

February 24, 2020

Mumbai Pune Expressway Limited – Rating reaffirmed

Summary of rating action

Instrument	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Term Loan	6500.0	6500.0	[ICRA]AA (Stable); Reaffirmed
Total	6500.0	6500.0	

**Instrument details are provided in Annexure-1*

Rationale

The rating reaffirmation continues to factor in the Mumbai Pune Expressway Limited (MPEL)'s long tolling track record of more than 13 years with an established traffic density and growth rates. The new Mumbai-Pune stretch which accounts for 75% of MPEL's toll collections witnessed healthy growth in traffic at a CAGR of 8.54% in PCU terms during FY2008-FY2019 primarily driven by growth in passenger vehicle traffic. MPEL appointed toll collection contractor for the period August 10, 2019 – March 31, 2020 on a fixed price basis at Rs. 2.62 crore per day (payable on daily basis) as against average toll collection of Rs. 2.51 crore per day in FY2019. The toll contractor took measures to curb the commercial vehicle movement which used to ply to New Mumbai Pune expressway through bypass near Khusgaon junction on toll receipt of NH4. By curbing such movement, the vehicles which were earlier non-compliant started paying toll as per the applicable rates. Consequently, the traffic witnessed 9% growth in 8MFY2020 in New Mumbai Pune Expressway and de-growth in traffic of 2% in NH4 in 8MFY2020. The rating is also supported by presence of structural features such as benefit of debt service reserve account equivalent to two quarters of debt servicing obligation through funds infused by MSRDC, tightly defined escrow and payment mechanism, provision to build major maintenance reserve (MMR) from the project cashflows, and cash-sweep mechanism (surplus cash in excess of DSCR level of 1.1 times to be used for prepayment of debt) provide credit support to the term loans. The rating also factors in importance of the project stretch, low alternate route risk and established willingness of users to pay toll. The rating notes the strong profile of the sponsor – Maharashtra State Road Development Corporation Limited (MSRDC), a corporation established and fully owned by the Government of Maharashtra, to promote and operate road projects in the state. Government of Maharashtra has also provided shortfall undertaking to ensure timely payment of shortfall amount in debt servicing, if any, at any time during the tenor of the loan.

Notwithstanding the track record of toll collections, the project remains exposed to risks inherent in BOT (Toll) road projects including risks arising from political acceptability of rate hikes over the concession period and development/improvement of alternate routes. Going forward, trends in traffic growth rates will remain key rating sensitivities. Any moderation in traffic growth rates from anticipated levels could lead to weakened project metrics. Further, the rating is sensitive to movement in interest rate owing to variable interest rate. Rating remains sensitive on the ability of the company to manage routine and periodic maintenance expenses within the budgeted levels.

Key rating drivers and their description

Credit strengths

Established traffic density with healthy traffic growth - The stretch has a long tolling track record of more than 13 years with an established traffic density and growth rates. The new Mumbai-Pune stretch which accounts for 75% of MPEL's toll collections witnessed healthy growth in traffic at a CAGR of 8.54% in PCU terms during FY2008-FY2019 primarily driven by growth in passenger vehicle traffic. MPEL appointed toll collection contractor for the period August 10, 2019 – March 31, 2020 on a fixed price basis at Rs. 2.62 crore per day (payable on daily basis) as against average toll collection of Rs. 2.51 crore per day in FY2019. The toll contractor took measures to curb the commercial vehicle movement which used to ply to New Mumbai Pune expressway through bypass near Khusgaon junction on toll receipt of NH4. By curbing such movement, the vehicles which were earlier non-compliant started paying toll as per the applicable rates. Consequently, the traffic witnessed 9% growth in 8MFY2020 in New Mumbai Pune Expressway and de-growth in traffic of 2% in NH4 in 8MFY2020.

Presence of structural features – The presence of structural features such as benefit of debt service reserve account equivalent to two quarters of debt servicing obligation through funds infused by MSRDC, tightly defined escrow and payment mechanism, provision to build major maintenance reserve (MMR) from the project cashflows, and cash-sweep mechanism (surplus cash in excess of DSCR level of 1.1 times to be used for prepayment of debt) provide credit support to the term loans.

Importance of project stretch and low alternate route risk – The Mumbai Pune Expressway, formally called as Yashwantrao Chavan Mumbai Pune Expressway and national highway 4 are important stretches as they are the only stretch that connects the financial capital of the country, Mumbai, which is also the capital of Maharashtra, with Pune, an important educational and industrial city in the state. The project stretch has a low alternate route risk and established willingness of users to pay toll. While the Government of Maharashtra intends to construct the Hyperloop between Mumbai – Pune which is expected to reduce the travel time to 25 minutes, can pose a threat in future. However, given the project is currently under planning stage, timelines for implementation are not finalised yet.

