Mhow Agroh Pathways Pvt Ltd

January 04, 2018

Rating

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long Term Bank Facilities	138.73	**CARE BBB+ (SO); Negative [Triple B Plus (Structured obligation); Outlook: Negative]**	**Reaffirmed**
Total facilities#	**138.73 (Rupees One Hundred Thirty Eight crore and Seventy Three lakh only)**		

#backed by an unconditional and irrevocable corporate guarantee extended jointly and severally by Prakash Asphaltings and Toll Highways (India) Limited (PATH, rated 'CARE BBB+; Negative / CARE A3+') 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+; Negative / CARE A3+; revised from CARE BBB+ / CARE A2 in January 2018) and Agroh Infrastructure Developers Private Limited (AIDPL; rated CARE BBB; Stable / CARE A3+; reaffirmed in December 2017).

The revision in the short term rating assigned to the bank facilities of PATH is on account of moderation in the debt coverage indicators of PATH on a combined basis [viz. including PATH and its special purpose vehicles (SPVs) operating road projects] owing to increase in funding requirement in select SPVs due to shortfall in toll collection, alongwith delay in project execution in one of the SPVs resulting in cost overrun and delayed revenue from the project.

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 steady growth in the company's scale of operations, its diversified segment revenue profile along with its moderate revenue visibility and profitability.

The ratings are, however, constrained on account of envisaged deterioration in PATH's leverage in the medium term on account of disbursement of project debt in its OMT projects, in addition to the funding requirement in SPVs. This apart, the ratings continue to be constrained on account of PATH's exposure to inherent traffic and operations and maintenance (O&M) risks associated with the toll projects, large amount of 'with recourse' debt in its SPVs with major portion of PATH's networth invested in these SPVs and PATH's working capital intensive operations alongwith geographical concentration.

PATH's ability to further increase its scale of operations, attain geographical diversification, improve its profitability through sustained order execution in the EPC segment alongwith realization of envisaged healthy profitability from the OMT projects, improve its capital structure and ensure efficient working capital management and its inability to adequately improve the cash flows of its select under-performing SPVs shall be the key rating sensitivities. This apart, the nature and funding pattern of future projects undertaken by PATH shall also remain crucial from credit perspective.

Outlook: Negative

The negative outlook reflects CARE's expectation of deterioration in PATH's capital structure in the medium term with disbursement of project debt for its two OMT projects, alongwith continued funding support required in select SPVs on account of their lower than envisaged toll collection, which is expected to restrict the combined debt coverage indicators of the group in the medium term.

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

The outlook shall be revised to 'stable' in case of significant improvement in PATH's credit risk profile resulting in higher than envisaged revenue and profitability or significant improvement in the toll collection in its SPVs resulting in improvement in the combined debt coverage indicators of the group.

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 TCC and OMT & BOT projects structured in its own books. PATH also has 13 SPVs operating road projects on annuity and toll (BOT and OMT) basis. PATH, together with its SPVs, is referred to as PATH group.

Diversified revenue stream with steady growth in scale of operations and moderate profitability: PATH's segmental revenue profile has diversified since FY16 with commencement of toll collection from TCCs in FY16 and OMT projects in FY17. During FY17, 60% of the company's sales were from TCCs (58% in FY16), 33% from EPC segment (42% in FY16) and the balance 7% from BOT and OMT toll projects.

PATH's TOI grew by 12% in FY17 to Rs.927 crore which was mainly supported by toll income from TCC and OMT projects, as income from EPC segment witnessed a dip of 12% y-o-y during FY17.

Profitability of the company remained moderate with a PBILDT margin of 7.97% in FY17 (8.73%; in FY16). While the OMT projects yield a healthy operating profitability of around 35-40%, profitability in the EPC segment remains moderate at around 15-18%. TCCs inherently yield low profitability of around 2-3% on account of fixed payment obligations to the Concessioning Authority in lieu of daily toll collection. During FY17, PATH witnessed losses in the TCC segment due to lower than envisaged toll collection from one of the TCCs.

Moderate revenue visibility: Revenue visibility of the company remained moderate with order book of around Rs.1,225 crore as on March 31, 2017, which translates into 1.32x of its FY17 TOI. The order book comprises EPC orders of Rs.677 crore, expected revenue from TCC of around Rs.321 crore based on existing orders and expected toll collection of Rs.228 crore from OMT and BOT projects structured in PATH's balance sheet. During H1FY18, PATH registered a TOI of Rs.446 crore.

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 in 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

Moderation in combined debt coverage indicators of PATH group: Debt coverage indicators of PATH on a combined basis, viz. considering PATH and its road project SPVs, have moderated on account of increase in funding requirement in select SPVs in the medium term due to their lower than envisaged toll collection, alongwith delayed project commissioning and project cost overrun in one SPV.

