 1983 by Agrawal family of Indore and presently managed by Mr Puneet Agrawal and Mr Nitin Agrawal, Prakash Asphaltings and Toll Highway (India) Limited (PATH) is engaged in road construction activities, along with collection of toll through TCC and BOT & OMT projects. Furthermore, PATH has 11 special purpose vehicles (SPV) as on September 30, 2018, of which nine were fully operational, one is partly operational and one is in construction stage.

These are a mix of toll (build-operate-transfer; BOT), annuity and OMT projects. PATH, along with its 11 SPVs, is together referred to as 'PATH group'.

Brief Financials: PATH (Rs. crore)	FY17 (A)	FY18 (A)
Total operating income	937.31	901.56
PBILDT	74.70	108.61
PAT	40.37	76.30
Overall gearing (times)	0.95	0.69
Interest coverage (times)	3.62	4.73

A: Audited

Further, as per provisional results for H1FY19, PATH reported a PBT of Rs.36.85 crore on a total operating income of Rs.374.82 crore.

About the Guarantor: AIDPL

AIDPL was initially incorporated as a SPV by the Singhal family of Indore for UAJ project awarded by Madhya Pradesh Road Development Corporation Limited [MPRDC; rated CARE A (Is); Stable] in November 2001. Subsequently, AIDPL has executed EPC work for multiple BOT projects secured in SPVs. During FY18, contract receipts for EPC work executed for own SPVs, toll collection and other income constituted 89%, 6% and 5% respectively of the TOI of AIDPL. As on March 31, 2018, AIDPL had ten BOT-based road projects (nine in joint venture (JV) SPVs and two in wholly owned SPVs) in its portfolio (three operational toll projects, one annuity project, two toll plus annuity projects, three OMT projects and one under construction toll project). Apart from above, AIDPL is executing three HAM projects which are at under-construction stage.

Brief Financials: AIDPL (Rs. crore)	FY17 (A)	FY18 (A)
Total operating income	94.58	140.39
PBILDT	33.21	49.11
PAT	13.84	21.07
Overall gearing (times)	0.45	0.63
Interest coverage (times)	3.60	5.77

A: Audited

Based on provisional results for H1FY19, AIDPL reported a TOI of Rs.109.03 crore (H1FY18: Rs. 51.43 crore).

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.

Analyst Contact:

Name: Naresh M. Golani

Tel: 079-40265618

Mobile : 9825139613

Email: naresh.golani@careratings.com

****For detailed Rationale Report and subscription information, please contact us at www.careratings.com**

About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading

service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

Disclaimer

CARE's ratings are opinions on credit quality and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. CARE has based its ratings/outlooks on information obtained from sources believed by it to be accurate and reliable. CARE does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE have paid a credit rating fee, based on the amount and type of bank facilities/instruments.

In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

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	-	-	March 2029	136.88	CARE BBB+ (SO); 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 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	136.88	CARE BBB+ (SO); Stable	-	1)CARE BBB+ (SO); Negative (04-Jan-18) 2)CARE BBB+ (SO) (24-Apr-17)	-	-

Annexure -3: List of SPVs considered for combining cash flows

Sr. No.	Name of SPVs	% holding of PATH group
1	Allahabad Bypass Pathways Pvt Ltd.	100%
2	Agra Gwalior Pathways Pvt Ltd.	100%
3	Borkhedi Wardner Pathways Pvt Ltd.	100%
4	Gwalior Pathways Pvt Ltd.	100%
5	Mhow Agroh Pathways Pvt Ltd.	60%
6	Khandwa Agroh Pathways Pvt Ltd.	60%
7	Guna Sheopur Pathways Pvt Ltd.	51%
8	Path Oriental Highways Ltd.	50%
9	Oriental Pathways (Agra) Pvt. Ltd.	49%
10	Oriental Pathways (Nagpur) Pvt. Ltd.	49%
11	Rewa Pathways Pvt. Ltd.	34%

CONTACT**Head Office Mumbai**

Ms. Meenal Sikchi
 Cell: + 91 98190 09839
 E-mail: meenal.sikchi@careratings.com

Ms. Rashmi Narvankar
 Cell: + 91 99675 70636
 E-mail: rashmi.narvankar@careratings.com

Mr. Ankur Sachdeva
 Cell: + 91 98196 98985
 E-mail: ankur.sachdeva@careratings.com

Mr. Saikat Roy
 Cell: + 91 98209 98779
 E-mail: saikat.roy@careratings.com

CARE Ratings Limited

(Formerly known as Credit Analysis & Research Ltd.)