Strong profile of the sponsor – MPEL is a wholly owned subsidiary of Maharashtra State Road Development Corporation Limited (MSRDC). It is a corporation established and fully owned by the Government of Maharashtra, to promote and operate road projects in the state. Government of Maharashtra has also provided shortfall undertaking to ensure timely payment of shortfall amount in debt servicing, if any, at any time during the tenor of the loan.

Credit weaknesses

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

Project cash flows remain sensitive to inherent risks in BOT(Toll) road projects - Notwithstanding the track record of toll collections, the project remains exposed to risks inherent in BOT (Toll) road projects including risks arising from political acceptability of rate hikes over the concession period and development/improvement of alternate routes. Going forward, trends in traffic growth rates will remain key rating sensitivities. Any moderation in traffic growth rates from anticipated levels could lead to weakened project metrics.

Rating remains sensitive on the ability of the company to manage routine and periodic maintenance expenses within the budgeted levels - The company has to incur a routine maintenance expenditure every year. Further, the company is also creating major maintenance reserve. Ability of the company to manage routine and periodic maintenance expenses within the budgeted levels remains critical from a credit perspective.

Liquidity position: Strong

MPEL's liquidity is strong with a healthy liquidity buffer of Rs.220 crore as on March 31, 2019 maintained in form of fixed deposit towards DSRA equivalent to two quarters of repayment obligations. This would provide adequate cushion in case of wide fluctuations in traffic. The debt repayment would commence from December 2020 and can be comfortably met from the cash flow from operations.

Rating sensitivities

Positive triggers – The crystallisation of scenarios for rating upgrade is unlikely over the medium term. Nevertheless, the rating can be upgraded in case if the company witnesses more than 10% traffic growth, which is sustained over the medium-to-long term with no increase in interest rate, resulting in further strengthening of its financial risk profile.

Negative triggers – Negative pressure on the rating could arise if the traffic growth is lower than 4% on a sustained basis and/or inability of the entity to implement toll rate hikes as per the concession agreement and/or if the company incurs higher-than-anticipated O&M expense on a sustained basis, thereby weakening the liquidity profile of MPEL.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Ratings: A Note on Methodology Rating Methodology for BOT (Toll) Roads
Parent/Group Support	Not applicable
Consolidation / Standalone	Standalone

About the company:

Incorporated in 2018, Mumbai Pune Expressway Limited (MPEL) is an SPV promoted by MSRDC for operation and maintenance of two parallel roads from Mumbai to Pune; a 111 km stretch on National Highway 4 (NH4, 4-lane tolled since August 2004) and the 95-km new Mumbai-Pune Expressway (NMPE, 6-lane, tolled since September 2006) in the state of Maharashtra on Operate, Maintain and Transfer (OMT) basis. Both these stretches were earlier tolled by IRB Infrastructure Development Limited through a SPV, Mhaiskar Infrastructure Private Limited (MIPL). It was transferred to MPEL with effect from August 10, 2019. The SPV has a concession for 10 years 8 months (from August 10, 2019 to April 30, 2030) for new Mumbai-Pune expressway and NH4. MPEL is required to pay a consideration of Rs.9000 crore to MSRDC for acquiring the toll collection rights. Of this, Rs.6500 crore was paid upfront by raising equivalent debt and the balance of Rs.2500 crore along with interest accrued (at 7% p.a.) will be paid at the end of the concession period.

Key financial indicators (Audited)

	FY2018	FY2019
Operating Income (Rs. crore)	-	0.0
PAT (Rs. crore)	-	0.0
OPBDIT/ OI (%)	-	-
RoCE (%)	-	-
Total Debt/ TNW (times)	-	17.5
Total Debt/ OPBDIT (times)	-	NM
Interest coverage (times)	-	-
DSCR	-	-

Source: MPEL, ICRA research

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

Instrument	Current Rating (FY2020)				Chronology of Rating History for the past 3 years				
	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs Crore)	Date & Rating 24-February 2020	Date & Rating in FY2019		Date & Rating in FY2018	Date & Rating in FY2017	
					04 October 2018	28 August 2018			
1. Term Loan	Long term	6500	6500	[ICRA]AA (Stable)	[ICRA]AA(SO) (Stable)	Provisional [ICRA]AA(SO) (Stable)	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

Annexure-1: Instrument Details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term Loan	August 2018	9.0%	March 2029	6500	[ICRA]AA (Stable)

Source: MPEL

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