

January 11, 2024

M G Banshidhar Private Limited: [ICRA]A- (Stable) assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based – Term loan	363.00	[ICRA]A- (Stable) assigned
Total	363.00	

*Instrument details are provided in Annexure-I

Rationale

The rating assigned to M G Banshidhar Private Limited (MGBPL) factors in the inherent benefits of the hybrid annuity model (HAM) based project and healthy credit profile its sponsor – M G Contractors Private Limited (MGCPL, rated [ICRA]A (Stable)), which is the engineering, procurement, and construction (EPC) contractor for the project being developed by MGBPL. MGCPL, which has an adequate financial profile and execution track record, has provided sponsor undertakings towards cost overrun and any shortfall in operations and maintenance (O&M) expenses for the project. HAM projects have inherent benefits like upfront availability of right of way (RoW)¹, de-scoping of RoW pending beyond 180 days from the appointed date, inflation-linked² revisions to the bid project cost (BPC) during the construction period, and relatively lower equity mobilisation risk, with 40% of the BPC to be funded by the authority during the construction period through a grant. The rating positively considers the structural features of the debt, including the presence of escrow, cash flow waterfall mechanism, provision for debt service reserve (DSR), provision for creation of reserve for major maintenance (MMR) and restricted payment clause with minimum DSCR of 1.15 times. The rating derives comfort from the stable revenue stream post commissioning with 60% of the inflation-adjusted BPC being paid out as annuity, along with interest at the average of one-year MCLR³ of the top five scheduled commercial banks (SCBs, to be reset every quarter) plus spread of 1.25%, and the inflation-adjusted O&M cost bid over the 15-year operations period by the project owner, National Highways Authority of India [NHAI, rated [ICRA]AAA(Stable)], which is a strong counterparty.

The rating is, however, constrained by the execution risks involved in an under-construction project including time and cost overrun risks. The Concession Agreement was signed in June 2022. However, owing to delays in RoW clearances, the appointed date for project was received with effect from September 2023. The project has scheduled commercial operation date (SCOD) of September 14, 2025, and it achieved 10.22% physical completion as on December 15, 2023. The SPV has signed a fixed-price and fixed-time contract with its EPC contractor, which largely mitigates risk of time and cost overrun. MGBPL is exposed to equity mobilisation risk as the project is in nascent stages. Nevertheless, MGCPL's adequate financial risk profile provides comfort. Post commissioning, it will have to undertake O&M of the project stretch as per the Concession Agreement to avoid any deductions from annuities. Any significant deductions from annuities or increase in routine and major maintenance (MM) from the budgeted level could impact the company's DSCR. MGBPL's cash flows are exposed to inflation risk as O&M receipts, though linked to inflation index (70% WPI and 30% CPI), may not be adequate to compensate for the actual increase in O&M/periodic maintenance expenses.

¹ At least 80% prior to the appointed date

² Based on annual change in price index multiple (PMI) from the base year – PMI is the weighted average of Wholesale Price Index (WPI) and Consumer Price Index (CPI) (IW) in the ratio of 70:30

³ The authority shall declare the list of top five SCBs on 1st of September every calendar year based on the balance sheet size as declared in their annual reports. The one-year MCLR of the top five SCBs shall be taken at the start of every quarter.

The Stable outlook on the rating reflects ICRA's opinion that MGBPL will benefit from the adequate execution capabilities and financial profile of its sponsor and EPC contractor – MGCPL.

Key rating drivers and their description

Credit strengths

Established track record and financial profile of sponsor and EPC contractor – MGBPL is a wholly-owned subsidiary of MGCPL, which has been executing road projects for over three decades. MGCPL is also the EPC contractor for this project. The contract is on a fixed-price, fixed-time basis, which provides comfort, given its track record of project execution within the budgeted time and cost. Additionally, it has provided an undertaking for cost overruns during construction and for any shortfall in O&M expenses.

Lower inherent risks in HAM projects from NHAI – The inherent benefits of the HAM project include upfront availability of RoW, de-scoping of RoW pending beyond 180 days from the appointed date, inflation-linked revisions to the BPC during the construction period. Moreover, it faces relatively lower equity mobilisation risk with 40% of the BPC to be funded by the authority during the construction period through a grant. Stable revenue stream post commissioning with 60% of the inflation adjusted BPC being paid out as annuity, along with interest at the average of one-year MCLR of the top five SCBs (to be reset every quarter) plus spread of 1.25%, and the inflation-adjusted O&M cost bid over the 15-year operations period by the NHAI, which is a strong counterparty, provide comfort.

