

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

Acuité 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

Acuité 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

Acuité 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)

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About Acuité Ratings & Research:

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