



Press Release
MSRDC Tunnels Limited
September 26, 2023
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	-	-

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

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). MSRDC has promoted MTL in September 2018 for undertaking the capacity augmentation of Mumbai Pune Expressway (MPEW; MPEW Missing Link Project). The project cost estimate is Rs. 6,138 Cr. out of which Rs. 1,838 Cr. is to be funded through Equity and balance Rs. 4,300 Cr. through Debt. Accordingly, out of the total debt portion of Rs. 4300 Cr. MTL had availed debt to the tune of Rs. 2400 Cr. through a consortium of five lenders with SBI being the lead bank. Furthermore, as on June 2023, MTL has received a sanction of Rs.17,500 Cr. (disbursed Rs 3000 Cr.) from REC Limited and the earlier debt of Rs.2400 Cr. was refinanced and fully paid to all the five lenders in the consortium. Also, out of the total Rs. 17500 Cr, MTL plans to utilise ~Rs.4300 Cr. as per the project structure for the Mumbai Pune Express Way missing link project and the balance funds will be utilised towards land acquisition of future projects which include Pune Ring Road, Multi Modal Connectivity, Jalna Nanded etc.

The commercial operations date was earlier estimated to be around October 2023 which has been now shifted to August 2024. Although, there have been no cost escalations from the previous year, there have been changes in the project structure. Earlier, MTL was to receive a fixed annuity payment on yearly basis from GoM through which the company was expected to repay the debt availed for the project. As per the changes in the structure, the annuity payments have now been scraped whereas an unconditional & irrevocable guarantee from GoM has been extended towards the newly sanctioned loan from REC Ltd. GoM would make budgetary provisions and allocate funds in the state budget every year towards the repayments of the debt. Hence, the rating derives substantial comfort from the unconditional & irrevocable guarantee extended by GoM for the entire debt along with interest.

However, these rating strengths are partially offset by project execution risk as the project is still under implementation (~80 percent complete) and timely completion of the same will remain critical 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. Although there is revision in commercial operation date from October 2023 to August 2024 there are no cost escalations. As on September 15th, 2023, MSRDC has infused Rs. 1600 Cr. 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).

Standalone (Unsupported) Rating

Not Applicable

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 of 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 Hridayasamrat 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. 1359 Cr. on an operating income of Rs. 1632 Cr. in FY2022 (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.

Unconditional & irrevocable guarantee from GoM 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 September 15th, 2023, Rs. 1600 Cr. has been infused by way of equity. Further, the total debt portion of Rs. 4300 Cr has also been fully tied up. Earlier, the debt to the tune of Rs. 2400 Cr. was availed through consortium funding with SBI being the lead bank. However, as on June 2023, MTL has repaid the outstanding debt of Rs.2400 Cr. to all the lenders. Further, MTL has been sanctioned a debt to the tune of Rs. 17,500 Cr. from a single lender REC Ltd and around Rs. 3000 Cr. was drawn and has been utilised to payoff the outstanding consortium debt. Out of Rs. 17,500 Cr.; Rs. 4300 Cr. will be utilised towards the MPEW missing link project, while balance will be utilised towards land acquisitions of future

projects of the company. As on 15th September 2023, the project work valued around Rs. 3410 Cr. (~56 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 August 2024. The entire debt portion has been secured by unconditional & irrevocable guarantee from GOM. Further, GoM will make budgetary provisions and allocate funds towards the repayments every year in the state budget. 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 viz; Mumbai & Pune in Maharashtra. The average toll collections from the MPEW stood at ~ Rs. 1200 Cr. during FY2023. 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 draws comfort basis of the unconditional & irrevocable guarantee from GOM and later the cash inflows from toll collections on MPEW.

Weaknesses

Project execution risk and offtake risk

The project cost is around Rs. 6,138 Cr. which was revised earlier from Rs. 5,995 Cr. The same is to be funded through equity of Rs. 1,838 Cr. and debt of Rs. 4,300 Cr. Although, there have been no cost revisions to the project, but COD has been extended from October 2023 to August 2024. As on 15th September 2023, Rs. 1600 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 3000 Cr. as of June 2023 from REC Ltd. Further, REC Ltd has sanctioned Rs. 17,500 Cr. to MTL towards its future projects as well and the same will be drawn as per the requirements. Around Rs. 2400 Cr. has been utilised towards repayment of the consortium loan which was taken earlier for the project. 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 are in progress and as on August 2023 ~56 percent of contract value is complete. The project remains exposed to execution risk as around 44% project still stands unexecuted. However, the risk 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, 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 viz; Mumbai and Pune 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. The entire debt repayment will be taken care by GoM until 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, its gross state domestic product (GSDP) is expected (at current prices) to be Rs. 38.79 Lakh Cr. for FY2023-24 as against Rs 35.27 Lakh Cr. for FY2022-23 (RE). The fiscal deficit of Maharashtra for FY2022- 23 (RE) is increased to 2.70 percent of GSDP against 2.24 percent in FY2021-22. This increase is attributable to shortfall in revenue receipts. Any further adverse changes in the fiscal indicators of GoM factors the prolonged slowdown in industrial activities or socio-economic challenges faced by Maharashtra, can significantly impact MSRDC and in turn 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.
- Any change in the shareholding or support available from the GoM.

All Covenants

Not Applicable.

Liquidity Position Adequate

Acuité does not foresee any positive net cash accruals in the first few years of operations. However, the company's repayments are secured by guarantee from GoM that will help it to cover the maturing debt repayments. Further, from FY2031 MTL is eligible to collect toll collections on the MPEW which can be utilised towards the 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 repayments 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

None

Key Financials

Particulars	Unit	FY 23 (Provisional)	FY 22 (Actual)
Operating Income	Rs. Cr.	0.00	0.00
PAT	Rs. Cr.	(0.04)	(0.02)
PAT Margin	(%)	0.00	0.00
Total Debt/Tangible Net Worth	Times	(0.80)	(0.76)
PBDIT/Interest	Times	0.00	0.00

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

Not Applicable

Any other information

Not Applicable

Applicable Criteria

- Default Recognition :- <https://www.acuite.in/view-rating-criteria-52.htm>
- Infrastructure Sector: <https://www.acuite.in/view-rating-criteria-51.htm>
- Group And Parent Support: <https://www.acuite.in/view-rating-criteria-47.htm>
- Public Finance - State Government Ratings: <https://www.acuite.in/view-rating-criteria-26.htm>

Note on complexity levels of the rated instrument

In order to inform the investors about complexity of instruments, Acuite has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuite's categorisation of the instruments across the three categories is based on factors like variability of the returns to the investors, uncertainty in cash flow patterns, number of counterparties and general understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels of risk. For more details, please refer Rating Criteria "Complexity Level Of Financial Instruments" on www.acuite.in.

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
28 Jun 2022	Term Loan	Long Term	349.13	ACUITE A+ Stable (Reaffirmed)
	Term Loan	Long Term	108.49	ACUITE A+ Stable (Reaffirmed)
	Term Loan	Long Term	108.49	ACUITE A+ Stable (Reaffirmed)
	Term Loan	Long Term	108.49	ACUITE A+ Stable (Reaffirmed)
	Proposed Long Term Loan	Long Term	3499.94	ACUITE A+ Stable (Reaffirmed)
	Term Loan	Long Term	325.46	ACUITE A+ Stable (Reaffirmed)
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	Complexity Level	Quantum (Rs. Cr.)	Rating
Rural Electrification Corporation Ltd.	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	4500.00	ACUITE A+ Stable Reaffirmed

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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.

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