

Mhow Agroh Pathways Pvt Ltd

April 24, 2017

Rating

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long-term Bank Facilities	138.73	CARE BBB+ (SO) [Triple B Plus (Structured Obligation)]	Assigned
Total Facilities@	138.73 (Rupees One Hundred Thirty Eight crore and Seventy Three lakh only)		

Details of instruments/facilities in Annexure-1

@backed by unconditional and irrevocable corporate guarantee extended jointly and severally by Prakash Asphaltings and Toll Highways (India) Limited and Agroh Infrastructure Developers Private Limited.

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

The ratings assigned to the bank facilities of PATH continue to be underpinned by its established presence in construction and operation of road projects on toll, annuity and OMT basis, and its moderate overall gearing.

The ratings also continue to factor in significant scale up of the company's operations, diversification in its revenue profile with commencement of toll collection contracts (TCC) and its healthy revenue visibility. The ratings also take cognizance of commencement of toll collection from one of the two operate-maintain-transfer (OMT) projects structured in PATH's balance sheet and expected near-term commissioning of the other OMT project; albeit with a delay from the earlier envisaged timelines.

The ratings, however, continue to be constrained by sharp moderation in the company's profit margins due to inherently low operating margins associated with TCC business, increase in the company's present and expected leverage in the medium term on account of disbursement of debt for construction of project facilities of its OMT projects, PATH's exposure to inherent traffic and operations and maintenance (O&M) risks associated with toll projects, large amount of 'with recourse' nature of debt in PATH's special purpose vehicles (SPVs) with almost entire net worth of the company being invested in its SPVs and PATH's working capital intensive operations with geographical concentration.

PATH's ability to further increase its scale of operations, attain geographical diversification, commence its second OMT project within the revised timelines and improve its profit margins amidst changing revenue profile, alongwith improvement in its capital structure shall be the key rating sensitivities. Furthermore, extent of borrowings, adequacy of cash flows in its SPVs, and nature and funding pattern of future projects undertaken by PATH shall also be key rating monitorables.

Detailed description of the key rating drivers

Established presence in road construction, operations and toll collection: PATH has a presence of over three decades in road construction, operations and toll collection in the state of Madhya Pradesh with sizable availability of its own resources for project execution. PATH's established presence in the industry is underlined by its portfolio of 12 SPVs on toll and annuity basis, alongwith its own construction and toll collection business.

Significant increase in total operating income along with diversification of revenue profile; albeit sharp moderation in profit margins: During FY16 (refers to the period April 1 to March 31), PATH's total operating income (TOI) registered a three-fold increase to around Rs.832.74 crore, largely backed by commencement of revenue from TCC which contributed 56% of its TOI in FY16, as against 98% of the TOI registered from the EPC segment till FY15. This resulted in diversification in the revenue profile of the company, albeit with a dip of 953 bps in the PBILDT margin to 8.73%, due to relatively lower profitability associated with TCC segment as compared to EPC orders.

During H1FY17, PATH registered a total operating income of Rs.430.55 crore.

Healthy revenue visibility: PATH had a healthy revenue visibility of around Rs.856 crore as on June 01, 2016, comprising 29% EPC orders and balance estimated from toll collection through TCC and OMT projects, alongwith a BOT-toll project on

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

its own books. Toll collection from the two OMT projects structured on PATH's own balance sheet was expected to commence in Q3FY17, however, toll collection from only one of these projects commenced in a timely manner, while commencement of toll collection from the other project is delayed and is expected to be commenced by March 2017.

Moderate overall gearing: PATH's overall gearing stood at a moderate level of 1.10x as on March 31, 2016, albeit the same increased from 0.67x as on March 31, 2015 due to disbursement of toll securitization loan in one of its OMT project, alongwith increase in working capital borrowings.

Key Rating Weaknesses

Expected increase in the leverage in the medium term: PATH's leverage is expected to increase further in the medium term mainly on account of disbursement of debt for construction of project facilities of its OMT projects. This apart, any unscheduled funding requirement for any new project undertaken by PATH may also have an adverse impact on the company's leverage.

Sizeable off-balance sheet exposure due to 'with recourse' nature of debt in its SPVs and consequent exposure to inherent traffic and O&M risks associated with these SPVs: PATH has significant off-balance sheet exposure through corporate guarantees extended for bank facilities availed by its SPVs, which resulted in a very high (adjusted) overall gearing, including outstanding guaranteed debt of SPVs, of 4.49x as on March 31, 2016. Also majority of PATH's networth as on March 31, 2016 was deployed in these SPVs.

Majority of these SPVs have toll collection as a source of revenue, which exposes PATH to the inherent traffic and O&M risks associated with these toll projects.

Geographical concentration risk along with working capital intensive operations: PATH's operations are working capital intensive owing to its presence in the construction business which has a large funding requirement due to long construction period of around two years and milestone based payment terms, alongwith requirement of funds for investment in SPVs. This is indicated by a high utilization of the company's working capital limits and its moderate operating cycle.

Also, majority of PATH's orders are to be executed in Madhya Pradesh, which exposes the company to geographical concentration risk.

Analytical approach:

Credit enhancement by way of corporate guarantee extended by the principal sponsor PATH for the bank facilities of MAPPL. The guarantor's standalone financials are considered for analysis.

PATH has extended corporate guarantee to the entire rated bank facilities of MAPPL, alongwith investments made in the company. Apart from MAPPL, PATH has made investments and guaranteed debt for seven other SPVs. Hence, standalone financials of PATH, alongwith combined cash flows of PATH and its SPVs including MAPPL, are considered for analysis purpose.

Applicable Criteria

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

[CARE's methodology for Infrastructure Sector Ratings](#)

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

[Factoring Linkages in Ratings](#)

About the company; MAPPL

Incorporated in July 2011, MAPPL is a special purpose vehicle (SPV) sponsored by PATH group (60% stake 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 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 stretch-I of the project from Rau to Mhow on February 03, 2014 and started toll collection on this stretch from this date. Final completion certificate for this stretch was received on June 06, 2014. Construction of stretch-II of the project has however been delayed by around 43 months and the COD of the same is expected by December 2017.

Total project cost is envisaged to be around Rs.213.10 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. Around 71% of the project cost was incurred till January 16, 2017.

About the principal guarantor; PATH

PATH, the principal sponsor of MAPPL, has more than three decades of experience 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). The company executes most of its construction work through its own resources, backed by a sizeable fleet of construction equipment. Its experience in toll collection facilitates efficient assessment of traffic potential and operational requirements; apart from minimising traffic leakages.

PATH, apart from its construction and toll collection operations, also has 12 SPVs, which comprise two annuity projects (both operational), five toll projects (four fully operational and one partly operational with pending completion of part project facilities) and five OMT projects (ongoing toll collection in all five projects with minor construction of project facilities ongoing in one SPV).

As per the audited results for FY16 (refers to the period April 1 to March 31), PATH registered a total operating income (TOI) of Rs.832.74 crore with a profit after tax (PAT) of Rs.33.79 crore, as against a TOI of Rs.282.82 crore with a PAT of Rs.20.54 crore in FY15. Furthermore, during H1FY17, PATH registered a total operating income of Rs.430.55 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.

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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 31, 2029	138.73	CARE BBB+ (SO)

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)	-	-	-	-

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