

September 23, 2024

Maheshtala Waste Water Management Private Limited: Rating upgraded to [ICRA]BBB+ (Stable)

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Fund-based – Term loan	110.00	110.00	[ICRA]BBB+ (Stable); upgraded from [ICRA]BBB (Stable)
Total	110.00	110.00	

*Instrument details are provided in Annexure-I

Rationale

The rating upgrade for Maheshtala Waste Water Management Private Limited (MWWMPL) considers the advanced physical progress of the project and the continued timely receipt of the third construction milestone payment (out of four). The rating action factors in the improvement in the sponsor's [Vishvaraj Environment Private Limited (VEPL)] credit profile, supported by a ramp-up in revenue, continued healthy capital structure and improved coverage metrics. The rating factors in VEPL's proven track record in executing and operating waste water treatment projects. The debt repayment has commenced and the same is met by infusion of funds by the sponsor's support, which is expected to continue till commencement of annuity receipt, post COD.

The rating factors in the strong counterparty for the project - National Mission for Clean Ganga (NMCG) with presence of an escrow account, along with budgetary support by the Government of India (GoI). This project is being executed under the GoI's Namami Gange programme and implemented by NMCG. The rating draws comfort from the relatively lower inherent risk in the Hybrid Annuity Model (HAM) projects with funding support in the form of grant during the construction period and a stable revenue stream post COD, which mitigates 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 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 (funded as part of project cost) and restricted payment clause with a minimum DSCR of 1.2 times.

The rating is, however, constrained by the inherent risks of implementation as the project is still under construction. The scheduled commercial operations date (COD) for the project is shifted to March 2025 from June 2024 due to revision in scope of work by the local authority – Kolkata Metropolitan Development Authority (KMDA). However, ICRA understands that 100% right of way is available and the company has requisite approvals for project completion on time and in budgeted costs. While the cost overrun risk is mitigated to an extent by the fixed-price, fixed-time EPC contract and strong project execution capabilities of VEPL, commissioning the project in a timely manner and within the budgeted costs is important from the credit perspective. ICRA understands from the management that the cost overrun, if any, would be borne by VEPL. MWWMPL's cash flows and returns remain exposed to interest rate risk, considering the floating nature of interest rates for the project loan linked with EURIBOR, whereas the annuity income is linked to the State Bank of India's (SBI) one-year MCLR plus 300 bps. Moreover, the credit profile is exposed to foreign exchange risk, given the loan is denominated in Euro and the exposure is unhedged at this juncture. The project's cash flows and returns are exposed to actual operations and maintenance (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) expenses¹. 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 a track record of operating similar plants in the past, which provides comfort. The rating is also constrained by the risk of deductions from annuity in case of non-adherence to the key performance indicators (KPIs) under the Concession Agreement. 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.

The Stable outlook on the rating reflects ICRA's expectation that the project will continue to receive grant/annuities from NMCG without any major delays or deductions and will achieve the project completion within stipulated time and cost.

Key rating drivers and their description

Credit strengths

Established track record of sponsor and EPC contractor in waste water treatment project – VEPL's business profile is characterised by a decade of experience in EPC and O&M of waste water treatment projects (WTP). In the past, it has handled O&M projects, which covered 2,700 running km water distribution, networks and 3,25,000 house service connections. VEPL is currently handling 27 drinking WTPs with total handling capacity of 2280 million-litres-per-day (MLD) and is operating 15 STPs with a capacity of 530 MLD. MWWMPL has entered into a fixed-price EPC contract with VEPL and will be entering an inflation-linked O&M services contract as well, which provides comfort, given VEPL's experience. Further, VEPL has an adequate liquidity position to meet any contingency with unencumbered cash, bank balance and liquid investments of Rs. 78.3 crore as on March 31, 2024. It also has healthy financial flexibility available in terms of strong parentage with comfortable liquidity to take care of financial exigencies, if any. VEPL has also given a corporate guarantee for long-term borrowings of MWWMPL till the receipt of eight consecutive O&M payments.

