

Rating Report

Brickwork Ratings assigns 'BWR BBB' for the Long term Bank Credit Facilities of AAP Infrastructure Ltd.

Brickwork Ratings (BWR) has assigned following **Ratings**¹ for Bank Loan Facilities of AAP Infrastructure Ltd. ('AAP Infra' or 'the Company').

Facility	Tenure	Rating	Sanctioned Amount (₹ Cr)	Outstanding Amount (₹ Cr)
Term Loan	Long Term	BWR BBB (BWR Triple B) (Outlook – Stable)	34.59	30.10
Total			34.59	30.10
(INR Thirty Crores and Ten Lakhs only)				

The rating has, inter alia, factored AAP Infrastructure Ltd.'s development and operation of the Seoni – Balaghat - Gondia road in MP on BOT basis (Build, Operate and Transfer) under Madhya Pradesh Road Development Corporation Ltd., with a total length of 114.00 Km, Concession agreement with Madhya Pradesh Rajya Setu Nirman Nigam Ltd (MPRSNN) for a period of 15 years, fixed subsidy of ₹ 34.80 Crs from MPRSNN, escrow mechanism towards toll collection, DSRA equivalent to the debt servicing for three months' interest at all times, management and operational support from its parent i.e. MBL Infrastructures Ltd. (rated by Brickwork BWR A- (Outlook: Stable)) and it's the completed stage of the project as both the phases become operational in 2008. The rating is however constrained by high maintenance and operating costs, one time increase in renewal cost in in 2013 which may affect in future as well, toll collection as per estimates and renewal of Concession Agreement with MPRSNN as it will end on 14th Nov, 2017.

BWR has essentially relied upon the audited financial results of AAP Infrastructure Ltd. up to FY14, projected financials, concession agreement with MPRSNN and clarifications/ information provided by the Company.

Background

AAP Infrastructure Ltd. is a 100% Subsidiary of MBL Infrastructures Ltd. The project comes under MPRSNN involving Development and operation of Seoni – Balaghat - Gondia road situated in MP state having total length of 114 km. The Company has successfully completed the execution of the BOT project on SH – 26 and SH – 11 which are important constituents of the main trunk route network of Madhya Pradesh. The Project Road falls in two districts of Madhya Pradesh viz. Seoni (about 45 kms) & Balaghat (about 69 kms) and provides a very important link road connecting NH – 7 at Seoni (Madhya Pradesh) and NH – 6 at Duggipur (near Gondia, Maharashtra). It serves as a short and an important link for transportation of various minerals, agriculture and forest products and various other commodities.

¹ Please refer to www.brickworkratings.com for definition of the Ratings

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- Phase I – 28.118 km between Garra–Balaghat-Rajegaon was completed in October 2005 and commercial operations started in April 2006.
 - Phase II – Balance of the projected completed in February 2008.

As per concession agreement, the Concession period started from Mar'2002 and will end in Nov'17. Toll Rate – Concession agreement allows for a fixed escalation in toll fees of 7% per annum. A Subsidy of ₹ 34.80 Crs had already been provided towards the project from MPRSNN (Madhya Pradesh Rajya Setu Nirman Nigam Ltd.).

Concession Agreement

The Concession agreement was signed between MPRSNN with MBL Infrastructure Ltd. in September 2002. The concessionaire (AAP Infra (an SPV of MBL Infrastructure Ltd.)) has achieved financial closure on 23rd Dec 2002. As per concession agreement, the total concession period was for 15 years, including 2 years of construction period. The Concessionaire is permitted to levy and collect user fee as toll charges from the users of Highway Project, in accordance with the Fee Notification. During the concession period MPRSNN will recover 1% of Toll Collection per annum towards MPRSNN establishment Expenses.

Project Details

The total Cost of the project initially projected was ₹ 67.54 Crs, being met in the form of ₹ 19.62 Crs as debt, ₹ 13.08 Crs as equity from promoters and ₹ 34.80 Crs subsidy from MPRSNN. However, after completion of the project in 2008, the cost of project increased to ₹ 108.20 Crs, which was met through additional debt from banks and unsecured loan from parent i.e. MBL Infra. The project is on toll collection basis & Government Grant of ₹ 34.80 Crores has been received as capital contribution. No annuity payment is receivable in the project from Govt. Phase – I of the project of 28.118 km between Garra–Balaghat-Rajegaon was completed in October 2005 and commercial operations started in April 2006. Phase – II, rest of the project, was completed in February 2008. During last four years, the Company has collected toll on an average of ₹ 14.31 Crs per year with CAGR of 14.09%. In Aug'13, the Company has incurred major renewal cost & construction of a new bridge. The major renewal expenses were incurred for maintaining good quality roads for smooth movement and traffic operations which are periodic in nature. The construction of new bridge was a one-time Expense.

