

## Rating Rationale

April 11, 2024 | Mumbai

### Mangalwedha Solapur Highways Private Limited

Rating reaffirmed at 'CRISIL AAA/Stable'

#### Rating Action

<b>Rs.296.5 Crore (Reduced from Rs.363.88 Crore) Non Convertible Debentures</b>	<b>CRISIL AAA/Stable (Reaffirmed)</b>
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*1 crore = 10 million*

*Refer to Annexure for Details of Instruments & Bank Facilities*

#### Detailed Rationale

CRISIL Ratings has reaffirmed its 'CRISIL AAA/Stable' rating on the non-convertible debentures (NCDs) of Mangalwedha Solapur Highways Pvt. Ltd (MSHPL). CRISIL Ratings has **withdrawn** its rating on NCDs worth Rs.38.98 crore at the request of the company as these NCDs have not been placed. CRISIL Ratings has also withdrawn its rating on NCDs worth Rs.28.4 crore at the request of the company as NCDs have been redeemed (see 'Annexure - Details of Rating Withdrawn'). The withdrawal is in line with the CRISIL Ratings policy for withdrawal of ratings.

The project received its fourth annuity (along with interest) and operations and maintenance (O&M) payment from National Highways Authority of India (NHAI; 'CRISIL AAA/Stable') as per the provisions of the concession agreement (CA) on January 4, 2024 with delay of 21 days (due on December 14, 2023). No amount was withheld by NHAI in the third and fourth annuities. The withheld amount of Rs 4 crore (part of second annuity) by NHAI on account of certain pending work is still pending but is expected to be received along with the future annuities. At present, GST on annuity is not being received for this project. It is expected to flow in once the GST audit by NHAI is conducted. However, GST on interest on annuity and O&M payments has been paid by NHAI for the four annuities.

The project received provisional completion certificate (PCC) with effect from December 14, 2021, vide letter dated December 22, 2021, thereby significantly mitigating implementation risk. PCC was received for 52.76 kilometre (km), i.e., 93.4% of total project length of 56.5 km. MSHPL had requested the NHAI for descoping which will limit the total project length to 55.8 km. Final approval for descoping is awaited from NHAI. Accordingly, revised bid project cost (BPC) stands at Rs 1,063.19 crore, against original BPC of Rs 1,141 crore. Adjusted revised BPC comes to Rs 1,243 crore.

The financial risk profile remains strong with healthy debt to annuities receivable ratio at 0.41 time and debt service coverage ratio (DSCR) expected over 1 time throughout the tenure of the debt. Furthermore, buffer of 60 days between scheduled annuity payment date and debt obligation date offers cushion in case of delay in receipt of annuity.

The asset was to be transferred to Cube Highways Trust (CHT; 'CRISIL AAA/Stable/CRISIL A1+'). However, the transfer has been delayed on account of delay in receipt of approvals. There were put/call options at the end of two years from the date of allotment. As the option date was nearing and the transfer was delayed, the company revised the date to February 22, 2025 for the put option. Furthermore, the rate of interest was fixed for the first two years and was expected to be revised based on mutual agreement between the borrower and debenture holders thereafter. The coupon rate has been revised to 7.7% per annum (from 6.26% for year 2) from February 22, 2024.

The rating continues to reflect healthy debt protection metrics of the project, inherent benefits of the hybrid annuity model (HAM) and the experienced management team of the sponsor, Cube Highways and Infrastructure III Pte Ltd (part of the Cube Highways group). These strengths are partially offset by susceptibility to volatility in operating cost & interest rate and exposure to refinancing risk.

#### Analytical Approach

CRISIL Ratings has considered standalone business and financial risk profiles of MSHPL to arrive at the rating.

#### Key Rating Drivers & Detailed Description

##### Strengths:

- **Healthy debt protection metrics:** The project will receive 60% of the completion cost from NHAI in the form of 30 semi-annual payments starting June 20, 2022. Out of this, 4 annuities are already received. Along with fixed annuities, the project will receive interest payments on the balance annuities at a rate equal to the prevailing bank rate plus 3%. The project had debt of Rs 296 crore as on March 31, 2024. Ratio of debt to annuities receivable is expected to be healthy at 0.41 time and debt service coverage ratio (DSCR) comfortably above 1 time throughout the debt tenure.

Furthermore, a gap of 60 days between the scheduled annuity payment date and the debt repayment date provides cushion in case of delay in receipt of annuity. Furthermore, a debt service reserve account (DSRA) covering six months of debt obligation has been created, in line with terms of the financing agreements.