Healthy coverage indicators and presence of structural features – The project is scheduled to achieve COD by September 14, 2025 (within two years from the appointed date). If the overall project cost remains within the budgeted level, once operational, MGBPL is likely to have healthy debt coverage indicators with a cumulative DSCR of over 1.2 times. This provides adequate cushion to withstand any adverse movement in the interest on annuity and inflation to a major extent. The credit profile is supported by MGCPL's undertaking towards cost overrun during the construction phase and any shortfall in O&M expenses. Further, the presence of structural features of the debt, including the presence of escrow, cash flow waterfall mechanism, provision for DSR, provision for creation of MMR and restricted payment clause with minimum DSCR of 1.15 times provide comfort.

Credit challenges

Execution risk related to project under construction – The project received the appointed date on September 15, 2023 and achieved physical progress of ~10.22% as on December 15, 2023. The Concession Agreement was signed in June 2022. However, owing to delays in RoW clearances, the appointed date for project was received with effect from September 2023. With sizeable pending execution and RoW of 81% received as on November 30, 2023, the company continues to be exposed to project execution risks including risks of delays and cost overruns. However, the risk is mitigated, to an extent, by the fixed-price, fixed-time contract and MGCPL's strong project execution capabilities. MGBPL is exposed to moderate equity mobilisation risk as the project is in nascent stages. However, the adequate financial profile of its sponsor provides comfort. Its ability to commission the project in a timely manner and within the budgeted costs would remain important from the credit perspective.

Project cash flows and returns exposed to inflation risks – The project's cash flows and returns are exposed to inflation risk as O&M receipts, though linked to inflation (70% WPI and 30% CPI), may not be adequate to compensate for the increase in O&M/periodic maintenance expenses.

Undertaking O&M and MM as per concession requirement – Post commissioning, the company will have to undertake O&M of the project stretch as per the Concession Agreement to avoid any deductions from annuities. Any significant deductions from annuities or increase in routine and MM expenses from the budgeted level could impact its DSCR.

Liquidity position: Adequate

As the project is under construction, the company does not maintain any significant liquidity on its books. However, the liquidity position is supported by undrawn sanctioned term loan, grants receivable from the NHAI and balance equity infusion from MGCPL and adequate liquidity of the sponsor.

Rating sensitivities

Positive factors – The rating could be upgraded if the project is completed within the expected timelines and budgeted costs, or if there is an improvement in the sponsor’s credit profile.

Negative factors – Negative pressure on the rating could arise if project progress is delayed, resulting in significant time and cost overruns, or if there is a deterioration in the credit profile of sponsor or if delayed 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 Analytical approach- BOT (Hybrid Annuity) Roads
Parent/Group support	Not applicable
Consolidation/Standalone	Standalone

About the company

M G Banshidhar Private Limited (MGBPL), a special purpose vehicle (SPV), is a wholly-owned subsidiary of MGCPL. It has entered a 17-year concession agreement (including two years of construction period) with the NHAI, wherein MGBPL has to undertake the four laning of Khajuri to Wyndhamganj (JH/UP border) section of NH-75 (New NH-39) from the existing Km 218+500 to Km 259+640 (Section-V) in Jharkhand, through a private public partnership (PPP) on hybrid annuity mode. The appointed date for the project is September 15, 2023. As on December 15, 2023, the project achieved 10.22% physical completion.

Key financial indicators (audited)

Key financial indicators are not applicable as MGBPL is a project stage company.

Status of non-cooperation with previous CRA: Not applicable

Any other information: The company faces prepayment risk, in case of debt acceleration upon the breach of covenants, including financial covenants, operating covenants, and rating linked covenants. Upon failure to meet the covenants, if the company is unable to get waivers from the lender or the lender does not provide it with adequate time to arrange for alternative funding to pay off the accelerated loans, the rating would face pressure.

