



## Press Release

**MCGN Infra Private Limited**

**July 23, 2021**

### **Ratings**

<b>Instrument / Facility</b>	<b>Amount (Rs. Crore)</b>	<b>Ratings</b>	<b>Rating Action</b>
Long Term Bank Facilities – Term Loan	68.00 (Reduced from proposed limit of Rs.70.00 crore)	IVR BBB / Stable Outlook (IVR Triple B with Stable Outlook)	Revised and removed from 'Issuer Not Cooperating' category
<b>Total</b>	<b>68.00</b>		

**Details of Facilities are in Annexure 1**

### **Detailed Rationale**

Earlier the rating has been revised and placed under 'ISSUER NOT COOPERATING' category due to non-receipt of required information to monitor the rating vide press release dated November 02, 2020. However, now the client has started cooperating and has provided required information to monitor the rating. Hence, now the rating has been revised and removed from the 'ISSUER NOT COOPERATING' category.

Further, the aforesaid rating assigned to the bank facilities of MCGN Infra Private Limited (MIPL) derives strength from its experienced promoters & management team along with good resource raising ability of the sponsors, escrow mechanism with a well-defined payment waterfall mechanism and creation of DSRA for repayment of debt. Further, the rating also note low counter-party credit risk, favourable clauses in concession agreement (CA) of HAM projects to address challenges associated with execution of the project. These rating strengths, however, are tempered by intense competition, cyclicity in the construction industry and risk relating to untimely receipt of annuity payments from authority and risk of sharp increase in the O&M cost due to more than envisaged cost in the maintenance of the road.

### **Key Rating Sensitivities:**

#### **Upward factors**

- Timely receipt of annuities and lower than expected operating cost, resulting in further improvement of DSCR

#### **Downward factors**

- Significant increase in O&M and major maintenance costs



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- Untimely annuity payments

### List of Key Rating Drivers with Detailed Description

#### Key Rating Strengths

##### **Experienced promoters & management team along with good resource raising ability of the sponsor**

The promoter directors of GNI Infrastructure Private Limited (GIPL) and BP Sangle Constructions Private Limited (BPSCPL) have an experience of more than a decade in the infrastructure sector and are registered as Class A-1 contractor with PWD, Maharashtra. With their long extensive experience, they are able to build healthy relationships with government authorities and suppliers. The Directors look after the day-to-day operations of MIPL. They are supported by a team of experienced and qualified professionals.

While the given HAM project is the first venture of Manjeet Cotton Private Limited (MCPL) in the infrastructure sector, the company enjoys good resource raising ability in the market due to its long-standing presence of almost four decades in the cotton industry. Extensive experience of the promoters in the industry has helped the company in acquiring a diversified customer base and maintain healthy relations with its customers and suppliers.

##### **Escrow mechanism with a well-defined payment waterfall mechanism and creation of DSRA for repayment of debt**

The repayment of the debt will commence from November 2021, onwards and is spread out over the concession period, which is expected to provide liquidity buffer for debt repayment. The waterfall mechanism ensures that annuity receivables are escrowed to meet the principal repayment and interest payments. As per the terms of sanction of the project debt, the company need to maintain DSRA of an amount equivalent to next six months of principal repayment and interest payment due and payable in respect of term debt facility. The principal and interest payment would be made by utilizing the amounts in DSRA.

##### **Low counter-party credit risk**

PWD functions as the nodal agency for planning, designing, construction and maintenance of government assets like roads, bridges, ROB's flyovers and buildings. PWD receives high level of support from GoI due to its strategic importance as the country's nodal agency for implementing various road sector projects in the country. By virtue of being a quasi-



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government body with an established & long track record, the counter-party risk on PWD appears to be minimal.

### **Favourable clauses in CA of HAM projects to address execution challenges**

The Government of India has approved HAM projects to increase the pace of award and construction and maintenance of road infrastructure apart from de-risking developers and lenders from inherent short comings associated with conventional toll and annuity-based model. The favourable clauses of the model include lower sponsor contribution due to high proportion of grant, inflationary adjustment to project cost and O&M cost, disbursement of grant in instalments upon achievement of various milestones and payment of annuities and interest by PWD.

### **Key Rating Weaknesses**

#### **Susceptibility to intense competition and cyclicity in the construction industry**

Although the sponsor company executes projects across various modes (BOT/EPC/HAM) in the roads segment, its revenue is susceptible to changes in government regulations and economic conditions. Limited diversity in revenue will continue to make it susceptible to intense competition and cyclicity inherent in the construction industry.

#### **Annuity payment receipts from authority**

Timely receipt of the upfront grant amounts and annuity payments from Public Work Departments, Government of Maharashtra remains a key rating monitorable. Further, ensuring proper maintenance of roads and ensuring zero deduction in annuity receipts is crucial and the Company is exposed to the risk of sharp increase in the O&M cost due to more than envisaged cost in the maintenance of the road.