The fourth annuity (along with interest) and O&M payment was received on January 4, 2024, with delay of 21 days from due date. No amount was withheld by NHAI in the third and fourth annuities. The withheld amount of Rs 4 crore (part of second annuity) by NHAI on account of certain pending work is still pending but is expected to be received along with the future annuities. At present, GST on annuity is not being received for this project. It is expected to flow in once the GST audit by NHAI is conducted. However, GST on interest on annuity and O&M payments has been paid by NHAI for the four annuities. Significant delay or substantial withholding in future annuities may affect the debt protection metrics and will remain a rating sensitivity factor.

- **Inherent benefits of HAM:** The project benefits from HAM include indexation done to the BPC and O&M cost to the extent of inflation movement and interest payments on residual annuity payments in the operational phase.

The project received PCOD on December 14, 2021. As per the provisions of the HAM concession agreement, full annuities and O&M payments are to be received starting six months from the PCOD. Accordingly, the project has received four annuities (along with interest) and O&M payments till date without any major deductions, in line with the provision of the concession agreement. Furthermore, the company received five milestone payments during the construction phase in a timely manner and in full.

- **Experienced management team:** The Cube Highways group has a well-equipped team of professionals to oversee road maintenance. Its senior management consists of experienced professionals with a deep understanding of technical specifications and advanced O&M methods to proactively tackle issues in road maintenance. This is further supported by the experienced finance and legal team. The sponsor also has the financial flexibility to support the project, if needed, and has a demonstrated track record of doing so in its other projects.

#### **Weaknesses:**

- **Susceptibility to volatility in operational cost and interest rate:** The project remains exposed to risks related to maintenance of the project stretch. If the prescribed standards are not met, annuity payment may be reduced. Any significant delay and deduction in annuities could impact the debt-servicing capability. Nonetheless, the management's extensive experience is expected to mitigate this risk and help in effective maintenance and avoidance of any structural damage to the road.

Along with fixed annuities, the project receives interest payments on the balance annuities that are linked to the prevailing bank rate. Reduction in bank rate impacts project inflow, given that a large proportion of the cash flow comes from interest on balance annuities. The coupon rate on the NCDs was fixed for the first two years and expected to be revised based on mutual agreement between the borrower and the debenture holders thereafter. It has been revised to 7.70% per annum and post this may follow the trend in bank rates, keeping DSCR in check. Although the cushion in cash flow will help partly absorb the impact of fluctuations, these components will be key rating sensitivity factors.

- **Exposure to refinancing risk:** The NCDs have put/call options, exposing the company to refinancing risk. Nevertheless, the refinancing risk is mitigated given sufficient time available for refinancing the NCDs, 90-105 days, stable cash flow and healthy debt protection metrics of the project, and extensive experience of the Cube Highways group. Further, the put option date stand revised to February 22, 2025 and every year thereafter.

#### **Liquidity: Superior**

Liquidity will be supported by receipt of semi-annual annuities (along with interest) and O&M pay-out from NHAI. The DSCR is expected to be comfortably over 1 time throughout the tenure of debt. Further, DSRA of Rs 24.5 crore is available, which is equivalent to six months of peak debt servicing obligation. Furthermore, there is a gap of more than 60 days between the scheduled annuity payment date and the debt repayment date, which provides a cushion in case of delay in annuity. Financial support will also be available from Cube Highways in case of any shortfall/deduction in annuity due to any issue in project completion, under the sponsor support agreement signed for the NCDs. The NCDs have put/call options exposing the company to refinancing risk. However, the conditions around redemption provide the company sufficient time to arrange for refinancing. Cash & cash equivalents as on March 31, 2024, stood at Rs 38 crore.

#### **Outlook: Stable**

MSHPL should continue to benefit from the receipt of PCC and timely receipt of annuities from NHAI.

#### **Rating Sensitivity factors**

##### **Downward factors**

- Substantial delay in receipt of subsequent annuities from NHAI.
- Significant deduction in annuity and O&M payments due to non-maintenance of the road.
- Draw down of incremental debt weakening the debt protection metrics.

#### **About the Company**

MSHPL is a special-purpose vehicle incorporated on April 11, 2018. Dilip Buildcon Ltd (DBL, rated 'CRISIL A/Negative/A1') entered into an SPA with Cube Highways in August 2019, wherein DBL agreed to sell its entire shareholding in MSHPL to Cube Highways, in a phased manner. Presently, 100% of equity shareholding has been taken over by Cube Highways.



Non Convertible Debentures	LT	296.5	CRISIL AAA/Stable		--	12-04-23	CRISIL AAA/Stable	02-08-22	CRISIL AAA/Stable		--	--
			--		--		--	11-02-22	CRISIL AA+/Positive		--	--
			--		--		--	28-01-22	CRISIL AA+/Positive		--	--

All amounts are in Rs.Cr.

## Criteria Details

### Links to related criteria

[The Infrastructure Sector Its Unique Rating Drivers](#)

[CRISILs criteria for rating annuity and HAM road projects](#)

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