

Press Release**MCGN Infra Private Limited****September 12, 2019****Ratings**

Instrument / Facility	Amount (Rs. Crore)	Rating	Rating Action
Long Term Bank Facilities – (Proposed)	70.00	IVR BBB / Stable Outlook (IVR Triple B with Stable Outlook)	Assigned
Total	70.00		

Details of Facilities are in Annexure 1**Detailed Rationale**

The aforesaid rating assigned to the bank facilities of MCGN Infra Private Limited (MCGN) derives strength from its experienced promoters & management team along with good resource raising ability of the sponsors, low counter-party credit risk, favourable clauses in concession agreement (CA) of HAM projects to address challenges associated with execution of the project. The rating, however, is tempered by the inherent project execution risk, volatile input prices, intense competition and cyclicity in the construction industry. Successful commissioning and completion of project without any time or cost overrun, sponsor support in case of exigencies and timely receipt of proceeds from Public Works Department (PWD) of Maharashtra are the key rating sensitivities.

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 promoters of the sponsor companies – 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. While the given Hybrid Annuity Model (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. The day to day operations of MCGN are looked

after by a team of experienced and qualified professionals under the guidance of the promoters of its sponsor companies.

Low counter-party credit risk

Public Works Department (PWD), functions as the nodal agency for planning, designing, construction and maintenance of government assets like roads, bridges, ROB's flyovers and buildings. PWD, being a government body the counter-party risk appears to be minimal.

Favourable clauses in Concessionaire Agreement (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 interest by PWD on reducing balance of final construction cost at bank rate plus 3%, as a part of the annuity.

Key Rating Weaknesses

Inherent project execution risk

As the EPC of the said project will be done in-house, the group is exposed to inherent construction risk attached to EPC projects. The appointed date of the project is May 17, 2019. The group has obtained 100% right-of-way from PWD for the project. EPC under HAM, is a new venture for the sponsor companies hence the operational performance of the company is exposed to inherent risk associated with execution of EPC orders in a timely manner. However, the company is moving well ahead of schedule and has already completed two milestones till June, 2019 and have received grant from PWD for the two milestones including mobilisation advance. This mitigates the project execution risk to some extent.

Volatile input prices

Major raw materials used in civil/construction activities are steel and cement which are usually sourced from large players at proximate distances. The input prices are generally volatile and have direct linkage with state of the economy which may impact the profitability of MCGN. However, under HAM the Bid Project Cost shall be subject to change on account of variation in Price Index Multiple (which is the weighted average of Wholesale Price Index (WPI) and

Consumer Price Index (CPI) in the ratio of 70:30) on monthly basis till the achievement of commercial operations date (COD), which mitigates this input cost risk to a large extent.

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.

Analytical Approach & Applicable Criteria:

Rating Methodology for Infrastructure Companies

Financial Ratios & Interpretation (Non-financial Sector)

Criteria on Parent/Group Support

Liquidity - Stretched

The project is in its construction stage and it is expected to generate revenues from FY22 onwards. The repayment of loan is expected to start, six months after the COD i.e., from December, 2021 onwards and will be met through bi-annuity payments to be received from PWD over a period of 10 years. The DSCR with proposed annuity is comfortable to meet the repayment of loan leaving promoters with margin to meet exigencies, if any.

About the Company

MCGN Infra Private Limited (MCGN) 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 (BPSCL; 26% stake). MCGN has entered into a 12 year Concession Agreement (CA) (including construction period of 730 days [about two years] from the appointed date i.e., May 17, 2019) with Public Works Department (PWD), Maharashtra 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 total bid project cost (BPC) of Rs.232.00 crore (that will be adjusted for variation in price index between bid date and appointed date) and the provision for interest and expense of Rs.5.76 crore up to the date of first annuity is being funded through promoter's contribution of Rs.30.56 crore, term debt of Rs.68.00 crore and grant from PWD of Rs.139.20 crore (60% of the total BPC), with an estimated project debt-equity ratio of

0.40:1. The construction of the project started from May, 2019 and MCGN has already achieved two milestones till July, 2019 and the project is expected to be completed by May, 2021.

Financials: As the company was incorporated in December 2018, past financials are not applicable.

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Nil

Rating History for last three years with Infomerics:

Sr. No.	Name of Instrument/Facilities	Current Rating (Year 2019-20)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2018-19	Date(s) & Rating(s) assigned in 2017-18	Date(s) & Rating(s) assigned in 2016-17
1.	Long Term Fund Based Limits – (Proposed)	Long Term	70.00	IVR BBB / Stable Outlook	-	-	-

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.

Name and Contact Details of the Rating Analyst:

Name: Ms. Harshita Didwania

Tel: (033) 46022266

Email: hdidwania@infomerics.com

Name: Mr. Avik Podder

Tel: (033) 46022266

Email: apodder@infomerics.com

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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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 – (Proposed)	-	-	-	70.00	IVR BBB / Stable Outlook