#### **Analytical Approach:** Standalone

#### **Applicable Criteria:**

Rating Methodology for Infrastructure Companies

Financial Ratios & Interpretation (Non-financial Sector)

#### **Liquidity - Adequate**

The company has adequate liquidity with gross cash accruals amounting to INR 2.87 crore along with cash and bank balances of INR 0.78 crore at the end of FY21. Repayment of term loan instalments will commence from November 2021. The company has to maintain DSRA of an amount equivalent to next six months of principal repayment and interest payment due and payable in respect of term debt facility.



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### About the Company

MCGN Infra Private Limited (MIPL) is a joint venture floated in December 2018 by Manjeet Cotton Private Limited (MCPL; 37% stake), GNI Infrastructure Private Limited (GIPL; 37% stake) and BP Sangle Constructions Private Limited (BPSCPL; 26% stake). MIPL has entered into a 12 year Concession Agreement (CA) (including construction period of 730 days [about 2 years] from the appointed date i.e., May 17, 2019) with Public Works Department (PWD) for the development, maintenance and management of Road SH-224 and Road SH-225 between Badnapur – Nanegaon – Jamkhed towards NH-211 (Length is 31.49 km) and Sillod to Deulgaonraja (SH-51, Length is 23.70 km) to two lanes / four lanes in the State of Maharashtra on hybrid annuity basis. The bid project cost after adjusting price index multiple of 1.10 is Rs.255.20 crore. Since, the company is executing this project via HAM, 60% of the project cost has been funded by PWD, while the remaining 40% would be paid out as annuity by PWD during the operational phase of the project.

The project has achieved COD on January 16, 2021 as against the earlier envisaged COD of June 01, 2021. The company has received grant from PWD to the extent of Rs.163.61 crore till date. The company is entitled to receive pending amount of grant of Rs.3.67 crore and bonus to the extent of Rs.1.85 crore for completing the project ahead of schedule. The same is expected to be received by October, 2021. Annuity and O&M payments from PWD will start after 6 months from the date of COD i.e., end of July, 2021 tentatively.

### **Financials (Standalone):**

(Rs. crore)

For the year ended* / As On	31-03-2020	31-03-2021
	Audited	Provisional
Total Operating Income	89.78	131.15
Total Income	89.94	131.15
EBITDA	9.52	8.30
PAT	5.56	2.87
Total Debt	35.08	68.47
Adjusted Tangible Net worth	30.85	32.48
EBITDA Margin (%)	10.61	6.33
PAT Margin (%)	6.18	2.19
Overall Gearing Ratio (x)	1.14	2.11

\*As per Infomerics' Standard

**Status of non-cooperation with previous CRA: Nil**

**Any other information: Nil**



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### Rating History for last three years with Infomerics:

Sr. No.	Name of Instrument/Facilities	Current Rating (Year 2021-22)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2020-21	Date(s) & Rating(s) assigned in 2019-20	Date(s) & Rating(s) assigned in 2018-19
1.	Term Loan	Long Term	68.00 (Reduced from proposed limit of Rs.70.00 crore)	IVR BBB / Stable Outlook	IVR BB+; Issuer Not Cooperating (November 02, 2020)	IVR BBB / Stable Outlook (September 12, 2019)	-

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### About Infomerics:

Infomerics commenced rating & grading operations in April 2015 after having spent over 25 years in various segments of financial services. Infomerics is registered with the Securities and Exchange Board of India (SEBI) and accredited by Reserve Bank of India. It is gradually gaining prominence in domestic rating and/or grading space. Infomerics is striving for positioning itself as the most trusted & credible rating agency in the country and is gradually widening its product portfolio. Company's long experience in varied spectrum of financial services is helping it to fine tune its product offerings to best suit the market.

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assigned by Infomerics is based on the capital deployed by the partners/proprietor/ AOPs and the financial strength of the firm at present. The rating may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor/ AOPs in addition to the financial performance and other relevant factors.

### Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Long Term Bank Facilities – Term Loan	-	-	To be repaid in 18 structured semi-annual instalments commencing from November 2021 and ending on May, 2030	68.00 (Reduced from proposed limit Rs.70.00 crore)	IVR BBB / Stable Outlook

### Annexure 2: Facility wise lender details:

(<https://www.infomerics.com/admin/prfiles/MCGN-Infra-lenders-23july2021.pdf>)

### Annexure 3: Detailed explanation of covenants of the rated instrument/facilities: Not Applicable

### Annexure 4: Complexity level of the rated Instruments/Facilities

Sr No.	Instrument	Complexity Indicator
1.	Term Loan	Simple

**Note on complexity levels of the rated instrument:** Infomerics has classified instruments rated by it on the basis of complexity and a note thereon is available at [www.infomerics.com](http://www.infomerics.com).