MBL Infrastructures Ltd. (Parent Company)

MBL Infrastructures Ltd (MBL) was originally incorporated as Maheshwari Brothers Ltd. in 1995, and renamed in July 2006. It has its corporate office in Delhi and registered office in Kolkata. Initially, MBL was engaged in the business of recycling ferrous scrap and slag at steel plants and in steel trading, but subsequently diversified into infrastructure development (primarily road projects), serving Government clients like the Public Works Department and the National Highways Authority of India (NHAI) as EPC contractor. The Company provides integrated engineering, procurement and construction (EPC) services for civil construction and infrastructure sector projects. MBL has executed and commenced a number of projects in the 12 states where it has a presence, in all sorts of terrains. It is also pre-qualified by NHAI for some

projects for OMT (Operate Maintain Transfer) contracts. Most of the contacts for the SPVs for the various projects are handled by MBL.

Besides toll roadways, MBL has successfully completed Housing Project at Rajiv Gandhi Thermal Power Project, Khedar-Hissar, Haryana. The Company is currently executing 10 Housing/ Building Projects of ₹ 406.96 Crores pan India. It recently entered into the Railway sector. MBL is entering these segments either on its own strength or by forming JV with some of the domestic or foreign construction companies of repute. MBL has been awarded work order from Delhi Metro Rail Corporation, North Western Railway and Jaipur.

MBL is also engaged in Industrial Infrastructure Development projects across the country. Pre-incorporation, MBL was a part of the development of Haldia Petrochemicals in the state of West Bengal. The Company was also involved in the expansion of the IISCO Steel Plant in Burnpur (WB) where it constructed the Approach Road, which included Railway Over Bridge connecting the steel plant from the National Highway.

At present the Company has an order book position (Contract Value) at approximately ₹ 3500 Crs. Of this, ₹ 570 Crs has already been executed till Jan'14 and ₹ 2950 Crs is under execution over a period of 3-4 years.

During FY14, on a consolidated basis, MBL's operating revenue has witnessed a growth of ~30% to ₹ 1766.29 Crs in FY14 from ₹ 1355.43 Crs in FY13. EBIDTA increased by ~29% to ₹ 188.15 Crs in FY14 from ₹ 145.97 Crs in FY13. During the same period PAT also increased by ~36% to ₹ 77.00 Crs in FY14 from ₹ 56.65 Crs in FY13 mainly due to high operating revenue and better realization. Operating margins stood at 10.65% in FY14 as compared to 10.77% in FY13. During Q1 FY15, on a standalone basis, it has achieved operating income of ₹ 509.39 Crs with a profit after tax of ₹ 23.26 Crs.

Infrastructure Industry

The Infrastructure Industry in India has been experiencing a rapid growth in its different verticals with the development and urbanization leading to increasing interest shown by foreign as well as domestic investors and infrastructure players in this field. Government of India has taken initiatives to develop the infrastructure sector, with emphasis on construction, engineering, IT, entertainment, food and utility to name some.

Risk assessment

The project undertaken by AAP Infra has already been executed and become operational since 2008. Therefore execution risk is negligible. However, operating and maintenance cost would be at higher risk as the project was completed in 2008 and operational and maintenance costs are expected to increase with the passage of time.. Also, as per concession agreement, the concession time period will expire in 2017. Renewal of the agreement would be key sensitivity for future cash flow for the Company. MBL Infrastructures Ltd. has also provided strong

support in terms of execution, management and operational of the project. In case of any short fall in toll collection, MBL Infra will fund the DSRA account to serve the Interest and Principal repayment three months in advance.

Outlook

AAP Infra is having dependence on parent to fund in case on shortfall in toll collection or increase in operating and maintenance cost. However, as per past trend of toll collection, it is going to be very minimal. Going forward, achieving expected toll collection, renewal of concession period, improvement in operating & Toll collection efficiency, improvement in road connectivity in and around places, maintaining profitability margins, and maintenance & operation of the road with optimal cost and maximum availability would be key rating sensitivities.

Analyst Contact	Relationship Contact
analyst@brickworkratings.com	bd@brickworkratings.com
Phone	Media Contact
1-860-425-2742	media@brickworkratings.com

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