Rating history for past three years

Instrument	Type	Current rating (FY2024)		Chronology of rating history for the past 3 years				
		Amount rated (Rs. crore)	Amount outstanding as on Nov 30, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021	
				Jan 11, 2024	-	-	-	
1	Term loans	Long term	363.0	0.00*	[ICRA]A-(Stable)	-	-	-

*the SPV is yet to drawdown the facility

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	FY2023	NA	-*	363.0	[ICRA]A-(Stable)

Source: Company, *the SPV is yet to avail disbursement, maturity is linked to COD

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

Annexure II: List of entities considered for consolidated analysis: Not applicable

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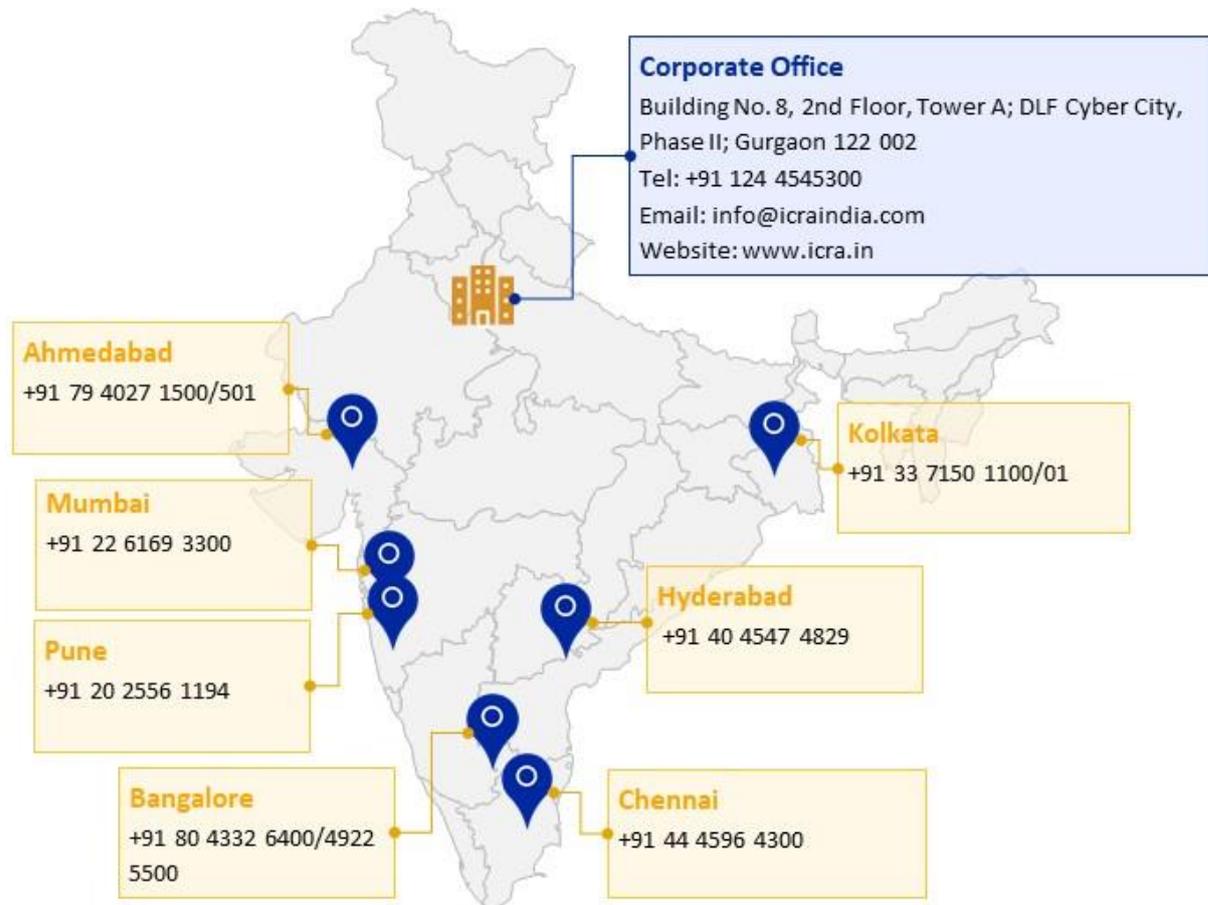
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