June 30, 2022 (Revised)

MSRDC Sea Link Limited: Ratings reaffirmed; Outlook revised to Stable

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based – Term Loan	1,650.00	1,650.00	[ICRA]A+(CE) reaffirmed, Outlook revised to Stable from Negative
Total	**1,650.00**	**1,650.00**	

**Instrument details are provided in Annexure-I*

Rating Without Explicit Credit Enhancement	[ICRA]A

**Instrument details are provided in Annexure-1*

Note: The (CE) suffix mentioned alongside the rating symbol indicates that the rated instrument/facility is backed by some form of explicit credit enhancement. This rating is specific to the rated instrument/facility, its terms and its structure and does not represent ICRA's opinion on the general credit quality of the entity concerned. The last row in the table above also captures ICRA's opinion on the rating without factoring in the explicit credit enhancement.

Rationale

The change in the outlook reflects ICRA's expectation that credit profile of MSRDC Sea Link Limited's (MSLL) will benefit from the timely financial support from the authority i.e., Government of Maharashtra (GoM) for funding MSLL's shortfall in debt servicing and for undertaking its major maintenance activities, as demonstrated in the recent past. ICRA notes that the toll collections improved sequentially in FY2022 (96% YoY growth) and expected to increase by 28% in FY2023e; however, the full recovery to pre-covid level traffic is still sometime away which necessitates dependence on the authority in the interim as some of the corporates are still operating in work from model. The demonstrated timely financial support by GoM through MSRDC provides comfort. The presence of structural features such as Debt Service Reserve Account (DSRA) (equivalent to two quarters repayment obligations), security deposit equivalent to 10% of the debt disbursed amount, cash sweep mechanism (above DSCR of 1.1 times from FY 2023 onwards) and restricted payments (no dividends or sub-ordinated debt servicing during the tenure of senior debt) lends support to the credit profile.

The rating continues to factor in Bandra-Worli Sea Link's (BWSL) long tolling track record of more than ten years and the favourable location of the project which connects the major suburbs of Bandra and Worli in Mumbai with significant reduction in commute time. The attributes of shortfall support from GoM as per article 25 of the concession agreement to ensure timely payment of shortfall amount, if any, at any time during the tenor of the loan, topping-up of DSRA by sponsor in case of shortfall in DSRA during the tenure of the loan has resulted in an enhancement in the rating of the said instrument to [ICRA]A+(CE) against the rating of [ICRA]A without explicit credit enhancement. ICRA draws comfort from the strong liquidity buffer at MSLL with security deposit equivalent to 10% of the debt disbursed amount and DSRA equivalent to two quarters of principal and interest obligation amounting to Rs. 242.4 crore maintained as on March 31, 2022.

The rating remains constrained by the weak projected DSCR in the near term. However, ICRA expects continued financial support from MSRDC, with a backstop from GoM. While the project stretch has moderate alternate route risk as of now, the impact of the upcoming Mumbai metro connecting the northern and southern suburbs of Mumbai, remains to be seen. Further, the inherent capacity constraint in the form of 2+2 lanes operational at Worli end as against the 4+4 lane structure at the Bandra end and its impact on future growth is unlikely to change on account of pending completion of the first phase of coastal road i.e the section joining Princess Street flyover to the Worli end of the sea link. ICRA further takes note of the traffic risk inherent in toll-based road projects including risks arising from political acceptability of rate hikes. Further, the rating would be sensitive to interest rate risk due to the floating nature of the interest rate and ability of the company to manage routine and periodic maintenance expenses within the budgeted levels. The project is also exposed to refinancing risk with lenders having the right to exercise a put option at the end of 9.5 years from the date of first drawdown; however, there is buffer of 90 days provided to the company to refinance its debt, in case put option is exercised. Moreover, there is a tail period of five years, which provides financial flexibility.

