May 04, 2022

Maheshtala Waste Water Management Private Limited: Rating Assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based – Term Loan	110.00	[ICRA]BBB (Stable); Assigned
Total	**110.00**	

**Instrument details are provided in Annexure-1*

Rationale

The ratings assigned to Maheshtala Waste Water Management Private Limited (MWWMPL) reflects healthy financial position and track record of sponsor i.e. Vishvaraj Environment Private Limited (VEPL) in executing and operating drinking water and waste water treatment project. MWWMPL has awarded a fixed-price EPC contract for setting up treatment plant and inflation-linked O&M services contract to VEPL, which provides comfort, given VEPL's strong track record of executing similar projects in the past. VEPL and its parent Premier Financial Services Limited (PFSL) have healthy liquidity position to meet the committed equity requirement and contingency with cash, bank balance and liquid investments of Rs. 28.2 crore in VEPL as of March 31, 2022 and ~Rs 330 crore in PFSL as of Dec-2021. The rating further takes comfort from strong counterparty for the project with presence of escrow account along with budgetary support by GoI. This project is being executed under the Namami Gange programme of Government of India (GoI) and implemented by National Mission for Clean Ganga (NMCG). The rating also draws comfort from lower inherent risk in the Hybrid Annuity Model (HAM) based projects with funding support in the form of grant during construction period, and assured revenue post COD mitigating the revenue risk. Once operational, MWWMPL is expected to maintain healthy debt coverage indicators during the debt tenure to withstand the adverse movement in bank rates and inflation to a major extent. Further, the credit profile also benefits from the presence of escrow and cash flow waterfall mechanism, provision of Debt Service Reserve (DSR) equivalent to six months of debt servicing obligations, and restricted payment clause with a minimum DSCR of 1.2 times.

The ratings are, however, constrained due to nascent stage of project (with appointed date yet to be received) which exposes the company to execution risk including risks of delays and cost overruns. While the risk is mitigated to an extent by the fixed-price, fixed-time contract and strong project execution capabilities of VEPL; commissioning of the project in a timely manner and within the budgeted costs is important from the credit perspective. The project's cash flows and returns are exposed to actual O&M expenditure and inflation risk as O&M receipts, though linked to inflation (70% CPI and 30% WPI), may not be adequate to compensate for the increase in O&M (including periodic maintenance) expenses. In this regard, agreement (to be entered) with VEPL for O&M activities wherein the specified O&M charges shall be payable (inflation adjusted) along with similar commercial terms for key performance parameters, power cost, penalties, etc. for the entire O&M period mitigates the risk of higher than budgeted O&M expenditure and passes this risk to VEPL. Nevertheless, VEPL has healthy track record of operating similar plants in the past which provides comfort. The rating is also constrained due to the risk of deductions from annuity in case of non-adherence to the KPIs. Post-commissioning, revenues/cash flows of the SPV to be received during O&M period is in the form of annuities (compensating for 60% of inflation adjusted bid project cost) along with interest on balance annuities, O&M charges, and power charges. In case of non-adherence to the O&M KPIs, there can be deductions from the payment by NMCG. Further, any usage of power above the guaranteed energy consumption as quoted in the bid may result in higher expenses than the O&M payment to be received from authority. This exposes the company to cash flow mismatches. The project cashflows are also exposed to changes in bank rate and foreign exchange risk given the loan is expected to be in foreign currency denomination.

Key rating drivers and their description

Credit strengths

Established track record of sponsor in water and waste water treatment project – The sponsor's (i.e. Vishvaraj Environment Private Limited (VEPL)) business profile is characterised by a decade of experience in implementation (EPC) and operation (O&M) of drinking water and waste Water treatment projects that includes drinking water treatment plants (WTP) and sewage treatment plants (STP). VEPL in the past has handled O&M projects which covered 2700 running km water distribution networks and 3,25,000 house service connections. VEPL is currently handling 27 drinking water treatment plants (WTPs) with total handling capacity of 2280 MLD and is operating 15 Sewage treatment plants (STP) with a capacity of 530 MLD. The SPV has awarded a fixed-price EPC contract and inflation-linked O&M services contract to VEPL, which provides comfort, given its strong track record of executing similar projects in the past. VEPL and its parent Premier Financial have healthy liquidity position to meet the committed equity requirement and contingency with cash, bank balance and liquid investments of Rs. 28.2 crore in VEPL as of March 31, 2022 and ~Rs 330 crore in PFSL as of Dec-2021.

