

Press Release

MSRDC Tunnels Limited

March 24, 2021

Rating Reaffirmed



Total Bank Facilities Rated*	Rs. 4500.00 Cr. (Enhanced from Rs. 4400.00 Cr.)
Long Term Rating	ACUITE A+ /Stable (Reaffirmed)

* Refer Annexure for details

Rating Rationale

Acuite has reaffirmed its long-term rating of '**ACUITE A+**' (read as **ACUITE A plus**) on the Rs. 4500.00 crore bank facilities of MSRDC Tunnels Limited (MTL). The outlook is '**Stable**'.

The rating reaffirmation reflects established track record of operations of MTL's parent (Maharashtra State Road Development Corporation - MSRDC) in the infrastructural construction segment, strong resource mobilization ability on account of continued support from MSRDC and Government of Maharashtra (GOM). These rating strengths are partially offset by sizeable implementation risk as the project is in nascent stage of implementation (~14.10 percent complete) and timely completion remains critical to the rating. Acuite has also observed the revision in project cost to Rs. 6,138 Cr. from Rs. 5,995 and postponement of commercial operation date to October 2023 from April 2023. Any further significant cost or time over run will impart a negative bias to the rating.

About the Company

Mumbai Pune Expressway (MPEW) and NH48 are the key roads that connect the two largest metropolitan areas in Maharashtra, namely Mumbai and Pune. There are segments which are common on both roads where the 10 lane traffic (6 lanes of MPEW and 4 lanes of NH 48) converge on to MPEW. Some of lanes on MPEW also have to be close for the risk of landslides during monsoon. This creates a problem of traffic congestion. Hence, a capacity augmentation project is critical. GOM has entrusted the responsibility to MSRDC for implementing project for capacity augmentation of MPEW (MPEW Missing Link Project). MSRDC has promoted MTL in September 2018 at Mumbai for undertaking the said project.

The project cost estimate has been revised to Rs. 6,138 Cr. from Rs. 5,995 Cr. to be funded through equity of Rs. 1,638 Cr. and debt of Rs. 4,500 Cr. The revision is primarily on account of revision in commercial operation date from April 2023 to October 2023 leading to increase in interest cost. As on September 30, 2020 (Provisional), Rs. 925.00 Cr. has been infused by way of equity. The project scope has been divided into two packages. Package 1 includes construction of two tunnels (two tubes of 4 lane each) from km 1.04 to km 2.79 (1.75 km) and km 3.44 to km 12.36 (8.92 km) and Package 2 includes construction of two viaducts of lengths 790 meters (km 0.25 to km 1.04) and 650 meters (km 2.790 to km 3.440) and upgradation of existing 6 lane to 8 lane from (km 32.60 to km 38.66).

Analytical Approach

Acuite has considered a standalone approach while assessing the business and financial risk profile of MTL 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 MTL along with the strategically important role played by the entity in implementing a key infrastructure project in the state.

Key Rating Drivers

Strengths

- **Fully owned and strategically key subsidiary for GOM with a long successful track record of operations**

MTL 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 State of Maharashtra. MSRDC has successfully completed key projects such as MPEW, 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 operating profit of Rs. 844.40 Cr. on an operating income of Rs. 1032.20 Cr. in FY2020 (Provisional). The Board of MTL comprises of civil servants appointed by the GOM. CEO of MTL also holds the post of Managing Director for MSRDC.

MTL is tasked by MSRDC with execution of the MPEW Missing Link project connecting Mumbai and Pune two largest metropolitan areas in India. The project is designed to reduce traffic congestion in and reduce travel time between two of the largest metropolitan areas in Maharashtra. The strategically important nature to MSRDC and support from GOM enhances the financial flexibility of MTL to fund the project from various financial institutions.

Acuite believes the continued management of the company by MSRDC and support from GOM will be a key rating sensitivity.

