

Press Release

Versova Bandra Sea Link Limited

August 21, 2020



Rating Assigned

Total Bank Facilities Rated*	Rs. 5000.00 Cr.
Long Term Rating	ACUITE A- /Stable (Assigned)

* Refer Annexure for details

Rating Rationale

Acuité has assigned the long-term rating of '**ACUITE A-**' (**read as ACUITE A minus**) on the Rs. 5,000 crore bank facilities of Versova Bandra Sea Link Limited (VBSLL). The outlook is '**Stable**'.

VBSLL, incorporated in April 2018 has been established to conceptualize, plan, design and construct Versova Bandra Sea Link Project by Maharashtra State Road Development Corporation (MSRDC). Government of Maharashtra (GoM) has appointed MSRDC as the nodal agency for the development of a new sea link that will connect Bandra and Versova in Mumbai, Maharashtra on a Design, Build, Finance, and Operate and Transfer (DBFOT) basis. The project is intended to connect the Bandra end of the existing Bandra Worli Sea Link (BWSL) and to extend towards Versova as a new sea link. The main carriageway of the project will be located on the Arabian Sea, approximately 900m from the coast. The project would have a length of ~17.17 Km and shall connect the Bandra end of Bandra Worli Sea Link to Versova, near the Nana Nani Park. The project construction will entail the construction of the Main Sea Bridge of the project having a length of 9.6 Km, four Connectors at Bandra (1.17 Km), Otters Club (1.80 Km), Juhu Koliwada (2.80 Km) and Nana Nani Park (1.80 Km). The total estimated cost of the project is Rs. 9,861 crore. Out of the total, estimated project cost Rs. 5,000 crore will be funded by debt and the rest by equity.

Analytical Approach

Acuité has considered the standalone approach while assessing the business and financial risk profile of VBSLL and has factored in financial, operational and managerial support it receives from GoM through MSRDC by virtue of being a step-down subsidiary of the GoM. The rating factors in the 100 percent holding of MSRDC (a GoM entity) in VBSLL along with the strategically important role played by the entity in implementing a key infrastructure project in the state capital.

Key Rating Drivers

Strengths

• **Extensive experience of promoters in the industry**

VBSLL is a subsidiary of MSRDC (100 per cent stake) and a step-down subsidiary of GoM. MSRDC, a corporation established and fully owned by the GoM, is a limited company incorporated in 1996. It is established to oversee large road infrastructure projects across the state of Maharashtra. MSRDC has successfully completed key projects such as Mumbai Pune Express Way (MPE), Bandra Worli Sea Link (BWSL) and Satara Kagal Road amongst others. MSRDC has also been tasked with the execution of the critical Hindu Hridaysamrat Balasaheb Thakare Maharashtra Samruddhi Mahamarg Project, a ~701 km project passing through 10 districts of Maharashtra which is also supported by GoM. It reported an operating profit of Rs. 505 crore on an operating income of Rs. 751 crore in FY2019 (Provisional). The Board of VBSLL comprises of civil servants appointed by the GoM. CEO of VBSLL also holds the post of Managing Director for MSRDC.

VBSLL is tasked by MSRDC with the execution of the Versova Bandra Sea Link project in Mumbai. The project is designed to reduce traffic congestion in the heart of the state capital. The strategically important nature to MSRDC and support from GoM ease the funding available to the project from various financial institutions.

Acuité believes the continued management of the company by MSRDC and support from GoM will

be a key rating sensitivity.

• Funding shortfall support from Government of Maharashtra under the Concession Agreement

A tripartite Concession Agreement has been executed amongst VBSLL as the Concessionaire, MSRDC as the Sponsor & GoM as the Concessioning Authority in 2018. This agreement forms the basis of the support from GoM available to VBSLL. As per articles of the agreement in case of cash shortfall during the Operation Period and/or the Construction period or in case of cost overruns beyond the envisaged total project cost it would be met by the Concessioning Authority. The agreement also protects the Concessionaire by restricting the GoM from the construction of any competing roads and also provides for compensation to the Concessionaire if any such a road is constructed before the achievement of targeted traffic.

Weaknesses

• Project execution risk and offtake risk

VBSLL is constructing the Versova Bandra Sea Link at an estimated cost of Rs. 9,861 crore to be funded through equity of Rs.4,861 crore and debt of Rs. 5,000 crore. As on March 31, 2020 (Provisional), Rs. 113.00 crore has been infused by way of equity. The company has received in-principle sanction from lenders for the required debt. A JV between Reliance Infrastructure Limited and Astaldi SpA has been selected as the EPC contractor based on the competitive bidding process. The civil work and construction has already commenced and is expected to be completed by March, 2025. The project is exposed to execution risk, which is mitigated to a certain extent by support from MSRDC and funding shortfall support from GoM in the construction as well as operational period. From a demand and traffic volume standpoint, VBSLL is likely to be exposed to traffic volume risk in the initial stages as the connecting roads get constructed. Once the connecting roads are completed, offtake risk is likely to be reduced as the project aims to reduce traffic congestion on a very busy route (Western suburbs to Island City) in Mumbai. Since the operating cash flows will stabilize over a period of time with growth traffic in volumes, the repayment is expected to start after the commencement of operations in order to align operational cash flows to the debt service commitments.

• Linkages to the fiscal position of Maharashtra

Maharashtra is India's leading industrial state with gross state domestic product (GSDP) for FY2019-20 (at current prices) estimated to be Rs. 29,79,556 crore. The fiscal deficit of Maharashtra for FY2018-19 (RE) stands at 2.11 percent of the GSDP and is budgeted at 2.07 percent of GSDP for FY2019-20. Any adverse changes in the fiscal indicators of GoM due to factors such as a prolonged slowdown in industrial activities or socio-economic challenges faced by Maharashtra can have a significant impact on VBSLL and will be a key monitoring factor.

Liquidity Position: Adequate

Acuité expects the cash flow from operations to remain negative for the first few years of operations for VBSLL. However, VBSLL will continue to get support from GoM under the Concession Agreement during the construction as well as operational period. The maturing debt repayment is expected to commence from FY2027-2028. The liquidity of the company is likely to remain adequate over the medium term on account of continued support from GoM and promoters, i.e. MSRDC to fund the liquidity deficit in the initial stage of operations.

Rating Sensitivities

- Timely completion of project and commencement of commercial operations without significant cost overruns.

Material Covenants

None

Outlook: Stable

Acuité believes that VBSLL will maintain a 'Stable' credit profile over the medium term on the back of support from GoM. The outlook may be revised to 'Positive' if the company commences and stabilizes operations within stipulated time and cost and exhibits the ability to generate cash flows commensurate as per its debt. Conversely, the outlook may be revised to 'Negative' in case of delay in commencement of commercial operations and slower than expected pick up in revenues affecting its debt servicing ability.

About the Rated Entity – Key Financials

Not Applicable as the commercial operations are yet to commence.

Status of non-cooperation with previous CRA (if applicable)

Not Applicable

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>
- Infrastructure Entities - <https://www.acuite.in/view-rating-criteria-51.htm>
- State Government Support - <https://www.acuite.in/view-rating-criteria-26.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

Rating History (Upto last three years)

Not Applicable

***Annexure – Details of instruments rated**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Proposed Term Loan	Not Applicable	Not Applicable	Not Applicable	5000.00	ACUITE A- /Stable (Assigned)

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About Acuité Ratings & Research:

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