

Press Release

Versova Bandra Sea Link Limited



November 24, 2021

Rating Reaffirmed

Product	Net Quantum (Rs. Cr)	Withdrawn Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	5000.00	0.00	ACUITE A- Stable Reaffirmed	
Total	5000.00	0.00	-	-

* Refer Annexure for details

Rating Rationale

Acuité has reaffirmed a long term rating of '**ACUITE A-**' (**read as ACUITE A minus**) to the Rs. 5000 Cr. bank facilities of Versova Bandra Sea Link Limited (VBSLL). The outlook is '**Stable**'.

Rationale for the Rating Reaffirmation

The rating reaffirmation takes into account the strategic nature of the project overseen by VBSLL, Maharashtra State Road Development Corporation's (MSRDC) extensive experience in undertaking large strategic road projects in Maharashtra. The rating also draws comfort from the funding support available to VBSLL during the construction as well as operational period from the Government of Maharashtra (GOM) under the tri-partite concession agreement signed by GOM, VBSLL and MSRDC. However the rating remains constrained by the substantial execution and demand risk the project is exposed to. It is at very nascent stage and completion of the project without significant time and cost overruns will continue to remain a key credit sensitivity.

About the Company

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

Established track record of parent in the road infrastructure 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. 844 Cr. on an operating income of Rs. 1032 Cr. in FY2020 (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. 9861 Cr. to be funded through equity of Rs. 4861 Cr. and term loan of Rs. 5000 Cr.. Although VBSLL has infused by way of equity Rs. 409 Cr. as on March 31, 2021 (Provisional) debt tie ups still remains pending and company remains in discussions with lenders for the same. Timely closure of debt tie ups remains critical to the completion of project. The civil work and construction has commenced in April, 2020 is expected to be completed by April, 2025. However the pace of work had been significantly affected by the lockdowns brought on by the second Covid 19 wave in early 2021. JV between Reliance Infrastructure and Astaldi has been selected as the EPC contractor based on competitive bidding process. However the project is exposed to substantial execution risk complex construction work has to be undertaken and consensus amongst various stakeholders will be required for getting final clearances required for the project completion. The project also remains susceptible to risk of litigations as was observed in the completion of Bandra Worli Sea Link (BWSL). This risk mitigated on account of support from MSRDC and funding shortfall support from GOM in the construction as well as operational period. From an offtake stand point, VBSLL will be exposed to offtake risk in the initial stages as the connecting roads get constructed. Once the connecting roads are completed offtake risk will be reduced as the project aims to release traffic congestion in a very busy route (Western suburbs to Island City) in the Mumbai. The revenue pick up of the project is expected to be gradual. Since the operating cash flows will stabilise over a period

of time, the repayment is expected after 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, its gross state domestic product (GSDP) is expected (at current prices) to be Rs. 26,61,629 Cr for FY2020-21 (advanced estimates) as against Rs 28,18,555 for FY2019-20 (revised estimates). The expected decline is on account of economic slowdown brought on by spread of COVID and subsequent lockdowns. The fiscal deficit of Maharashtra for FY2020-21 (RE) increased to 3.3 percent of GSDP against 1.90 percent in FY2019-20. This increase is attributable to shortfall in revenue receipts on account of COVID related lockdowns. Any further adverse changes in the fiscal indicators of GoM due to factors such as prolonged slowdown in industrial activities or socioeconomic challenges faced by Maharashtra can have a significant impact on VBSLL and will be a key monitoring factor.

Liquidity Position: Adequate

VBSLL has adequate liquidity position. Acuité does not foresee any positive net cash accruals in the first year of operations. However, VBSLL will continue to get support from GoM through the concession agreement for the construction as well as operational period. The maturing debt repayment is expected to commence from FY27-28. The liquidity of the company is likely to remain adequate over the medium term on account of ability 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 stabilises operations as scheduled and exhibits 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.

Key Financials

Particulars	Unit	FY 21 (Provisional)	FY 20 (Actual)
Operating Income	Rs. Cr.	0.00	0.00
PAT	Rs. Cr.	(0.01)	(0.03)
PAT Margin	(%)	0.00	0.00
Total Debt/Tangible Net Worth	Times	0.00	0.00
PBDIT/Interest	Times	0.00	0.00

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

Not Applicable

Any other information

None

Applicable Criteria

- Infrastructure Sector: <https://www.acuite.in/view-rating-criteria-51.htm>
- Default Recognition: <https://www.acuite.in/view-rating-criteria-52.htm>
- Application Of Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>
- Public Finance - State Government Ratings: <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

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
21 Aug 2020	Proposed Term Loan	Long Term	5000.00	ACUITE A- Stable (Assigned)

Annexure - Details of instruments rated

Lender's Name	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Size Of Issue	Rating
Not Applicable	Proposed Term Loan	Not Applicable	Not Applicable	Not Applicable	5000.00	ACUITE A- Stable Reaffirmed

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About Acuité Ratings & Research

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