Adequacy of credit enhancement

The rating of the instrument is based on the credit enhancement features available as a part of the debt structure and concession agreement. These features include shortfall support from GoM to ensure timely payment of shortfall amount, if any, at any time during the tenor of the loan and topping-up of DSRA by sponsor in case of any shortfall in the same during the tenor of the loan. Given these attributes, the shortfall support provided by the GoM is adequate to result in an enhancement in the rating of the instrument to [ICRA]A+(CE) against the rating of [ICRA]A without explicit credit enhancement. In case the credit profile of GoM or the unsupported rating of MSLL were to undergo a change in future, the same would have a bearing on the rating of the aforesaid instrument as well.

Salient covenants of the rated facility

- DSRA shall be maintained during the tenor of the facility for an amount equivalent to the ensuing two quarters debt obligations (principal + interest).
- Sponsor (MSRDC/GoM) need to retain at least 51% shareholding and management control in the borrower (MSLL) during the tenor of the loan. Prior consent from the lenders required for an event leading to sponsor shareholding in borrower falling below 51% or change in management control.
- Any funds infused by the sponsors shall be subordinated to the senior debt and servicing/redemption/repayment of such funds will be governed under restricted payment conditions. Interest on such funds, if any, will be lower than the interest being charged on senior debt and will be subordinated to the senior debt.
- MSLL may declare or pay dividends or repay sub-ordinated debt, if any, or pay interest on such sub-ordinated debt only after the entire debt of facility lenders is repaid, including any outstanding interest/charges for the same.

Key rating drivers and their description

Credit strengths

Operational nature of project with established traffic - The project stretch has a tolling track record of more than 10 years. Further, the rating factors the favourable location of the project which connects the major suburbs of Bandra and Worli in Mumbai with significant reduction in commute time.

Strong profile of the authority; and attributes resulting in credit enhancement - The attributes of shortfall support from GoM as per article 25 of the concession agreement to ensure timely payment of shortfall amount, if any, at any time during the tenor of the loan, topping-up of DSRA by sponsor in case of shortfall in DSRA during the tenure of the loan has resulted in an enhancement in the rating of the said instrument

Presence of structural features and long tail period - the presence of structural features such as cash sweep mechanism (above DSCR of 1.1 from FY 2023 onwards), restricted payments (no dividends or sub-ordinated debt repayment during the tenure of senior debt) provides additional comfort. Further, liquidity buffer, as part of the structure, in the form of DSRA equivalent to ensuing two quarters of repayment obligations and security deposit equivalent to 10% of the debt disbursed provides adequate cushion in case of wide fluctuations in traffic. Tail period of five years provides financial flexibility for debt refinancing.

Credit challenges

Weak coverage metrics; exposed to refinancing and interest rate risk - The projected DSCR in the near term is expected to remain weak. However, there has been a demonstrated track record of timely financial as well as operational support by the sponsor group/authority towards MSLL, which provides comfort.

The SPV is exposed to refinancing risk with lenders having the right to exercise a put option on March 31, 2029; however, strong financial flexibility by virtue of being a GoM sponsored entity, buffer of 90 days period and tail period of five years mitigates the risk to an extent. The project's cash flows, and profitability also remain exposed to the interest rate risk due to the floating nature of the interest rate.

Alternate mode of transport in the form of Mumbai Metro and capacity constraint at Worli end - While the project stretch has low alternate route risk as of now, the upcoming Mumbai metro connecting the northern and southern suburbs of Mumbai, which is expected to become operational over the next 1-2 years, is likely to be an alternative mode of transport. The impact on BWSL traffic on account of the likely modal shift remains to be seen. Further, the inherent capacity constraint in the form of 2+2 lanes operational at Worli end as against the 4+4 lane structure at the Bandra end could limit the future growth prospects and also impact user experience. This is likely to get resolved post the completion of the first phase of coastal road i.e the section joining Princess Street flyover to the Worli end of the sea link.