Corporate Office: 4th Floor, Godrej Coliseum, Somaiya Hospital Road, Off Eastern Express Highway, Sion (East), Mumbai - 400 022
 Tel: +91-22-6754 3456 | Fax: +91-22-6754 3457 | E-mail: care@careratings.com

AHMEDABAD

Mr. Deepak Prajapati
 32, Titanium, Prahaladnagar Corporate Road,
 Satellite, Ahmedabad - 380 015
 Cell: +91-9099028864
 Tel: +91-79-4026 5656
 E-mail: deepak.prajapati@careratings.com

BENGALURU

Mr. V Pradeep Kumar
 Unit No. 1101-1102, 11th Floor, Prestige Meridian II,
 No. 30, M.G. Road, Bangalore - 560 001.
 Cell: +91 98407 54521
 Tel: +91-80-4115 0445, 4165 4529
 Email: pradeep.kumar@careratings.com

CHANDIGARH

Mr. Anand Jha
 SCF No. 54-55,
 First Floor, Phase 11,
 Sector 65, Mohali - 160062
 Chandigarh
 Cell: +91 85111-53511/99251-42264
 Tel: +91- 0172-490-4000/01
 Email: anand.jha@careratings.com

CHENNAI

Mr. V Pradeep Kumar
 Unit No. O-509/C, Spencer Plaza, 5th Floor,
 No. 769, Anna Salai, Chennai - 600 002.
 Cell: +91 98407 54521
 Tel: +91-44-2849 7812 / 0811
 Email: pradeep.kumar@careratings.com

COIMBATORE

Mr. V Pradeep Kumar
 T-3, 3rd Floor, Manchester Square
 Puliakulam Road, Coimbatore - 641 037.
 Tel: +91-422-4332399 / 4502399
 Email: pradeep.kumar@careratings.com

HYDERABAD

Mr. Ramesh Bob
 401, Ashoka Scintilla, 3-6-502, Himayat Nagar,
 Hyderabad - 500 029.
 Cell : + 91 90520 00521
 Tel: +91-40-4010 2030
 E-mail: ramesh.bob@careratings.com

JAIPUR

Mr. Nikhil Soni
 304, Pashupati Akshat Heights, Plot No. D-91,
 Madho Singh Road, Near Collectorate Circle,
 Bani Park, Jaipur - 302 016.
 Cell: +91 – 95490 33222
 Tel: +91-141-402 0213 / 14
 E-mail: nikhil.soni@careratings.com

KOLKATA

Ms. Priti Agarwal
 3rd Floor, Prasad Chambers, (Shagun Mall Bldg.)
 10A, Shakespeare Sarani, Kolkata - 700 071.
 Cell: +91-98319 67110
 Tel: +91-33- 4018 1600
 E-mail: priti.agarwal@careratings.com

NEW DELHI

Ms. Swati Agrawal
 13th Floor, E-1 Block, Videocon Tower,
 Jhandewalan Extension, New Delhi - 110 055.
 Cell: +91-98117 45677
 Tel: +91-11-4533 3200
 E-mail: swati.agrawal@careratings.com

PUNE

Mr. Pratim Banerjee
 9th Floor, Pride Kumar Senate,
 Plot No. 970, Bhamburda, Senapati Bapat Road,
 Shivaji Nagar, Pune - 411 015.
 Cell: +91-98361 07331
 Tel: +91-20- 4000 9000
 E-mail: pratim.banerjee@careratings.com

CIN - L67190MH1993PLC071691