

March 30,, 2017

## Mumbai Nashik Expressway Limited (Revised)

Instruments*	Amount Rated (Rs. crore)	Rating Action
Term Loans	498.33	[ICRA]A+(SO) (Stable) Assigned

*\*Instrument details are provided in Annexure-1*

### Rating Action

ICRA has assigned a long-term rating of [ICRA]A+(SO) (pronounced ICRA A plus structured obligation)<sup>1</sup> to the bank facilities of Rs. 498.33 crore<sup>2</sup> of Mumbai Nashik Expressway Limited(MNEL/ the company). The outlook on the long-term rating is stable. The letters SO in parenthesis suffixed to a rating symbol stand for Structured Obligation. An SO rating is specific to the rated issue, its terms, and its structure. The SO rating here signifies the presence of a Debt Service Reserve Account (DSRA)<sup>3</sup> and an escrow structure for the proposed facility.

### Rationale

The assigned rating favourably factors in the operational nature of the project with the entire stretch achieving COD in September, 2011. The rating also positively considers the low alternate route risk for the project stretch with the only other alternate being the Indian Railways. The rating further takes into account the strong profile of the ultimate project sponsor, namely, Brookfield Asset Management, which has an established track record globally in asset management in the infrastructure space. The rating draws comfort from the presence of structural features such as creation of major maintenance reserve (MMR) and debt servicing reserve account (DSRA) equivalent to six months of principal and interest obligations, along with a lock-up debt service coverage ratio (DSCR) of 1.20 times for making restrictive payments including dividends, return of equity and other payments to the holding company. The rating also factors in the expected healthy cash cover for the senior term debt.

The rating is, however, constrained on account of the moderate increase in traffic seen over the past few years; despite the project stretch connecting two important cities in the state of Maharashtra. ICRA further takes note of the traffic risk inherent in toll-based road projects and susceptibility of future debt coverage metrics to lower-than-anticipated growth rate in traffic. The rating also considers the WPI-linked escalation in toll charges which have limited the escalation in toll rates due to the prevailing lower inflation numbers. The rating also takes into account the sizeable negative grant payment of Rs. 120 crore to NHAI in the 20th year of the concession period.

<sup>1</sup> For complete rating scale and definitions, please refer to ICRA's website [www.icra.in](http://www.icra.in) or other ICRA Rating Publications

<sup>2</sup> 100 lakh = 1 crore = 10 million

<sup>3</sup> While the lender has the right to dip into the DSRA, the rated instrument does not have a DSRA invocation mechanism

## Key rating drivers

### Credit Strengths

- Operational nature of the project with tolling history of six years
- Strong profile of the ultimate sponsor, namely, Brookfield Asset Management
- Comfort drawn from creation of major maintenance reserve (MMR) and debt service reserve account (DSRA) equivalent to six month of principal and interest servicing as part of loan sanction terms
- Low alternate route risk with railways being the only alternate mode of transport to travel from Mumbai to Nashik
- Undertaking and guarantees provided by the holdco and sponsor in relation to various credit enhancements, including Operations & Maintenance (O&M) and major maintenance expenditure above the budgeted costs
- Healthy cash flow cover expected over the tenure of the term debt

### Credit Weakness

- Moderate increase in traffic over the past few years
- Limited increase in toll rates given its linkage to Wholesale Price Index (WPI)
- Interest rate risk on account of floating nature linked to base rate
- Sizeable negative grant payment of Rs. 120 crore to NHAI in the 20th year of concession period

### Description of key rating drivers highlighted above:

MNEL was acquired by BIF India Holdings Pte Ltd. (Brookfield), 93% of which is held by Brookfield Asset Management and balance 7% by Core Infrastructure India Fund Pte Ltd. Brookfield Asset Management is a global alternative asset manager with \$240 billion in assets under management. The strong financial profile and experience of the promoter in the infrastructure (and roads sector particularly) would aid in managing the assets. The holdco and the sponsor have provided a number of undertakings and guarantees in respect of various enhancements which provides significant comfort. The project stretch is part of National Highway 3(NH-3) and connects Mumbai, the state capital of Maharashtra, with Nashik, an important industrial town in the state. The project stretch is the only route connecting the cities of Mumbai and Nashik, reducing alternate route risks.

The operating income (toll collections) for the project has increased moderately from Rs.10.9 crore/month in FY2013 to Rs. 11.7 crore/month in FY2016. The growth in toll collections remains muted on account of low traffic growth as well as limited revision in toll rates which are 100% linked to change in WPI. The company reported a net loss of Rs. 95.12 crore during FY2016 due to high finance burden and onetime write-off of advances to Gammon Group of Rs. 97.8 crore as per the terms of the Share Purchase Agreement (SPA). The company reported a net loss of Rs. 20.2 crore during 9MFY2017 on account of the high depreciation and interest charges.

The cash flows from the project are expected to be adequate to meet the debt servicing. The creation of DSRA and MMR further supports the liquidity profile of the company. As per the Concession Agreement, the company has to pay a negative grant of Rs. 120 crore to NHAI in the 20<sup>th</sup> year of the concession period. With no cash trapping mechanism over Debt Service Coverage Ratio (DSCR) of 1.2 times for the senior debt, the grant payment represents significant liability for the project. The company remains exposed to interest rate risk on account of the floating interest nature of the term loan.

**Analytical approach:** Not Applicable

**Links to applicable Criteria**

[Corporate Credit Rating Methodology](#)  
[Rating Methodology for BOT Toll Road Project](#)

**About the Company:**

Mumbai Nashik Expressway Limited (MNEL) is a Special Purpose Vehicle (SPV) incorporated for strengthening the earlier existing 2-lane road, widening it to 4 lanes, and operating the 99.5 km Vadape–Gonde (Mumbai–Nashik) section of National Highway number 3 (NH-3) on build-operate-transfer (BOT) basis. MNEL was initially floated as a joint venture between Gammon Infrastructure Projects Limited (79.99%), Sadbhav Engineering Limited (20%), and B.E. Billimoria & Company Limited (0.01%). The stakes of Gammon Infrastructure Projects Limited and Sadbhav Engineering Limited were completely divested on February 29, 2016 to BIF India Holdings Pte Limited, an investment company of Brookfield Asset Management, while B.E. Billimoria & Company Limited still continues to own 0.01% of the SPV. The concession agreement was signed on October 14, 2005, with National Highways Authority of India (NHAI) for a concession period of 20 years. The project achieved provisional commercial operations date (COD) on May 29, 2010, and partial toll collections commenced in June 2010. The project got fully commissioned in September 2011.

**Status of non-cooperation with previous CRA:** Not Applicable

**Any other information:** Not Applicable

**Rating History for last three years:**

**Table: Rating History**

S.No	Name of Instrument	Current Rating			Chronology of Rating History for the past 3 years		
		Type	Rated amount (Rs. Crore)	FY2017	FY2016	FY2015	FY2014
				<b>March 2017</b>			
1	Term Loans	Long Term	498.33	[ICRA]A+(SO) (Stable)	NA	NA	NA

**Complexity level of the rated instrument:**

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website [www.icra.in](http://www.icra.in)

**Annexure-1****Details of Instruments**

<b>Name of the instrument</b>	<b>Date of issuance</b>	<b>Coupon rate</b>	<b>Maturity Date</b>	<b>Size of the issue (Rs. Cr)</b>	<b>Current Rating and Outlook</b>
Term Loans	-	10.34%	March 2025	498.33	[ICRA]A+(SO)(Stable)

Source: OMMPL



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**About ICRA Limited:**

**ICRA Limited** was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

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