

Press Release

MSRDC Infrastructure Projects Limited

August 04, 2021

Rating Assigned



Total Bank Facilities Rated*	Rs. 550.00 Cr.
Long Term Rating	ACUITE A /Stable (Assigned)

* Refer Annexure for details

Rating Rationale

Acuite has assigned its long-term rating of '**ACUITE A**' (read as **ACUITE A**) to the Rs. 550 Cr. bank facilities of MSRDC Infrastructure Projects Limited (MIPL). The outlook is '**Stable**'.

The rating assigned takes into account the managerial and financial support MIPL is likely to receive from its parent MSRDC (Maharashtra State Road Development Corporation) and the benefits inherent to the annuity based revenue model. The rating however is constrained by MIPL's susceptibility to project execution risk as the project is currently in nascent stages (~5 percent in June 2021). Further timely completion of project and commencement of annuity payment from NHAI is likely to remain a rating sensitivity factor

MIPL was incorporated in 2016 in Mumbai as a fully owned subsidiary of MSRDC. It is currently undertaking the six/eight laning of 23.80 km Vadape-Thane section of National Highway – 3 (NH - 3) for National Highway Authority of India (NHAI). The project has been awarded to MIPL under Hybrid Annuity method (HAM). The project was awarded to MIPL after NHAI decided to terminate its existing agreement with - MEP Long Jian VTR Private Limited – JV of MEP Infrastructure Developers Limited (MIDL) and Long Jian Road & Bridge Company Limited (LRBCL). MSRDC then agreed to take over the project through MIPL by way of Harmonious Substitution considering the Project's proximity to MSRDC's flagship project Nagpur Mumbai Super Communication Expressway (NMSCEW).

The total project cost is estimated to be Rs. 1234.12 Cr. which is expected to be funded through Rs. 141.94 Cr equity, debt of Rs. 548.20 Cr. and grant from NHAI of Rs. 543.98 Cr. The project was expected to be completed in July 2021 as per the agreement with the original concessionaire. However post the harmonious substitution in June 2021 NHAI has agreed to extend the completion date by 910 days from the endorsement date. Now, project is expected to be completed by December 2023. As on June 2021 ~5 percent of the construction has been completed.

Analytical Approach

Acuite has considered a standalone approach while assessing the business and financial risk profile of MIPL and has factored in managerial and financial support it receives from MSRDC by virtue of being a wholly owned subsidiary. The rating also factors the strategically important role played by MIPL in implementing a project critical to MSRDC.

Key Rating Drivers

Strengths

• Managerial and financial support from MSRDC

MIPL is a fully owned subsidiary of MSRDC. MSRDC was established by Government of Maharashtra (GoM) in 1996. It is established to oversee large road infrastructure projects across State of Maharashtra. MSRDC has successfully completed key projects such as Mumbai Pune Expressway (MPEW), Bandra Worli Sea Link, Airoli Bridge Project and Satara Kagal Road amongst others. MSRDC has also been tasked with the execution of Missing Link Project on MPEW, Versova Bandra Sea Link Project and the critical NSCEW Project, a ~701 km project passing through 10 districts of Maharashtra with project cost of ~Rs. 55000 Cr. MSRDC reported operating profit of Rs. 844.40 Cr. on an operating income of Rs. 1032.20 Cr. in FY2020 (Provisional).

MSRDC through its subsidiary MIPL has undertaken the six/eight laning of 23.80 km Vadape –Thane section of NH-3. Completion of this project is critical to MSRDC as it is in proximity to and will act as a feeder road for its flagship project NMSCEW. MIPL is therefore expected to receive managerial and financial support from MSRDC in completion of this project. MIPL is completely managed by bureaucrats from MSRDC.

Acuité believes the continued managerial and financial support from MSRDC will remain a critical rating factor.

