

Press Release
MSRDC Sea Link Limited

February 07, 2022

Rating Assigned and Reaffirmed



| Product | Quantum (Rs. Cr) | Long Term Rating | Short Term Rating |
|---|------------------|--|-------------------|
| Bank Loan Ratings | 1550.00 | ACUITE AA- Stable Assigned | - |
| Non Convertible Debentures (NCD) | 100.00 | Provisional ACUITE AA- Stable Reaffirmed | - |
| Total Outstanding Quantum (Rs. Cr) | 1650.00 | - | - |
| Total Withdrawn Quantum (Rs. Cr) | 0.00 | - | - |

Rating Rationale

Acuité has reaffirmed its long-term rating of '**Provisional ACUITE AA-**' (read as Provisional ACUITE double A minus) to the Rs. 100.00 Cr Non-Convertible Debentures and assigned its long-term rating of '**ACUITE AA-**'(read as ACUITE double A minus) to the Rs. 1550.00 Cr bank loan facility of MSRDC Sea Link Limited (MSLL). The outlook is '**Stable**'.

Additional Disclosures

The rating on the Rs. 100 Cr. NCDs is provisional and the final rating is subject to (pending steps/ documentation):

- Receipt of the executed trust deed and its legal vetting by Acuité

The rating reflects established track record of operations of MSLL'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 MSLL's financial risk profile which remains under pressure on account of substantial debt and adversely impacted operating performance in FY2021 due to outbreak of COVID-19 with subsequent lockdown, and substantial decrease in traffic volume on Bandra Worli Sea Link (BWSL).

About the Company

MSLL is a special purpose vehicle promoted by MSRDC in October 2018 for operation, maintenance and toll collection of the Bandra-Worli Sea Link (BWSL) Bridge situated in Mumbai, Maharashtra. BWSL is an operational asset with a tolling track record of nine years. The total length of the sea link is 5.6 kms consisting 8 lane bridge of 4 kms which includes a cable stayed portion of 500 metres and Bandra side approach of 1.6 kms. BWSL connects two key suburbs of Bandra and Worli in Mumbai significantly reducing commute time.

The toll collections rights of BWSL were transferred to MSLL in February 2020 from MSRDC for a consideration of Rs. 3000 Cr. This was to be paid in two tranches of Rs. 1940 Cr upfront and Rs. 1060 Cr deferred payment in 2039. The Rs. 1940 Cr was a funded debt of Rs. 1650 Cr and rest through promoter's contribution.

Analytical Approach:

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

Key Rating Driver

Strengths

Extensive experience of MSRDC in road and highway infrastructure segment

MSSL 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. The Board of MSSL comprises of civil servants appointed by the GOM. CEO of MSSL also holds the post of Managing Director for MSRDC.

MSSL tasked with operation, maintenance and toll collection of the BWSL Bridge situated in Mumbai. BWSL is an operational asset with a tolling track record of nine years. The total length of the sea link is 5.6 kms consisting of 8-lane bridge of 4 kms which includes a cable stayed portion of 500 metres and approach of 1.6 kms on the Bandra side. BWSL connects two key suburbs of Bandra and Worli in Mumbai significantly reducing commute time.

Acuité believes the continued management support from MSRDC and GOM will be a key rating sensitivity

Key location of the project with low risk of alternate routes

The BWSL project connects two key suburbs Bandra and Worli. It reduces the travelling time between two suburbs by 15 to 30 mins depending on the time of the day. Currently there is a low risk of alternative routes with similar efficiency. Therefore demand risk remains low. However other factors that can affect the traffic on the route are the narrow access route from the Worli end leading to congestion and upcoming Mumbai Metro Line 3 which is expected to start operations end of 2021 or early 2022. However, the planned coastal corridor connecting South Bombay to Western Suburbs of Borivali of which BWSL will be a part would act as mitigating factor for the traffic risk. Also, the low overlap of users of Metro and BWSL will also reduce the risk of Metro becoming a full-fledged alternative to the Sea Link.

Funding shortfall support from Government of Maharashtra under the Concession Agreement

A tripartite Concession Agreement has been executed amongst MSSL as the Concessionaire, MSRDC as the Sponsor & GOM as the Concessioning Authority in 2019. This agreement forms the basis of the support from GOM available to MSSL. As per articles of the agreement in case of shortfall in revenue during the Concession Period or in case of increase in operational & maintenance costs beyond what was earlier envisaged it would be met by the Concessioning Authority.