Major deficit in toll collection is witnessed in one of the SPVs viz. Allahabad Bypass Pathways Pvt Ltd (ABPPL). During FY17, ABPPL registered a toll income of Rs.136 cr vis-à-vis an envisaged toll income of Rs.179 crore. Furthermore, delay in project construction of another SPV viz. Mhow Agroh Pathways Pvt Ltd (MAPPL) resulted in project cost overrun and revenue shortfall (toll and government grant); resulting in an increase in funding requirement in MAPPL by PATH to around Rs.25-30 crore in the medium term, as against an envisaged funding requirement of around Rs.10-11 crore. Another SPV, viz. Khandwa Agroh Pathways Pvt Ltd (KAPPL), has also witnessed shortfall in toll collection, thus requiring funding support from sponsors.

PATH also has committed investments for construction of project facilities of a recently incorporated SPV in the medium term.

Expected deterioration in leverage in the medium term; along with sizeable guaranteed debt: PATH's standalone overall gearing remained moderate at 0.95x as on March 31, 2017, as against 1.10x as on March 31, 2016. Overall gearing witnessed marginal improvement at end-FY17; albeit the same was mainly due to non-disbursement of the entire project debt for its OMT projects during FY17. The same is expected to be disbursed in the medium term, which, alongwith high working capital intensity of the PATH's operations and continued funding support required in select SPVs, is expected to increase the company's leverage in the medium term.

Furthermore, PATH has significant off-balance sheet exposure through corporate guarantees extended for bank facilities availed by its SPVs, which results in a high adjusted overall gearing, including outstanding guaranteed debt of SPVs, of 4.12x as on March 31, 2017. Around 80% of PATH's networth was invested in its SPVs as on March 31, 2017. Majority of these SPVs operate toll road projects, which, alongwith PATH's own toll projects, exposes the company to risks associated with adverse variations in traffic volume or O&M expenses on the project stretch. With toll collection in few of its SPVs remaining inadequate, there is growing propensity of PATH to support their operations and meet their debt servicing on account of having guaranteed the debt in those SPVs. Debt servicing in KAPPL and MAPPL is being largely met through sponsor support of PATH and Agroh Infrastructure Developers Pvt Ltd.

Geographical concentration risk along with working capital intensive operations: PATH's operations are working capital intensive, as indicated by a high utilization of its fund-based working capital limits averaging at 95% during 12 months ended October 2017 and around 60% of its operating capital employed deployed towards meeting its working capital requirements as on March 31, 2017.

Furthermore, 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.

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 13 SPVs, has extended corporate guarantee to the bank facilities of eight out of its 13 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.

Applicable Criteria

Criteria on assigning Outlook to Credit Ratings
CARE's Policy on Default Recognition
CARE's methodology for Toll Road Projects
CARE's methodology for Infrastructure Sector Ratings
Factoring Linkages in Ratings
Financial ratios - Non- Financial Sector

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 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 43 months. The company achieved provisional COD for the same on Dec. 14, 2017 and final COD is expected by March 2018.

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)	FY16 (A)	FY17 (A)
Total operating income	3.37	2.76
PBILDT	2.00	2.10
PAT	-5.10	-5.05
Overall gearing (times)	2.15	3.09
Interest coverage (times)	0.38	0.39

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, PATH is engaged in road construction activities, alongwith collection of toll through TCC and BOT & OMT projects. Furthermore, PATH has 13 SPVs as on September 30, 2017, of which eleven were fully operational, one was partly operational and one was in nascent stages of construction. These are a mix of toll (BOT and OMT) and annuity projects. PATH, along with its 13 SPVs, is together referred to as ‘PATH group’.

Brief Financials: PATH (Rs. crore)	FY16 (A)	FY17 (A)
Total operating income	832.74	937.31
PBILDT	72.73	74.70
PAT	33.79	40.37
Overall gearing (times)	1.10	0.95
Interest coverage (times)	4.10	3.62

A: Audited

About the guarantor: AIDPL

AIDPL was initially incorporated as an SPV promoted by Singhal family of Indore for UAJ project awarded by MPRDC in November 2001. Subsequently, AIDPL has also executed EPC work of BOT projects secured in SPVs. Contract receipts for EPC work executed for own SPVs, toll collection and other income constituted 71%, 21% and 8% respectively of the TOI during FY17 (refers to the period from April 1 to March 31).

As on March 31, 2017, AIDPL had 11 BOT-based road projects (nine in joint venture (JV) SPVs and two in wholly owned SPVs) in its portfolio which constitute three operational toll projects, one annuity project, two toll plus annuity projects, four OMT projects, and one under construction toll project. AIDPL has also been awarded three hybrid annuity projects which are under construction stage.

Brief Financials: AIDPL (Rs. crore)	FY16 (A)	FY17 (A)
Total operating income	147.78	94.58
PBILDT	34.43	33.21
PAT	23.42	13.83
Overall gearing (times)	0.25	0.38
Interest coverage (times)	4.43	3.60

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	-	-	March 2029	138.73	CARE BBB+ (SO); Negative

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	138.73	CARE BBB+ (SO); Negative	1)CARE BBB+ (SO) (24-Apr-17)	-	-	-

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