

Press Release

MSRDC Tunnels Limited

June 28, 2022

Rating Reaffirmed



Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	4500.00	ACUITE A+ Stable Reaffirmed	-
Total Outstanding Quantum (Rs. Cr)	4500.00	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

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**'.

Rationale for Rating Reaffirmation

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). The rating also draws comfort from the fact that financial closure has been completed and MTL has received a part disbursement to the tune of Rs. 1000 Cr out of the total debt portion of Rs. 4300 Cr. These rating strengths are partially offset by sizeable implementation risk as more than 50 percent project is still under implementation (~40 percent complete) and timely completion remains critical to the rating. Commercial operation date is estimated for October 2023. Any 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 is around Rs. 6,138 Cr. to be funded through equity of Rs. 1,838 Cr. and debt of Rs. 4,300 Cr. Previously, the project cost estimate was at Rs. 5995 Cr. which was revised to Rs. 6138 Cr. The revision was primarily on account of revision in commercial operation date from April 2023 to October 2023 leading to increase in interest cost. As on May 2022, Rs. 1465.00 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

Acuité 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. 1162.50 Cr. on an operating income of Rs. 1336.15 Cr. in FY2021 (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. Acuité 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 is around Rs. 6,138 Cr. to be funded through equity of Rs. 1,838 Cr. and debt of Rs. 4,300 Cr. As on May 2022, Rs. 1465.00 Cr. has been infused by way of equity. Further, out of the total debt portion of Rs. 4300 Cr which is also fully tied up through consortium funding with SBI being the lead bank. As on May 2022, project work valued around Rs. 2504 Cr. (40 percent of total contract value) has been accomplished. 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.

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

Weaknesses

Project execution risk and offtake risk

The project cost estimate had been revised in the previous year to Rs. 6,138 Cr. from Rs. 5,995

Cr. to be funded through equity of Rs. 1,838 Cr. and debt of Rs. 4,300 Cr. The revision was made primarily on account of revised COD from April 2023 to October 2023 leading to increase in interest cost. As on May 2022, Rs. 1465.00 Cr. has been infused by way of equity. The financial closure has been done and company has also received disbursement to the tune of Rs 1000 Cr as of May 2022. However, the balance payment will be made in tranches and only basis achieving project milestones. 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 is in progress and as on April 2022 ~40 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. 29,81,024 Cr. The fiscal deficit of Maharashtra for FY2021-22 (RE) stands at 2.24 percent of the GSDP. 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.

ESG Factors Relevant for Rating

Environment

GHG emissions, air pollutant emissions, environmental management and energy efficiency are significant environmental issues in the transport industry. Additionally, key material issues such as waste management, water efficiency can influence environmental scores.

Social

Labor management issues, such as employee safety & development and employment quality, are a crucial risk transport industry. Furthermore, key material issues such as community support & development, product quality & safety, human rights and equal opportunity have a significant impact the social scores for this industry.

Governance

For this industry, corporate governance is a crucial risk. Regulatory compliance, critical incident risk management, board oversight and business ethics are key governance issues for this industry. Moreover, corruption and bribery related to land transport & transport via pipelines industry, inadequate antitakeover mechanisms, shareholders' rights, financial audit & control and board & management compensation have a significant impact on the governance scores.

The Maharashtra State Road Development Corporation (MSRDC) had economic, safety and environmental measures built into the project details while planning the MPEW. However, these measures were project-specific, e.g. the development of food plazas, rest areas and convenience stops along certain points on the expressway; the installation of road safety signs, barriers and warnings; and the plantation of approximately 60,000 trees using drip-irrigation along the highway medians. The MSRDC ensured the transplantation of 500 trees cut down in the RoW.

Rating Sensitivities

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

Material covenants

None

Liquidity Position: Adequate

Acuité 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.

Outlook: Stable

Acuité 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.

Other Factors affecting Rating

Not Applicable as the commercial operations are yet to commence.

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

Not Applicable as the commercial operations are yet to commence.

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Infrastructure Sector: <https://www.acuite.in/view-rating-criteria-51.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
24 Mar 2021	Proposed Term Loan	Long Term	4500.00	ACUITE A+ Stable (Reaffirmed)
18 Jan 2021	Proposed Long Term Loan	Long Term	4400.00	ACUITE A+ Stable (Assigned)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
Not Applicable	Not Applicable	Proposed Long Term Loan	Not Applicable	Not Applicable	Not Applicable	3499.94	ACUITE A+ Stable Reaffirmed
State Bank of India	Not Applicable	Term Loan	Not available	Not available	Not available	349.13	ACUITE A+ Stable Reaffirmed
Union Bank of India	Not Applicable	Term Loan	Not available	Not available	Not available	325.46	ACUITE A+ Stable Reaffirmed
Bank of Maharashtra	Not Applicable	Term Loan	Not available	Not available	Not available	108.49	ACUITE A+ Stable Reaffirmed
Indian Bank	Not Applicable	Term Loan	Not available	Not available	Not available	108.49	ACUITE A+ Stable Reaffirmed
UCO Bank	Not Applicable	Term Loan	Not available	Not available	Not available	108.49	ACUITE A+ Stable Reaffirmed

Contacts

Analytical	Rating Desk
Aditya Gupta Vice President-Rating Operations Tel: 022-49294041 aditya.gupta@acuite.in Jaitashree Hukerikar Analyst-Rating Operations Tel: 022-49294065 jaitashree.hukerikar@acuite.in	Varsha Bist Senior Manager-Rating Operations Tel: 022-49294011 rating.desk@acuite.in

About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI) for Bank Loan Ratings under BASEL-II norms in the year 2012. Acuité has assigned ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Kanjurmarg, Mumbai.

Disclaimer: An Acuité rating does not constitute an audit of the rated entity and should not be treated as a recommendation or opinion that is intended to substitute for a financial adviser's or investor's independent assessment of whether to buy, sell or hold any security. Ratings assigned by Acuité are based on the data and information provided by the issuer and obtained from other reliable sources. Although reasonable care has been taken to ensure that the data and information is true, Acuité, in particular, makes no representation or warranty, expressed or implied with respect to the adequacy, accuracy or completeness of the information relied upon. Acuité is not responsible for any errors or omissions and especially states that it has no financial liability whatsoever for any direct, indirect or consequential loss of any kind, arising from the use of its ratings. Ratings assigned by Acuité are subject to a process of surveillance which may lead to a revision in ratings as and when the circumstances so warrant. Please visit our website (www.acuite.in) for the latest information on any instrument rated by Acuité.