

Press Release

Mumbai Pune Expressway Limited

August 04, 2021

Rating Assigned



Total Bank Facilities Rated*	Rs. 800.00 Cr.
Long Term Rating	ACUITE AA /Stable (Assigned)

* Refer Annexure for details

Rating Rationale

Acuite has assigned its long-term rating of '**ACUITE AA**' (read as **ACUITE double A**) to the Rs. 800 Cr. bank facilities of Mumbai Pune Expressway Limited (MPEL). The outlook is '**Stable**'.

The rating reflects the established track record of operations of MPEL's's parent, MSRDC (Maharashtra State Road Development Corporation) in the infrastructural construction segment and strong resource mobilization ability on account of continued support from Government of Maharashtra (GOM). These rating strengths are partially offset by counter party risk as the bank borrowings are proposed be paid through proceeds from IRB MP Expressway Limited (IRBMPEL), a subsidiary of IRB Infrastructure Developers Limited (IRB) (rated ACUITE AA-/Stable) that has been appointed for toll collection on the highway. Acuite believes that the timely receipt of payment from IRB will remain a key monitorable.

Incorporated in 2018 in Mumbai, MPEL is a fully owned subsidiary of MSRDC. It is a special purpose vehicle (SPV) which holds the concession rights for toll collection operations on Mumbai Pune Expressway (MPEW). MSRDC had appointed a contractor for tolling and O&M of MPEW till August 10, 2019. Then the rights were transferred to MPEL till April 30, 2030. Further MPEL appointed a sub-concessionaire IRBMPEL - a subsidiary of IRB (rated- ACUITE AA-/Stable) selected through a bidding process to manage tolling operations and O&M for MPEW on Toll Operate Transfer Basis (TOT). IRB had agreed to pay to MPEL an aggregate consideration of Rs. 8262.00 Cr. This was to be received in four tranches (First on March 01, 2020 of Rs. 6500.00 Cr, second on March 01, 2021 of Rs. 850.00 Cr, third on March 01, 2022 of Rs. 850.00 Cr and fourth on March 01, 2023 of Rs. 62.00 Cr). Out of these the first two tranches have already been received.

Analytical Approach

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

Key Rating Drivers

Strengths

• Extensive experience of MSRDC in road and highway infrastructure segment

MPEL 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. 844.40 Cr. on an operating income of Rs. 1032.20 Cr. in FY2020 (Provisional). The Board of MPEL comprises of civil servants appointed by the GoM. CEO of MPEL also holds the post of Managing Director for MSRDC, reflecting the strong management integration. MPEL holds the concession rights to MPEW – an existing road asset connecting Mumbai and Pune, the two largest economic hubs in India.

The strategically important nature of the infrastructure asset and its cash generation ability makes MPEL a key subsidiary for MSRDC and GoM thus increasing financial support to it.

Acuité believes the continued managerial control of the company by MSRDC and support from GoM will be a key rating sensitivity.

• **Funding shortfall support from Government of Maharashtra under the Concession Agreement**

A tripartite Concession Agreement has been executed amongst MPEL as the Concessionaire, MSRDC as the Sponsor & GoM as the Concessioneing Authority in 2019. This agreement forms the basis of the support from GOM available to MPEL. As per articles of the agreement, in case of cash shortfall during the Operation Period and or for servicing of any debt it would be met by the Concessioneing Authority. The agreement also has provisions for compensation to the Concessionaire in case of stoppage of toll collection from the Authority.

Weaknesses

• **Counter party risk**

MPEL has bought right so toll operations on MPEW from its parent MSRDC for a consideration of ~Rs. 9000 Cr in August 2019. Subsequently in February 2020 MPEL has appointed IRBMPEL – a subsidiary of IRB as the sub-concessionaire for managing toll operations of MPEW on a TOT basis. This is for a period from February 2020 to April 2030 for a consideration of Rs. 8262 Cr to be received in four tranches (First on March 01, 2020 of Rs. 6500.00 Cr, second on March 01, 2021 of Rs. 850.00 Cr, third on March 01, 2022 of Rs. 850.00 Cr and fourth on March 01, 2023 of Rs. 62.00 Cr.) Out of these MPEL has already received the first two tranches. These funds have been used to pay part of the consideration to MSRDC. Now the company has raised Rs. 400 Cr by securitizing the cash flows expected from the third tranche. The debt raised has been used to pay back MSRDC. Although MSRDC has mitigants in form of a support from GoM against any cash short fall under the Concession Agreement, timely receipt of payment from IRB still remains a critical rating factor.

• **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. 26,61,629 Cr for FY2020-21 (advanced estimates) as against Rs 28,18,555 for FY2019-20 (revised estimates). The expected decline is on account of economic slowdown brought on by spread of COVID and subsequent lockdowns. The fiscal deficit of Maharashtra for FY2020-21 (RE) increased to 3.3 percent of GSDP against 1.90 percent in FY2019-20. This increase is attributable to shortfall in revenue receipts on account of COVID related lockdowns. Any further 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 MPEL and will be a key monitoring factor.

Liquidity Position: Strong

MPEL is expecting a cash inflow of Rs. 850 Cr in March 2022 and Rs. 62 Cr in March 2023. Against that it has a repayment of Rs. 400 Cr in March 2022 and no external debt obligations beyond that. In case of any short fall it also has support from MSRDC and GoM available under the Concession Agreement. The overall liquidity of the company is likely to remain strong over the medium term on account of healthy buffer between with assured cash flows inflows vis-à-vis repayment obligations and support available from MSRDC and GoM in case of any shortfall.

Rating Sensitivities

- Timely receipt of payment from IRB Group
- Any decline in credit quality of GoM

Material Covenants

None

Outlook: Stable

Acuité believes that MPEL will maintain a 'Stable' credit profile over the medium term on the back of experience of its promoter in road infrastructure operations, visibility of revenues over the medium term and support from GoM. The outlook may be revised to 'Positive' if the company is able to generate

higher than expected cash flows. Conversely, the outlook may be revised to 'Negative' in case of any significant decline in the credit quality of the IRB Group or GoM.

About the Rated Entity – Key Financials

	Unit	FY21 (Provisional)	FY20 (Actual)
Operating Income	Rs. Cr.	748.44	602.49
PAT	Rs. Cr.	(266.40)	(290.02)
PAT Margin	(%)	(35.59)	(48.14)
Total Debt/Tangible Net Worth	Times	(2.02)	(207.88)
PBDIT/Interest	Times	3.21	1.51

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>
- State Government Support - <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 (Upto last three years)

Not Applicable

*Annexure – Details of instruments rated

Lenders	Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
HDFC Bank	Term Loan	March 2021	6.95%	March 2022	400.00	ACUITE AA /Stable (Assigned)
Not Applicable	Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	400.00	ACUITE AA /Stable (Assigned)

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About Acuité Ratings & Research:

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