February 28, 2022

Mumbai Nashik Expressway Private Limited: Rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based – Term Loan	350.36	245.73	[ICRA]AA-(Stable) reaffirmed
Total	**350.36**	**245.73**	

**Instrument details are provided in Annexure-1*

Rationale

The rating reaffirmation continues to factor in the favourable location and operational nature of Mumbai Nashik Expressway Private Limited's (MNEPL) project stretch with a tolling track record of over ten years and a five-year CAGR of 2.9% (FY2016-FY2021) for toll collections. With increase in daily average collections from July 01, 2021, due to recovery in traffic and annual toll hike of 8% (linked with WPI), the toll collections are estimated to report strong growth in FY2022 over FY2021 thus strengthening the coverage metrics. Given the expectations of a high WPI (9-10%) in March 2022, the toll rate hike and toll collections are expected to remain healthy in FY2023. ICRA notes the strong profile of the ultimate project sponsor, Brookfield Asset Management (Brookfield) with an established track record of asset management in the infrastructure space across the globe. The rating draws comfort from the presence of structural features such as creation of major maintenance reserve (MMR) and debt servicing reserve account (DSRA) equivalent to six months of debt servicing obligations, along with a lock-up debt service coverage ratio (DSCR) of 1.20 times for making restrictive payments including dividends, return of equity and other payments to the holding company.

The rating, however, remains constrained due to risks inherent in toll-based projects, which include risks arising from political acceptability of annual toll rate hikes linked to WPI over the concession agreement and the user willingness to pay. The trends in traffic growth rates and movement in WPI (for toll rate hike) will remain key sensitivities, as any reduction in either of the factors would have an adverse impact on toll collections.

ICRA has taken note of the Rs. 1.8 crore penalty levied by the National Highways Authority of India (NHAI) with respect to maintenance obligations till May 2021 and some penalties has been levied for the period June-August 2021 as well, the amount of which is not yet quantified. MNEPL has completed the major maintenance activity for the first phase (for 53 km stretch) within the budgeted costs. The pending maintenance works are at an advanced stage of completion with the balance cost to be incurred around Rs. 7.0 crore (can be met through MMR) and is expected to be completed by March 2022. The company's ability to undertake routine and periodic maintenance expenditure, within the stipulated timelines and budgeted costs and avoiding further penalties on account of delay will remain crucial.

The rating remains exposed to alternate route risk, with the upcoming Mumbai Nagpur Super Communication Expressway (MNSCE), which will be competing with the project stretch. ICRA is given to understand that the Indore and Agra-bound traffic account for a significant portion of the current traffic on MNEPL and would continue to use the project stretch, while the Nagpur-bound traffic could witness some shift to MNSCE once it becomes operational. MNSCE will be operational in multiple phases with the Mumbai end expected to become operational in 2024. A large portion of the MNEPL's debt will get amortised by the time MNSCE becomes operational. Nevertheless, proportion of shift in traffic to MNSCE, once it becomes operational, would remain a key monitorable.

The cash flows of the project are vulnerable to the interest rate risk owing to the floating nature of the debt. Moreover, MNEPL remains exposed to asset concentration risk given the single asset nature with toll collections being the only source of income.

The Stable outlook on the rating reflects ICRA's opinion that MNEPL will continue to benefit from the importance of the project stretch, healthy coverage indicators and experienced sponsor.

Key rating drivers and their description

Credit strengths

Operational nature of project with established traffic – The rating continues to factor in the favourable location and operational nature of the project with a tolling track record of over ten years and a five-year CAGR of 2.9% (FY2016- FY2021). Post-acquisition by Brookfield, MNEPL has been able to curb toll leakages and increase the tollable traffic, thereby increasing its overall toll revenues.

Comfortable debt coverage metrics – The rating factors in the comfortable debt coverage indicators with the improvement in the monthly toll collections on a sequential basis since July 2021. The toll collections for the six-month period from July 2021 to December 2021 are higher than the collections for the respective six months in 2020 by 28%. Moreover, given the reduction in interest rate, the coverage indicators are expected to remain comfortable.

Presence of structural features – The presence of structural features such as creation of MMR and DSRA equivalent to six months of debt servicing obligations (maintained in the form of bank guarantee), along with a lock-up DSCR of 1.20 times for making restrictive payments provide further credit support to the term loan.

Strong profile of sponsor – The rating draws comfort from the strong profile of the ultimate sponsor, Brookfield Asset Management, having an established track record of asset management in the infrastructure space across the globe. The sponsor has provided an undertaking to make payment to the lenders for any shortfall in secured obligations and to infuse funds to meet periodic and routine maintenance expenditure in excess of amounts provided for in the rupee term loan agreement.

Credit challenges

Exposed to risk inherent in BOT toll road projects – The project remains exposed to risks inherent in build operate transfer (BOT) toll road projects, including risks arising from variation in traffic volumes over the project stretch and its dependence on the economic activity in the surrounding regions. The project is vulnerable movement in WPI (for toll rate hike), political acceptability of toll rate hike over the concession period, user willingness to pay, development/improvement of alternate routes and likelihood of toll leakages. The upcoming MNSCE will be competing with the project stretch. Nevertheless, a large portion of the company's debt will get amortised by the time MNSCE becomes operational. The timelines of MNSCE's execution and any significant leakage of traffic from MNEPL to MNSCE would be a key monitorable.