Strong counterparty with presence of escrow account along with budgetary support by GoI – This project is being executed under the Namami Gange programme of Government of India (GoI) and implemented by National Mission for Clean Ganga (NMCG) and has critical importance to the GoI for meeting its objectives of abatement of pollution and rejuvenation of River Ganga. NMCG being a Central Government entity implementing a strategically important project and it gets budgetary allocation from GoI which renders it as a strong counterparty. Further, as per the concession agreement, the defined payment mechanism requires NMCG to maintain a minimum balance of two milestone payments during the construction phase and two-year annuity payment during the O&M phase in escrow account. This presence of an escrow account and adequate budgetary allocation from GoI significantly is likely to ensure timely payments of grants from NMCG. Notwithstanding the presence of defined payment security mechanism, there remains uncertainties around operational challenges (certification of invoice, adherence to O&M KPIs etc from Kolkata Metropolitan Development Authority [KMDA]) during the initial operating phase of the project, given the relatively nascent stage of the HAM model for waste water treatment projects.

Lower inherent risk in HAM projects from NMCG – The inherent benefits of hybrid-annuity based nature of the project include upfront availability of right of use (RoU) or right of way(RoW), receipt of interest-free mobilisation advance and inflation linked revisions to bid project cost during construction period. Moreover, it faces relatively lower equity mobilisation risk with 40% of the bid project cost to be funded by the authority during the construction period in the form of grant. Stable revenue stream post-commissioning with 60% of the inflation-adjusted bid project cost being paid out quarterly as annuity along with the interest on balance outstanding capex annuities in addition to the inflation-adjusted operations and maintenance (O&M) cost bid over 15-year operations period by NMCG, which is a strong counterparty, provides comfort. Further, availability of termination payment during the construction period is also positive from lender's perspective.

Healthy coverage indicators and presence of structural features – Once operational, MWWMPL is expected to maintain healthy debt coverage indicators during the debt tenure. This provides the SPV adequate cushion to withstand the adverse movement in bank rates and inflation to a major extent. It benefits from the various reserves created as part of the debt structure viz. DSR equivalent to six months of debt servicing obligations. It also enjoys credit support provided by other structural features of the proposed debt, including the presence of escrow, cash flow waterfall mechanism and restricted payment clause with a minimum DSCR of 1.2 times.

Credit challenges

Nascent stage of project; execution risk related to project under construction – The project is yet to receive the appointed date and thus the construction is yet to start. Like any project, the company is exposed to project execution risks including risks of delays and cost overruns. However, the risk is also mitigated, to an extent, by the fixed-price, fixed-time contract and strong project execution capabilities of VEPL. Nevertheless, commission of the project in a timely manner and within the budgeted costs is important from the credit perspective.

Project cash flows and returns exposed to O&M expenditure and inflation risks – The project's cash flows and returns are exposed to actual O&M expenditure and inflation risk as O&M receipts, though linked to inflation (70% CPI and 30% WPI), may not be adequate to compensate for the increase in O&M (including periodic maintenance) expenses. In this regard, agreement (to be entered) with VEPL for O&M activities wherein the specified O&M charges shall be payable (inflation adjusted) along with similar commercial terms for key performance parameters, power cost, penalties, etc. for the entire O&M period mitigates the risk of higher than budgeted O&M expenditure and passes this risk to VEPL. Nevertheless, VEPL has healthy track record of operating similar plants in the past which provides comfort.

