

July 26, 2024

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	6,024.32	5,378.71	[ICRA]AA- (Stable); Reaffirmed
Total	6,024.32	5,378.71	

*Instrument details are provided in Annexure-I

Rationale

The rating reaffirmation for IRB MP Expressway Private Limited (IMPEPL) continues to factor 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 19 years including tolling under the previous concession. The project is a part of the Golden Quadrilateral and connects Mumbai with southern cities like Bengaluru, Chennai and Hyderabad. The Mumbai-Pune Expressway stretch, which accounted for 84% of IMPEPL's toll collections in FY2024, witnessed a healthy rise in toll revenue at a CAGR of 17% during FY2014-FY2024, driven by 10.3% CAGR in traffic. IMPEPL's toll collection grew by 20.1% YoY in FY2024, primarily supported by the toll rate hike of ~18% in April 2023, whereas traffic growth was relatively modest at ~2%. ICRA expects the toll collection to grow YoY by 5-6% in FY2025e with the completion of construction activities on the adjoining corridor (Shilphata route), that had led to diversion of traffic to alternate mode as travel time increased due to traffic congestion. Further, the traffic is expected to bolster over the medium term with completion of the Missing Link project (eight lanes twin tunnel being constructed on new Mumbai-Pune Expressway). The rating derives comfort from structural features such as a debt service reserve account (DSRA) equivalent to one quarter's debt servicing obligations (being maintained in form of BG of Rs. 300 crore as on March 31, 2024), a well-defined escrow mechanism and restricted payment covenants 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, IMPEPL remains exposed to 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 company's ability to manage the routine and periodic maintenance expenses within the budgeted levels. While the debt covenants do not stipulate annual build-up of major maintenance reserve (MMR), the annual expenditure towards MM is expected to be met through operational cash flows. ICRA takes note of higher O&M expenses from July 2022 onwards on account of increased GST rates, for which IMPEPL has filed a claim with Maharashtra State Road Development Corporation Limited (MSRDC) under 'change in law'. That said, the operational cash flows are adequate to fund the aforesaid rise in O&M outflow. The second MM cycle commenced in H2 FY2024 and is estimated to be completed at a cost of Rs. 277 crore by March 2026.

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

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 19 years with an established traffic density and growth rates. The toll collection rights for both the stretches – the Mumbai-Pune Expressway as well as NH-4 – have been with IRB from August 2004 to August 09, 2019. Post expiry of the contract, the toll collection was undertaken by MSRDC till February 29, 2020. Subsequently, MPEL was 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 Mumbai-Pune Expressway stretch, which accounted for 84% of IMPEPL's toll collections in FY2024, witnessed a healthy increase in toll revenue at a CAGR of 17% during FY2014-FY2024, driven by 10.3% CAGR in traffic. IMPEPL's toll collection grew by 20.1% YoY in FY2024, primarily supported by the toll rate hike of ~18% in April 2023, whereas traffic growth was relatively modest at ~2%. ICRA expects the toll collection to grow YoY by 5-6% in FY2025e with the completion of construction activities on the adjoining corridor (Shilphata route), that had led to diversion of traffic to alternate mode as travel time increased due to traffic congestion. Further, the traffic is expected to bolster over the medium term with completion of the 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 above 1.3 times as per ICRA's base case estimates. IMPEPL's liquidity position is adequate, with DSRA equivalent to one quarter's principal plus interest obligations (being maintained in form of BG of Rs. 300 crore as on March 31, 2024), apart from unencumbered cash balance of around ~Rs. 50 crore as on March 31, 2024. The rating derives comfort from other structural features such as a well-defined escrow mechanism and restricted payment covenants 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 a part of the Golden Quadrilateral, and it also connects Mumbai with southern cities like Bengaluru, Chennai and Hyderabad. The project stretch has an established traffic density and given the willingness of users to pay toll, it faces low alternative route risk.

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 alternative 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. ICRA takes note of higher O&M expenses from July 2022 onwards on account of increased GST rates, for which IMPEPL has filed a claim with Maharashtra State Road Development Corporation Limited (MSRDC) under 'change in law'. That said, the operational cash flows are adequate to fund the aforesaid rise in O&M outflow. The second MM cycle commenced in from H2 FY2024 and is estimated to be completed at a cost of Rs. 277 crore by March 2026. IMPEPL's ability to manage routine and periodic maintenance expenses within the budgeted levels remains critical from the 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. 50 crore as on March 31, 2024. Further, the company has a DSRA equivalent to one quarter of principal plus interest obligations (being maintained in form of BG of Rs. 300

crore as on March 31, 2024). The debt repayment obligation (principal plus interest) of ~Rs. 1,190 crore in FY2025 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.

Analytical approach

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

About the company

IMPEPL, incorporated in 2020, is a special purpose vehicle (SPV) promoted by IRB for the operation and maintenance of two parallel roads from Mumbai to Pune. It includes a 111-km stretch on the National Highway 4 (NH-4, four-lane road tolled since August 2004) and a new 95-km Mumbai-Pune Expressway (six-lane road 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 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, which has already been paid.

Key financial indicators (audited)

IMPEPL – Standalone	FY2023	FY2024
Operating income (Rs. crore)	1410.2	1687.0
PAT (Rs. crore)	111.8	101.7
OPBDIT/OI (%)	92.6%	86.6%
PAT/OI (%)	7.9%	6.0%
Total outside liabilities/Tangible net worth (times)	17.8	13.0
Total debt/OPBDIT (times)	5.5	4.5
Interest coverage (times)	2.2	2.4

Source: Company, ICRA Research; All ratios as per ICRA's calculations; 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	Type	Current rating (FY2025)		Chronology of rating history for the past 3 years			
		Amount rated	Date & rating in FY2025	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	
		(Rs. crore)	July 26, 2024	Jun 16, 2023	May 09, 2022	Oct 05, 2021	
1	Term loans	Long term	5,378.71	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	[ICRA]AA- (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	5,378.71	[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

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