• **Benefits derived from annuity-based revenue model**

The project undertaken by MIPL has an annuity-based revenue model. Under this model, post completion of construction NHAI will make thirty semi-annual payments to MIPL. MIPL does not bear any traffic risk as it recovers whole of capital cost through these annuity payments. Further, operational and maintenance (O&M) costs and interest costs are also reimbursed by NHAI. Annuity payments have been indexed to inflation thus protecting from any increase in costs and interest costs are reimbursed to the extent of bank rate+3 per cent. MIPL will also provide for a Major Maintenance Reserve (MMR) through its excess cash flow or promoter infusion to cover maintenance costs in excess of the routine O&M expenses. This will be done post commencement of commercial operations. Further, MIPL has received 5 per cent mobilization advance as on June 2021. However MIPL remains susceptible to any delay in receipt of annuity payments from NHAI. However this risk remains low as NHAI is an arm of Government of India (GoI).

Weaknesses

• **Project execution risk**

MIPL is currently undertaking the six/eight laning of 23.80 km Vadape-Thane section of National Highway – 3 (NH - 3) NHAI under HAM. MIPL got the project under harmonious substitution after NHAI decided to terminate their agreement with the original concessionaire - MEP Long Jian VTR Private Limited. The total project cost is estimated to be Rs. 1234.12 Cr. which is expected to be funded through Rs. 141.94 Cr equity, debt of Rs. 548.20 Cr. and Grant from NHAI of Rs. 543.98 Cr. The project was expected to be completed in July 2021 as per NHAI's agreement with the original concessionaire. However post the substitution in June 2021 NHAI has agreed to extend the completion date by 910 days from the endorsement date. Now, project is expected to be completed by December 2023. The original concessionaire had appointed MIDL as the EPC contractor for the project which continues to remain the same post substitution. However the project still remains at very nascent stage of completion. As on June 2020 ~5 percent of the project has been completed. The completion of project without significant time and cost overruns remains critical as the commencement of annuity payments is based on timely completion of the project. However this risk is mitigated to some extent on account of MSRDC's established track record of completing road infrastructure projects of similar scale within the state and its long experience of working with MIDL.

Acuité believes that the completion of the project without significant time and cost overruns will remain a key monitorable.

Liquidity Position: Adequate

MIPL has not yet started commercial operations. The company does not have any repayment obligations until the project is construction is completed that is till December 2023. Thereafter MIPL is entitled to semi-annual annuities from NHAI which will be used to service the repayment obligations. Besides this financial support is also expected from MSRDC. Thus MIPL's liquidity profile is expected to remain adequate over the medium term on account of adequate cash inflows vis-à-vis its repayment obligations and expected support from the parent.

Rating Sensitivities

- Completion of project without significant time and cost overruns.
- Continued managerial and financial support from MSRDC.

Material Covenants

None

Outlook: Stable

Acuite believes that the outlook on MIPL's rated facilities will remain 'Stable' over the medium term on account steady cash flow of annuity expected from the project coupled with a strong financial and technical support of its parent. The outlook may be revised to 'Positive' in case faster than expected completion of the project and commencement of annuity payments. Conversely, the outlook may be revised to 'Negative' in case of delays in completion of project and commencement annuity payments affecting MIPL's liquidity profile.

About the Rated Entity – Key Financials

The company is yet to start commercial operations therefore financials not applicable

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>
- Group and Parent Support - <https://www.acuite.in/view-rating-criteria-47.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

Rating History (Upto last three years)

Not Applicable

*Annexure – Details of instruments rated

Lender Name	Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Not Applicable	Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	550.00	ACUITE A/Stable (Assigned)

Contacts

Analytical	Rating Desk
Aditya Gupta Vice President - Corporate and Infrastructure Sector Ratings Tel: 022-49294041 aditya.gupta@acuite.in Parth Pandit Senior Analyst - Rating Operations Tel: 022-49294032 parth.pandit@acuite.in	Varsha Bist Senior Manager - Rating Desk Tel: 022- 49294011 rating.desk@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 6,000 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 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.*