Risk of deductions from annuity - Post-commissioning, revenues/cash flows of the SPV to be received during O&M period is in the form of annuities (compensating for 60% of inflation adjusted bid project cost) along with interest on balance annuities, O&M charges, and power charges. In case of non-adherence to the O&M KPIs, there can be deductions from the payment by NMCG. Further, any usage of power above the guaranteed energy consumption as quoted in the bid may result in higher expenses than the O&M payment to be received from authority. This exposes the company to cash flow mismatches. Therefore, undertaking regular required O&M to maintain specified output quality while keeping O&M cost and power cost within the budgeted levels remains critical and would be a key rating monitorable.

Project returns exposed to changes in bank rate and foreign exchange risk - The prevailing low bank rate could adversely impact the projected coverage metrics and Internal Rate of Returns (IRR) for HAM projects as around 25% of the total annuity inflows during the operational period for a HAM project are contributed by interest on annuities, which is linked to State Bank of India's one-year MCLR plus 300 bps. Since the company is taking the loan in foreign currency denomination, it is also exposed to foreign exchange risk. However, the company plans to hedge forex risk post COD which can mitigate this risk to major extent.

Liquidity position: Adequate

The total estimated project cost of Rs. 239.0 crore is planned to be funded by NMCG grant of Rs. 84.30 crores, external debt of Rs. 103.18 crores and equity of Rs. 51.59 crores. Further DSR equivalent to six months of debt servicing obligations is proposed to be created and is considered as part of project cost.

Rating sensitivities

Positive factors – The rating could be upgraded if the project is completed within the expected timelines and budgeted costs and the first annuity is received on time or if there is an improvement in the credit profile of the sponsor.

Negative factors – Negative pressure on rating could arise if the project progress is delayed, leading to significant time and cost overruns, or if there is a deterioration in the credit profile of the sponsor, or if delays in receipt of grant or equity infusion results in increased funding risks for the project.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Impact of Parent or Group Support on an Issuer's Credit Rating
Parent/Group Support	Parent/Group Company: Vishwaraj Environment Private Limited (VEPL) The rating assigned to MWWMPL factors in the likelihood of its ultimate parent, VEPL, extending financial support to it because of close business linkages between them. ICRA also expects VEPL to be willing to extend financial support to MWWMPL out of its need to protect its reputation from the consequences of a group entity's distress.
Consolidation/Standalone	Standalone

About the company

Incorporated on February 24, 2021, Maheshtala Waste Water Management Pvt. Ltd. (MWWMPL), a wholly owned SPV of Vishvaraj Environment Private Limited (VEPL), was formed to undertake the design, supply, installation, testing, and commissioning, operation & maintenance of proposed 35.00 MLD (Peak flow 78.75 MLD) capacity Sewage Treatment Plant (STP) along with other Facilities and its Associated Infrastructure at Maheshtala (outskirts of Kolkata) under National Mission for Clean Ganga (NMCG) on a Hybrid Annuity Model (HAM) model. The construction and operations period for the project is 2 years and 15 years, respectively. The concession agreement was signed on June 17, 2021 and appointed date is yet to be received. The local body, i.e. Kolkata Metropolitan Development Authority (KMDA) will oversees execution and provides local support i.e., permissions, clearances and NMCG is responsible for financing the project and payments to the contractor.

Key financial indicators (audited) : Not Applicable

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2023)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating in	Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020
					May 04, 2022	-	-	-
1	Term Loans	Long-term	110.0*	-	[ICRA]BBB (Stable)	-	-	-

*amount is yet to be sanctioned

Complexity level of the rated instrument

Instrument	Complexity
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 analyzing 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 / Sanction	Coupon Rate	Maturity Date	Amount Rated (RS Crore)	Current Rating and Outlook
NA	Term Loan	Yet to be sanctioned	-	-	110.0*	[ICRA]BBB (Stable)

Source: Company *amount is yet to be sanctioned

Please click here to view details of lender-wise facilities rated by ICRA

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

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