

June 16, 2023^(Revised)

IRB MP 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	6,610.00	6,024.32	[ICRA]AA- (Stable); reaffirmed
Total	6,610.00	6,024.32	

*Instrument details are provided in Annexure-I

Rationale

The rating reaffirmation of IRB MP Expressway Private Limited (IMPEPL) factors in the importance of the project stretch connecting Mumbai and Pune, the two major metropolitan cities in Maharashtra with an established traffic density, along with healthy traffic growth rates and the sponsor IRB Infrastructure Developers Limited's (IRB) tolling track record (of the new Mumbai-Pune stretch and NH-4) of more than 15 years under the previous concession. The project is part of the Golden Quadrilateral and connects Mumbai with southern cities like Bengaluru, Chennai and Hyderabad. The new Mumbai-Pune stretch, which accounts for 75% of IMPEPL toll collections, witnessed a healthy increase in toll revenue at a CAGR of 14.69% during FY2010-FY2023, mainly driven by growth in passenger vehicle traffic. IMPEPL's toll collection grew by 16.5% YoY in FY2023, supported by the low base of FY2022 (as Q1 FY2022 was impacted because of Covid2.0), reopening of offices and increased tourism-related travel that improved vehicle movement. The rating also derives comfort from structural features such as a debt service reserve account (DSRA) equivalent to one quarter's debt servicing obligations, a well-defined escrow mechanism and restricted payment covenant with lock-up debt service coverage ratio (DSCR) of 1.2 times. ICRA takes note of the strong experience and track record of its sponsor and O&M contractor (IRB).

Notwithstanding its long tolling history and the importance of the project stretch, the project remains exposed to the risks inherent in BOT (toll) road projects, including the risks arising from the development/improvement of alternative routes/modes and users' willingness to pay toll. The rating remains sensitive to the movements in interest rate owing to its variable nature and the ability of the company to manage routine and periodic maintenance expenses within the budgeted levels. While the debt covenants do not stipulate annual build up of MMR, the annual expenditure towards MM is expected to be met through operational cash flows. The fixed-price O&M contract with IRB and adequacy of cash flows to fund the same, provide some comfort. The first MM cycle had commenced in FY2021 and was concluded over a three-year period at the budgeted cost of Rs. 497 crore. The next major maintenance cycle will commence from H2 FY2024 and is estimated to be completed at a cost of Rs. 277 crore over the period of three years. IMPEPL's ability to manage routine and periodic maintenance expenses within the budgeted levels remains critical from a credit perspective.

The Stable outlook on the rating reflects ICRA's opinion that IMPEPL will continue to benefit from the established traffic density, the long tolling track record, strong profile of the O&M contractor and healthy cash flows.

Key rating drivers and their description

Credit strengths

Long tolling track record with established traffic density – The project stretch has a tolling track record of more than 15 years with an established traffic density and growth rates. The toll collection rights for both the stretches - the new Mumbai-Pune as well as NH-4 – have been with IRB from August 2004 to August 09, 2019. Post expiry of the contract, the toll collection rights were transferred to Mumbai Pune Expressway Limited (MPEL), an SPV promoted by the Maharashtra State Road Development Corporation Limited (MSRDC), for the period August 10, 2019 – February 29, 2020. On February 25, 2020, MPEL, through a tendering process, awarded the contract for tolling, operation and maintenance of NH 4 and the new Mumbai-Pune Expressway to IMPEPL for 10 years and 2 months [i.e., from March 01, 2020 (commencement date) to April 30, 2030]. The new Mumbai-Pune stretch, which accounts for 75% of IMPEPL toll collections, witnessed a healthy increase in toll revenue at a CAGR of 14.69% during FY2010-FY2023, driven by growth in passenger vehicle traffic. IMPEPL's toll collection grew by 16.5% YoY in FY2023, supported by the low base of FY2022 (as Q1 FY2022 was impacted because of Covid2.0), reopening of offices and increased tourism-related travel that improved vehicle movement. ICRA expects the toll collection to witness a healthy growth of 22%-26% in FY2024e, well supported by the toll rate hike of ~18%. Further, the traffic is expected to bolster over the medium term with completion of missing link project (eight lanes twin tunnel being constructed on new Mumbai-Pune Expressway).

Healthy cash cover and structural features – The rating factors in the healthy projected coverage ratios with a cumulative DSCR of 1.38 times as per ICRA's base case. IMPEPL's liquidity position is adequate, with DSRA equivalent to one quarter's principal plus interest obligations which stood at Rs. 300 crore as on March 31, 2023, apart from unencumbered cash balance of around Rs. 29 crore as on March 31, 2023. The rating derives comfort from other structural features such as a well-defined escrow mechanism and restricted payment covenant with lock-up DSCR of 1.2 times.

