

Press Release

Palghar Road Project Private Limited

February 16, 2023



Rating Assigned

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	67.00	ACUITE A- Stable Assigned	-
Total Outstanding Quantum (Rs. Cr)	67.00	-	-

Rating Rationale

Acuite has assigned its long-term rating of '**ACUITE A-**' (read as **ACUITE A Minus**) on the Rs. 67.00 crore bank facilities of Palghar Road Project Private Limited (PRPPL). The outlook is '**Stable**'.

Rating Rationale

The rating assigned considers the completion of project on time along with all the milestone payments received from PWD and also two annuity payments has been received by the company for September 2022 and December 2022. Further, the rating factors in the adequate liquidity of the company in the form of DSRA created equivalent to 2HY installments and six months interest and escrow mechanism. Acuite has also considered the technical support and funding support in the form of corporate guarantees for the loan availed from the sponsor while arriving at the rating. However, the rating is constrained by risk related to delay in annuity payments and changes in operational and interest cost.

About the Company

Incorporated in 2018 Palghar Road Project Private Limited is a wholly owned Special Purpose Vehicle (SPV) sponsored by Milan Road Buildtech LLP for construction of Two Lanning with Unpaved shoulders to Safale Manda Tembhi Khodave Km 0/000 to 9/100 Taluka District – Palghar, Construction of Two Lanning with Unpaved shoulders to road Tarapur MIDC Area from Nandore Mann Kallore road Km 0/00 to 9/200 Taluka District – Palghar, Construction of Two Lanning with Unpaved shoulders Parnali Palghar Road Km 0/00 to 14/900 Taluka District – Palghar, Construction of Two Lanning with Unpaved shoulders to Chinchani Ashagad Udhva Km 0/00 to 34/500 in Taluka Dahanu District Palghar. The above project is in the state of Maharashtra under Maharashtra Road Improvement Programme (MRIP) on Hybrid Annuity Mode.

Analytical Approach

For arriving at the rating, Acuite has considered the standalone credit profile of PRPPL, which is strengthened by the managerial support from the sponsor – Milan Road Buildtech LLP (MRBL). Further, Acuite has also considered DSRA equivalent to 2HY instalments and six months interest and escrow mechanism, as specified in the loan sanction letter while arriving at the rating.

Key Rating Drivers

Strengths

Benefits derived from the annuity-based revenue model

The project being developed has an annuity-based revenue model. Under this model, the PWD, Maharashtra makes bi-annual payment over the concession period to the concessionaire. The company does not bear any traffic risk as it recovers whole of the capital cost through annuity. Further, bi-annual operational and maintenance expense and interest cost reimbursement to the extent of bank rate +4.25 per cent is given to the concessionaire during the concession phase. The company has achieved 100 per cent construction stage against which it has received 10 per cent mobilisation advances and all milestone payment from the authority. Further, the company has received the final completion certificate and two annuity payments from the authorities in September 2022 and December 2022 respectively. Further, the company has availed a loan from SBI Rs. 67.80 crores which is fully disbursed.

Technical and financial support from Milan Road Buildtech LLP (MRBL)

MRBL has more than fifteen years of experience in the construction business and has established a track record for successful project execution. The company is led by the Patel family, since inception. Extensive experience of the promoters has helped the company in establishing and maintaining healthy relations with clients and sanctioning authorities. Acuité believes that sponsor's entrepreneurial experience and long track of operations will support its business risk profile over the medium term. Further, MRBL has contributed 100% funding in the HAM project.

Waterfall mechanism in ESCROW account

PRPPL has escrow mechanism through which cash flows from Authority is routed and used for payment as per the defined payment waterfall. Only surplus cash flow after meeting operating expense, debt servicing obligation, and provision for major maintenance expense, can be utilised as per borrower's discretion during the concession period. Furthermore, bank guarantee given by the sponsor - MRBL. The bank facilities will be backed by corporate guarantee from MRBL.

Weaknesses

Susceptibility to risks related to delay in receipt of annuity and changes in operational cost & interest rate

As per the concession agreement, the company is expected to receive a semi-annual annuity. Any delay in timely receipt of the annuity could adversely impact debt-servicing ability. Along with fixed annuities, the project will receive interest payments on the balance annuities that are linked to the prevailing bank rate. The bank rate has reduced significantly in past couple of years which has impacted the project inflow as a large proportion of the cash inflow is from the interest on balance annuities. However, this risk is partially offset as the interest rate on debt is floating and is also expected to follow the trend in bank rates thus keeping DSCR in check. Further, the company is exposed to risks related to maintenance of the project. If the prescribed standards are not met, annuity payment may be reduced. Any significant delay and deduction in annuities could impact the debt servicing ability of the company. However, strong track record of sponsor, who is also the O&M contractor, is expected to mitigate this risk.

Rating Sensitivities

- Timely receipt of annuity payments from the Government going forward
- Significant deterioration in the sponsor's credit profile

Material covenants

The borrower/sponsor shall maintain DSRA which is to be created upfront, of an amount equivalent to the two Half year installments and six months of interest and all other obligations due and payable in respect of facility amount.

Liquidity Position

Adequate

PRPPL's liquidity position is adequate marked by timely milestone payment received from PWD, while executing the project, and also, the company has started receiving annuity payments from September 2022 and has already received the two bi-annual payments. The project was completed as per schedule time. Acuite expects that the liquidity of PRPPL is likely to remain adequate backed by consistent support from government in terms of annuity payments and also DSRA maintained by the company equivalent to 2HY instalments and six months of interest

Outlook: Stable

Acuite believes that the outlook on PRPPL's rated facilities will remain 'Stable' over the medium term on account of steady flow of bi-annual annuity from the government coupled with strong support of sponsors. The outlook may be revised to 'Positive' in case of significant improvement in free cash flow from operations. Conversely, the outlook may be revised to 'Negative' in case of delays in receipt of the annuity or lack of timely support from the sponsor.

Other Factors affecting Rating

None

Key Financials

Particulars	Unit	FY 22 (Actual)	FY 21 (Actual)
Operating Income	Rs. Cr.	68.39	53.72
PAT	Rs. Cr.	0.08	0.05
PAT Margin	(%)	0.12	0.09
Total Debt/Tangible Net Worth	Times	0.98	256.74
PBDIT/Interest	Times	1.03	1.03

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

None

Any other information

None

Applicable Criteria

- Default Recognition :- <https://www.acuite.in/view-rating-criteria-52.htm>
- Service Sector: <https://www.acuite.in/view-rating-criteria-50.htm>
- Infrastructure Sector: <https://www.acuite.in/view-rating-criteria-51.htm>
- Application Of Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>
- Group And Parent Support: <https://www.acuite.in/view-rating-criteria-47.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:

Not Applicable

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	Simple	0.20	ACUITE A- Stable Assigned
State Bank of India	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	66.80	ACUITE A- Stable Assigned

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About Acuité Ratings & Research

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