Strong counterparty with presence of escrow account along with budgetary support by Gol; lower inherent risk in NMCG HAM projects – This project is being executed under the Gol's Namami Gange programme and it is implemented by NMCG, aims to reduce pollution and rejuvenate the Ganga River. It benefits from NMCG funding with 40% of the bid project cost funded during the construction period in the form of grants (four equal instalments). NMCG is a Central Government entity and gets budgetary allocation from the Gol. The Concession Agreement requires NMCG to maintain a minimum balance of two milestone payments during the construction phase and two-year annuity payments during the O&M phase in an escrow account. MWWMPL is in receipt of the third milestone and the construction is in advance stages with ~80-85% progress achieved as on September 10, 2024. The inherent benefits of hybrid annuity project include upfront availability of right of use or right of way, receipt of interest-free mobilisation advance up to ~10% of the bid project cost and inflation-linked revisions to the bid project cost during the construction period. VEPL has already infused 100% of committed equity and has drawn down ~Rs. 75 crore of debt till September 2024.

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 adverse movement in bank rates and inflation to a major extent. A DSRA equivalent to six months' debt service obligations, funded as a part of the project cost, provides comfort. MWWMPL 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 1.20 times.

¹ In case of energy consumption exceeding Guaranteed Energy Consumption, MWWMPL shall be liable to pay liquidated damages in addition to the excess energy cost.

Credit challenges

Inherent execution risk related to projects under construction – The project, although in advanced stages, remains exposed to inherent risks of execution including risks of delays and cost overruns. The scheduled commercial operations date (COD) for the project is shifted to March 2025 from June 2024 due to revision in scope of work by the local authority – KMDA. However, ICRA understands that 100% right of way is available and the company has requisite approvals for project completion on time and in budgeted costs. The cost overrun related risk is mitigated, to an extent, by the fixed-price, fixed-time contract and strong project execution capabilities of VEPL. Going forward, commissioning 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 the 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 a healthy track record of operating similar plants in the past, which provides comfort. Post-commissioning, revenues/cash flows of the SPV would be in the form of annuities (compensating for 60% of the 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, which exposes the company to cash flow mismatches. Therefore, undertaking regular O&M to maintain a 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 interest rate and foreign exchange risk – MWWMP's cash flows and returns remain exposed to the interest rate risk, considering the floating nature of interest rates for the project loan linked with EURIBOR, whereas the annuity income is linked to SBI's one-year MCLR (floating) plus 300 bps. Moreover, the credit profile is exposed to foreign exchange risk, given the loan is denominated in Euro and the exposure is unhedged at this juncture.

Liquidity position: Adequate

The project is presently under construction. The balance project cost as on March 31, 2024 of ~Rs. 44 crore is expected to be sufficiently funded through the balance debt to be drawn down and NMCG grant. The debt repayment has commenced and the same is met by infusion of funds by the sponsor's support, which is expected to continue till commencement of annuity receipt, post COD. Further, DSRA equivalent to six months of debt servicing obligations is funded as a 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, while maintaining healthy coverage metrics.

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/deductions in receipt of grant results in increased funding risks for the project.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology – Project Finance
Parent/Group support	Not Applicable
Consolidation/Standalone	Standalone

About the company

Incorporated on February 24, 2021, MWWMPL, a wholly-owned SPV of VEPL, was formed to undertake the design, supply, installation, testing, and commissioning, operation and maintenance of the 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 NMCG on HAM model. The construction and operations period for the project is 2 years and 15 years, respectively. The scheduled COD, which was originally expected to be June 2024, is shifted to March 2025 on account of scope change requested by the local authority – KMDA. KMDA is overseeing the 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

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

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 (Rs. crore)	September 23, 2024	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022
				August 21, 2023	May 04, 2022	-
1 Fund-based – Term Loan	Long Term	110.00	[ICRA]BBB+ (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (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	Fund-based – Term Loan	March 2022	NA	FY2038	110.00	[ICRA]BBB+ (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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Branches



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