Importance of project stretch and low alternative route risk – The new Mumbai-Pune Expressway and NH 4 are important stretches as these are the only roadways that connect Mumbai and Pune, the two major metropolitan cities in Maharashtra. The project is part of the Golden Quadrilateral, and it also connects Mumbai with southern cities like Bengaluru, Chennai and Hyderabad. The project stretch has an established willingness of users to pay toll. The Government of Maharashtra intends to construct the hyperloop between Mumbai and Pune, which is expected to reduce the travel time to 25 minutes and can pose a threat in the future; however, the project is at the planning stage and the timelines for the implementation are not finalised yet. Considering the relatively shorter concession period of 10 years (residual concession life of ~8 years), it is unlikely that the proposed hyperloop will have any impact on IMPEPL's traffic.

Credit challenges

Risks inherent in BOT (toll) road projects - Notwithstanding its long tolling history and the importance of the project stretch, the project remains exposed to risks inherent in BOT (toll) road projects, including the risks arising from development/improvement of alternate routes/modes and users' willingness to pay toll.

Manage routine and periodic maintenance expenses within budgeted levels - While the debt covenants do not stipulate annual build-up of MMR, the annual expenditure towards MM is expected to be met through the operational cash flows. The fixed-price O&M contract (including MM) with IRB and the adequacy of cash flows to fund the same, provide some comfort. The first MM cycle had commenced in FY2021 and was concluded over a three-year period at the budgeted cost of Rs. 497 crore. The next MM cycle will commence from H2 FY2024 and is estimated to be completed at a cost of Rs. 277 crore over the period of three years. IMPEPL's ability to manage routine and periodic maintenance expenses within the budgeted levels remains critical from a credit perspective.

Interest rate risk - The project's cash flows and profitability remain exposed to interest rate risk due to the floating nature of the interest rate.

Liquidity position: Adequate

IMPEPL's liquidity position is adequate, with unencumbered cash balance of Rs. 29 crore as on March 31, 2023. Further, the company has a DSRA equivalent to one quarter of principal plus interest obligations, which stood at Rs. 300 crore as on March 31, 2023. The debt repayment of Rs. 645 crore in FY2024 can be comfortably met from the cash flow from operations.

Rating sensitivities

Positive factors – The rating can be upgraded, if the company witnesses any significant growth in traffic, improving the cumulative DSCR beyond 1.50 times, on a sustained basis.

Negative factors – Pressure on the rating could arise, if the traffic growth is lower than expected on a sustained basis, and/or if the company incurs higher-than-anticipated O&M expenses (routine and major maintenance), pulling down the cumulative DSCR to below 1.30 times and weakening IMPEPL's coverage metrics.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology for BOT (Toll) Roads
Parent/Group support	Not Applicable
Consolidation/Standalone	Standalone

About the company

IMPEPL, incorporated in 2020, is an SPV promoted by IRB for the operation and maintenance of two parallel roads from Mumbai to Pune; a 111-km stretch on the National Highway 4 (NH4, four-lane tolled since August 2004) and a new 95-km Mumbai-Pune Expressway (six-lane, tolled since September 2006) in Maharashtra on an operate, maintain and transfer basis.

On February 25, 2020, MPEL, through a tendering process, awarded the contract for the tolling, operation and maintenance of the NH 4 and the new Mumbai-Pune Expressway to IMPEPL for 10 years 2 months [i.e., from March 01, 2020 (commencement date) to April 30, 2030]. As per the terms of the transaction, IMPEPL is required to pay a consideration of Rs. 8,262 crore to MPEL for acquiring the toll collection rights. The company had already paid Rs. 8,262 crore towards the payment of sub-concession fee till March 31, 2023.

Key financial indicators (audited)

IMPEPL - Standalone	FY2022	FY2023
Operating income	1220.3	1410.2
PAT	-28.5	111.8
OPBDIT/OI	92.0%	92.6%
PAT/OI	-2.3%	7.9%
Total outside liabilities/Tangible net worth (times)*	26.7	17.8
Total debt/OPBDIT (times)*	6.7	5.5
Interest coverage (times)	1.7	2.2

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs. Crore

* Total outside liabilities and Total debt includes sub-ordinated debt from sponsor. However, as per financial covenants certificate, sub-ordinated debt from sponsor is treated as equity, leading to Total outside liabilities/Tangible net worth and Total debt/OPBDIT being 3.59 times and 3.55 times respectively for FY2023.

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Current rating (FY2024)			Chronology of rating history for the past 3 years			
	Type	Amount rated (Rs. crore)	Amount outstanding as of Mar 31, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
				Jun 16, 2023	May 09, 2022	Oct 05, 2021	Aug 26, 2020
1 Term loans	Long term	6,024.32	6,024.32	[ICRA]AA-(Stable)	[ICRA]AA-(Stable)	[ICRA]A+(Stable)	[ICRA]A+(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	June 2020	-	Feb 2029	6,024.32	[ICRA]AA- (Stable)

Source: Company

[Please click here to view details of lender-wise facilities rated by ICRA](#)

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

Corrigendum

Rationale dated June 16, 2023 is modified to capture the changes in the notes to KFI table elaborating the treatment of subordinated debt from sponsor.

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