Ensuring regular and periodic maintenance expenditure within budgeted levels – MNEPL has completed the major maintenance activity for the first phase (for 53 km stretch) within the budgeted costs. The pending maintenance works are at an advanced stage of completion with the balance cost to be incurred around Rs. 7.0 crore (can be met through MMR) and is expected to be completed by March 2022. The company's ability to undertake routine and periodic maintenance expenditure, within the stipulated timelines and budgeted costs and avoiding further penalties on account of delay will remain crucial. ICRA has taken note of the Rs. 1.8-crore penalty levied by NHAI with respect to maintenance obligations till May 2021. Some penalties has been levied for June-August 2021 as well, the amount of which is not yet quantified. The company's ability to undertake routine and periodic maintenance expenditure, within the stipulated timelines and budgeted costs and avoiding further penalties on account of delay will remain crucial.

Exposed to interest rate and asset concentration risk – The project's cash flows, and profitability remain exposed to interest rate risk, given the floating nature of the interest rate. Moreover, MNEPL remains exposed to asset concentration risk due to the single asset nature with toll collections being the only source of income.

Liquidity position: Adequate

MNEPL's liquidity position remains adequate with unencumbered cash balance of Rs. 18.3 crore as on December 31, 2021, in addition to debt service reserve (equivalent to six months debt obligations) of Rs. 50.8 crore maintained in the form of bank guarantee and MMR of Rs. 15.5 crore as on January 31, 2022. The cash flow from operations is expected to be sufficient to meet the debt servicing obligations.

Rating sensitivities

Positive factors – MNEPL's rating could be upgraded if there is a significant rise in toll collections on a sustained basis resulting in improvement in cumulative DSCR to 1.9 times and the consequent strengthening of its financial risk profile

Negative factors – Downward pressure on the rating could emerge if the traffic growth is lower than expected on a sustained basis and/or significant diversion in traffic to upcoming alternate route and/or if the regular O&M and major maintenance expenditure is significantly above the budgeted costs resulting in cumulative DSCR falling below 1.50 times.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for BOT (Toll) Roads
Parent/Group Support	NA
Consolidation/Standalone	Standalone

About the company

MNEPL is a special purpose vehicle (SPV) incorporated for strengthening the existing two-lane road to four lanes and operating the 99.5 km Vadape–Gonde (Mumbai–Nashik) section of NH–3 on a BOT toll basis. MNEPL was a joint venture between Gammon Infrastructure Projects Limited (GIPL) (79.99%), Sadbhav Engineering Limited (SEL) (20.00%) and B.E. Billimoria and Company Limited (0.01%). The stake of GIPL and SEL was completely divested on February 29, 2016, to BIF India Holdings Pte Ltd., an investment company of Brookfield Asset Management. The concession agreement was signed on October 14, 2005, with the NHAI. The project achieved provisional commercial operations date (COD) on May 29, 2010 and commenced toll collections from the Nasik end in June 2010. Furthermore, w.e.f. May 31, 2011, the project got fully commissioned and tolling started in September 2011 from the Mumbai end.

Key financial indicators (audited)

MNEPL standalone	FY2020	FY2021
Operating Income (Rs. crore)	171.7	164.8
PAT (Rs. crore)	11.0	13.2
OPBDIT/OI (%)	68.1%	68.6%
PAT/OI (%)	6.4%	8.0%
Total Outside Liabilities/Tangible Net Worth (times)	(5.8)	(6.2)
Total Debt/OPBDIT (times)	4.0	3.6
Interest Coverage (times)	1.8	2.1

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2022)				Chronology of Rating History for the past 3 years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of Jan 31, 20202 (Rs. crore)	Date & Rating in	Date & Rating in FY2021		Date & Rating in FY2020	Date & Rating in FY2019
					Feb 28, 2022	Dec 18, 2020	May 12, 2020	Apr 23, 2019	Apr 26, 2018
1	Term Loans	Long-term	245.73	245.73	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	[ICRA]AA- (Negative)	[ICRA]AA- (SO) (Stable)	[ICRA]AA- (SO) (Stable)

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term Fund-based – Term Loan	Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments, is available on ICRA's website: www.icra.in

Annexure-1: Instrument details

ISIN No.	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
	Term Loan	April 2016	-	March 2025	245.73	[ICRA]AA-(Stable)

Source: *Company*

Annexure-2: List of entities considered for consolidated analysis: Not Applicable

ANALYST CONTACTS

Rajeshwar Burla
+91 40 4067 6527
rajeshwar.burla@icraindia.com

Ashish Modani
+91 20 6606 9912
ashish.modani@icraindia.com

Jay Sheth
+91 22 6114 3419
jay.sheth@icraindia.com

Ashmeet Kour Tuteja
+91 22 6114 3400
ashmeet.tuteja@icraindia.com

RELATIONSHIP CONTACT

L. Shivakumar
+91 22 6114 3406
shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

ICRA Limited

Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45

Branches