Exposure to risks inherent in toll road projects - The project remains exposed to risks inherent to toll projects. These include political acceptability of toll rate hikes which are fixed at 18% for every three years; the latter risk is exacerbated in MSLL's case as the stretch mainly caters to daily commuting passenger vehicles. The risks also include resistance to pay and likelihood of toll leakages. Further, ability of the company to complete major maintenance within stipulated timelines will remain critical from the credit perspective.

Liquidity position: Strong

MSLL's liquidity is strong. As on March 31, 2022, the total cash balances stood at Rs. 242.4 crores as against principal & interest obligation of Rs 127.36 crore in FY2023e. Though the projected DSCR during the near term is expected to remain weak, the strong liquidity buffer and track record of timely financial support from authority, provides comfort.

Liquidity position of GoM (Authority): Adequate

The GoM did not avail the WMA and OD facilities from the RBI during FY2016 to FY2022. Additionally, the GoM had an investment of Rs. 12,000 crore in auction treasury-bills at end-March 2022. Based on the aforementioned indicators the liquidity position of the state government can be inferred to be adequate during the recent years.

Rating sensitivities

Positive factors – The rating may be upgraded if there is improvement in the credit profile of the support provider.

Negative factors – Weakening of linkages with the support provider or delay in the shortfall support from sponsor or the authority will put pressure on the rating. Weaker than expected recovery in traffic, dilution in debt structure or additional indebtedness which could adversely impact the debt coverage indicators will also be a credit negative.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology for BOT (Toll) Roads Approach for rating debt instruments supported by structural features (Non securitized transactions) Approach for rating debt instruments backed by Explicit third-party support
Parent/Group support	The rated facilities of MSLL are backed by shortfall support from GoM as per the concession agreement.
Consolidation/Standalone	Standalone

About the company

MSRDC Sea Link Limited (MSL) is an SPV promoted by MSRDC for operation, maintenance and toll collection of the BandraWorli Sea Link bridge (also known as Rajiv Gandhi Sea Link Bridge) situated in Mumbai, Maharashtra. BWSL has a tolling track record of ten years. The toll collections rights of BWSL were transferred to MSL with effect from February 3, 2020. The SPV will have a concession period of ~19.17 years, ending on March 31, 2039. The total consideration to be paid by SPV to MSRDC is Rs. 3,000 crores for acquiring the toll collection rights. Of this, Rs. 290 crore has been brought in upfront by the sponsor and Rs. 1,550 crore was paid through proceeds of term loan and Rs. 100 crores paid through non-convertible debentures (NCD). The remaining Rs. 1,060 crore is in the form of deferred liability, which is subordinated to the external term loan. The principal and interest on the deferred liability will be payable after the term loan has been repaid.

Key financial indicators (audited)

	FY2021	FY2022 P
Operating income	102.2	62.6
PAT	(228.1)	(291.6)
OPBDIT/OI	97.6%	93.5%
PAT/OI	(223.1%)	(465.7%)
Total outside liabilities/Tangible net worth (times)	17.4	-24.2
Total debt/OPBDIT (times)	26.5	47.5
Interest coverage (times)	0.5	0.3

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation, P: Provisional; Amount in Rs crore

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 as of March 31, 2022 (Rs. crore)	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021	Date & rating in FY2020	
					June 30, 2022	Apr 30, 2021	-	Jan 7, 2020	Oct 9, 2019
1	Term loans	Long term	1650.0	1538.1	[ICRA]A+ (CE) (Stable)	[ICRA]A+ (CE) (Negative)	-	[ICRA]A+(CE) (Stable)	Provisional [ICRA]A+(CE) (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 are available on ICRA's website: Click Here

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term Loan	Dec- 2019	7.9%	Mar - 2034	1,650.00	[ICRA]A+(CE) (Stable)

Source: *Company*

Annexure II: List of entities considered for consolidated analysis: – Not Applicable

Corrigendum

Document dated June 30, 2022, has been corrected with revisions as detailed below:

Section where revision has been made	Details of change (s) made
Page 2: Adequacy of credit enhancement and Salient covenants of the rated facility	Sub-headings and details have been added

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