Weaknesses

Adverse impact on the operating performance due to spread of COVID-19

MSRDC has sublet the toll collection rights on revenue share basis to MEP Infrastructure (MEP). According to the agreement MSSL is entitled to a weekly amount of Rs. 2.89 Cr from MEP. However from March 2020 lockdowns were announced due the spread of COVID 19. This affected the over toll collection on BWSL as strict stay at home orders were issued and only emergency and essential services were allowed to move around. Further traffic on BWSL primarily is of LMVs and freight traffic is lower. Due extensive adoption of work from home policies by corporate the decline in LMV traffic is even higher. To accommodate the lower toll collection weekly fee was waived off from mid-March 2020 to mid-April 2020. From mid-April 2020 – to mid-August 2020 40 percent of the total weekly fee was collected and from mid-August to end of October 2020 this was increased to 70 percent. Post – October MSSL has removed the relaxations. However the overall toll collections have not improved as expected. Hence there was some shortfall in payments from MEP which got settled only at

the end of FY2021. However the delay in receipt of funds and the waiving of toll collection in H1 FY2021 has adversely affected MSLL's cash flows. The primary cash outflows for MSLL are interest servicing and repayment and the cash flows for FY2021 have gone negative and not in line with the repayment obligations. The company has recorded revenue of Rs. 102.22 Cr for FY2021 against Rs. 25.18 Cr in FY2020 (2 months of operations). The company reported a net loss of Rs. 228.09 Cr in FY2021 and Rs. 28.89 Cr in FY2020.

Acuité believes timely pick up in traffic and toll collections will have an impact on MSLL's cash generation ability and will be a key monitorable.

Linkages to the fiscal position of Maharashtra

Maharashtra is India's leading industrial state with gross state domestic product (GSDP) for FY2021-22 (at current prices) estimated to be Rs. 29,81,024 Cr. The fiscal deficit of Maharashtra for FY2021-22 is estimated 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 MSLL and will be a key monitoring factor.

Rating Sensitivity

- Timely pick up in traffic and toll collection volumes enabling MSLL to generate cash flows commensurate with repayment obligations
- Continued managerial and financial support from GOM

Material Covenants

None

Liquidity Position: Strong

MSLL has generated negative cash accruals for FY2021. However it enjoys support from MSRDC and GOM to manage its repayment obligations. Going forward with improvement in the overall toll collections MSLL is expected to generate stable cash accruals, while the company has repayment obligations to the tune of Rs. 7.01 Cr to Rs. 19.80 Cr for FY2022 & FY2023. However, as it enjoys complete support & guarantee from MSRDC & GOM the team expects the MSLL to maintain a strong liquidity profile owing to strong resource mobilization ability of its promoters. Going forward as the traffic jams return and mobility increases on account of unlocks and easing of lockdowns adequate cushion between cash accruals and repayment obligations is expected to be maintained by MSLL

Outlook: Stable

Acuité believes that MSLL 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 slower than expected pick up in revenues affecting its liquidity profile.

Other Factors affecting Rating

None

Key Financials - Standalone

| Particulars | Unit | FY 21 (Actual) | FY 20 (Actual) |
|-------------------------------|------------|-------------------|-------------------|
| Operating Income | Rs. Cr. | 102.22 | 25.18 |
| PAT | Rs. Cr. | (228.09) | (28.89) |
| PAT Margin | (%) | (223.13) | (114.71) |
| Total Debt/Tangible Net Worth | Times | 15.52 | 5.55 |

| | | | |
|----------------|-------|------|------|
| PBDIT/Interest | Times | 0.61 | 0.88 |
|----------------|-------|------|------|

Status of Non-cooperation with previous CRA (If Applicable)

Not Applicable

Supplementary disclosures for Provisional Ratings

Risks associated with the provisional nature of the credit rating

1. Lack of third party monitoring of compliance in absence of executed trust deed
2. In case there are material changes in the terms of the transaction after the initial assignment of the provisional rating and post the completion of the issuance (corresponding to the part that has been issued) Acuite will withdraw the existing provisional rating and concurrently, assign a fresh final rating in the same press release, basis the revised terms of the transaction.

Rating that would have been assigned in absence of the pending steps/ documentation

The rating would be equated to the standalone rating of the entity: ACUITE AA- / Stable

Rating and Timeline implications for a debt instrument that is already issued

The provisional rating shall be converted into a final rating within 90 days from the date of issuance of the instrument. Under no circumstance shall the provisional rating continue upon the expiry of 180 days from the date of issuance of the debt instrument. If the documentation is not completed within the specified timeline, Acuite will withdraw the existing provisional rating and concurrently, assign a fresh final rating as specified under the aforementioned section "Rating that would have been assigned in absence of the pending steps/ documentation

Any Other Information

Not Applicable

Applicable Criteria

- Application Of Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>
- Default Recognition: <https://www.acuite.in/view-rating-criteria-52.htm>
- Group And Parent Support: <https://www.acuite.in/view-rating-criteria-47.htm>
- Infrastructure Sector: <https://www.acuite.in/view-rating-criteria-51.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 |
|-------------|-------------------------------------|-----------|-----------------|--|
| 30 Mar 2021 | Proposed Non-Convertible Debentures | Long Term | 100.00 | ACUITE Provisional AA- 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 | INE04K307016 | Non-Convertible Debentures (NCD) | 30-03-2021 | Not Applicable | 30-03-2046 | 100.00 | Provisional ACUITE AA- Stable Reaffirmed |
| State Bank of India | Not Applicable | Term Loan | Not available | Not available | 31-03-2035 | 1550.00 | ACUITE AA- Stable Assigned |

Contacts

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

About Acuité Ratings & Research

Acuité Ratings & Research Limited is a full-service Credit Rating Agency registered with the Securities and 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. Since then, it has assigned more than 8,850 credit 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. Acuité ratings 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. Acuité ratings 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