• **Annuity payment and access to cash flows from toll collection on MPEW**

The project cost estimate has been revised to Rs. 6,138 Cr. from Rs. 5,995 Cr. to be funded through equity of Rs. 1,638 Cr. and debt of Rs. 4,500 Cr. As on September 30, 2020 (Provisional), Rs. 925.00 Cr. has been infused by way of equity. The project has been divided into two packages. Package 1 includes construction of two tunnels (two tubes of 4 lane each) from km 1.04 to km 2.79 (1.75 km) and km 3.44 to km 12.36 (8.92 km) and Package 2 includes construction of two viaducts of lengths 790 meters (km 0.25 to km 1.04) and 650 meters (km 2.790 to km 3.440) and upgradation of existing 6 lane to 8 lane from (km 32.60 to km 38.66). The project is expected to be completed by October 2023. After the start of commercial operations MTL is to receive fixed annuity payments from GOM under the Concession Agreement. These payments will continue till FY2031 and post that MTL will have access to cash inflows from toll collection on the MPEW. MPEW is one of the busiest roads in Maharashtra connecting the two largest metropolitan areas in Maharashtra. It also forms part of the roads that connect the state capital Mumbai to industrialized area in western Maharashtra such as Kolhapur and Satara.

Acuite believes the rating draws on comfort provided by fixed annuity payments from GOM and later the cash inflows from toll collections on MPEW.

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

A tripartite Concession Agreement has been executed amongst MTL 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 MTL. 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 construction of any competing roads and also provides for compensation to the Concessionaire if any such a road is constructed or stoppage of toll collection.

Weaknesses

• **Project execution risk and offtake risk**

The project cost estimate has been revised to Rs. 6,138 Cr. from Rs. 5,995 Cr. to be funded through equity of Rs. 1,638 Cr. and debt of Rs. 4,500 Cr. The revision is primarily on account of revised COD from April 2023 to October 2023 leading to increase in interest cost. As on September 30, 2020 (Provisional), Rs. 925.00 Cr. has been infused by way of equity. The company has received in principle sanction from lenders for the required debt. The project has been divided into two packages. Package 1 includes construction of two tunnels (two tubes of 4 lane each) from km 1.04 to km 2.79 (1.75 km) and km 3.44 to km 12.36 (8.92 km) and Package 2 includes construction of two viaducts of lengths 790 meters (km 0.25 to km 1.04) and 650 meters (km 2.790 to km 3.440) and upgradation of existing 6 lane to 8 lane from (km 32.60 to km 38.66). Navayuga Engineering Company Limited and Afcons Infrastructure Limited have been appointed as the EPC contractors for Package 1 and Package 2, respectively. The civil work and construction has commenced and as on January 31, 2020 ~14.10 percent of contract

value is complete. 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 stand point, MTL is likely to be exposed to minimal traffic volume risk as the project aims at reducing congestions and travel time on MPEW a road connecting the two largest metropolitan areas in Maharashtra. It also forms part of the roads that connect the state capital Mumbai to industrialized area in western Maharashtra such as Kolhapur and Satara. From start of commercial operations MTL will also receive fixed annuity payment from GOM till FY2031 reducing the traffic volume risk. 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 Cr.. 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 prolonged slowdown in industrial activities or socio-economic challenges faced by Maharashtra can have a significant impact on MTL and will be a key monitoring factor.

Liquidity Position: Adequate

Acuite does not foresee any positive net cash accruals in the first few years of operations. However, in the initial operational period the company will receive pre-decided annuity payments from GOM that will help them cover the maturing debt repayments. MTL will also get support from GoM through the concession agreement for the construction as well as operational period. 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 construction period and annuity payments from GOM in the initial operational period.

Material Covenants

None

Rating Sensitivities

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

Rating Outlook: Stable

Acuite believes that MTL 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 stabilizes 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.

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)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
18-Jan-2021	Proposed Term Loan	Long Term	4400.00	ACUITE A+/Stable (Assigned)

*Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook	Bank Name
Proposed Term Loan	Not Applicable	Not Applicable	Not Applicable	4500.00	ACUITE A+/Stable (Reaffirmed)	NA

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About Acuité Ratings & Research:

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