

India Ratings Affirms Bangalore Metro Rail Corporation at 'IND AA'/Stable

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By Divya Shrivastava

India Ratings and Research (Ind-Ra) has affirmed Bangalore Metro Rail Corporation Limited's (BMRL) Long-Term Issuer Rating at 'IND AA'. The Outlook is Stable. The instrument-wise rating actions are as follows:

Instrument Type	ISIN	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of Issue (million)	Rating/Outlook	Rating Action
Bonds	INE928P07019	23 December 2014	8.79	23 December 2024	INR3,000	IND AA/Stable	Affirmed
Proposed bonds	-	-	-	-	INR5,000	WD	Withdrawn (the company is not proceeding with the instrument as envisaged)

Analytical Approach: Ind-Ra continues to factor in the credit profile of the government of Karnataka (GoK) to arrive at the ratings as Ind-Ra views BMRL as a dependent entity in line with its criteria for rating public sector entities.

KEY RATING DRIVERS

Sponsor-Dependent Entity: Ind-Ra classifies BMRL as a sponsor-dependent public sector entity, based on its legal regime, significant strategic policy role in Bengaluru city, and strong financial oversight and control by the GoK. BMRL's missions are defined by the GoK and monitored by the sponsors – the government of India (GoI) and the GoK. The sponsors have also agreed to bear any project cost escalations due to changes in statutory levies and duties, exchange rate variations and price escalations, either as equal equity contribution or as subordinate loans, through a memorandum of understanding, which may be considered potential capital support. Ind-Ra expects BMRL to remain highly dependent on the sponsors for financial support in the near-to-medium term.

Sponsor Funding Remain High: The sponsors provide funding to BMRL in the form of equity and interest-free subordinated debt for its metro rail project. The GoI and GoK had injected INR77,728.10 million and INR180,101.50 million, respectively, for the metro project at end-March 2021. An extensive support mechanism - shadow cash support - has been put in place. The GoK will provide financial support for bridging cash losses at BMRL, including debt servicing, through the mechanism in advance. In FY21, BMRL received INR500 million (FY20:INR430 million) in the form of reimbursement of cash losses, which used for debt servicing.

BMRL received INR5,270 million from the GoI and INR3,207.30 million from the GoK during April-November 2021. In 1HFY22, the entity incurred losses of INR4,500.89 million at the profit before tax level (1HFY21: loss of INR4,684.30 million). Since revenue collection was lower and expenditures remain same, BMRL utilised these funds (received from sponsors for project funding) to meet the operating expenditures and debt servicing. BMRL receives funds from the GoK as reimbursement of the cash losses. Ind-Ra views the propensity of the sovereign and state government to provide support to BMRL as high, given its important role and it is likely to continue in the near term as well.

GoK's Stable Economic Growth: Karnataka registered robust economic growth over FY12-FY20, primarily led by the services sector, which grew at a CAGR of 10.1% during this period. The services sector, which had a share of 64.40% in the economy in FY20, contributed 72.70% to the economic growth during FY12-FY20. The gross state value added grew at a CAGR of 8.4% over FY12-FY20. Its average growth performance in agriculture was weaker (3.3%) than the national average (8.6%) over FY12-FY20. The state's contribution to the national income stood at 8.40% in FY20 (FY19: 8.14%). In FY21, the COVID-19-induced lockdown, followed by only a partial opening up of business and economic activities, significantly impacted Karnataka's economic growth. Therefore, the state has projected the gross state domestic product (GSDP) to contract 2.6% yoy in FY21 as per the advance estimates (FY20: 5%).

Sovereign Loans: BMRL has strong linkages with its sponsors. This is reflected in both sponsors' 50%-50% ownership in BMRL since inception. The GoI has extended sovereign loans from Japan International Co-operation Agency and Agence Francaise de Developpement to BMRL, ensuring timely debt servicing by the latter and will remain in place until the loans are fully repaid.

Liquidity Indicator – Adequate: BMRL's liquidity is supported by the absence of fund-based working capital limits, moderate receivables, strong access to raise the funds in the market and the sponsors' support. BMRL did not avail any short-term loans or working capital facility (cash credit/overdraft) for the day-to-day operations in FY21. The receivable days (receivable *365 / total income) increased to 149 days in FY21 (FY20:121 days) due to an 82.79% yoy fall in total income.

The EBITDA (excluding grants from governments) turned negative at INR2,131.75 million in FY21 against a profit of INR544.38 million in FY20. BMRL's debt service coverage ratio (FY20: 0.13x) and interest coverage (EBITDA/interest expenses) (FY20:0.49x) was negative in FY21 due to the EBITDA loss. BMRL has debt obligations (interest and principals repayments) of around INR5,514.80 million in FY22, which can be serviced through the GoK's fund support in the form of a shadow cash support mechanism. Ind-Ra expects BMRL's liquidity to remain adequate in the near term on account of the financial support from the sponsors.

Ridership Adversely Affected due to Pandemic: BMRL's ridership had been growing steadily during FY17-FY20, and had increased by 23.02% yoy to 174.22 million in FY20 as Phase I of the project has been fully functional since June 2017. However, the COVID-19-related travel restrictions and social distancing measures severely impacted BMRL's metro operations in FY21. With metro operations being suspended during April-August 2020, BMRL reported ridership of only 17.27 million in FY21.

The metro operations resumed in September 2020 and BMRCL reported ridership of 0.73 million during the month, which increased gradually to touch 3.85 million in March 2021. However, ridership declined to 2.45 million in April 2021 due to the impact of the second wave of COVID-19 and it was nil in May 2021 due to lockdown. Subsequently, ridership picked up again and gradually increased to 6.56 million in November 2021 from 0.33 million in June 2021. The ridership is likely to improve further on month on month basis over the near term, according to the management.

Ind-Ra expects the revenue to be low in FY22. However, the company's financial profile remains supported by the GoK's reimbursement of cash losses.

Project Progress: In Ind-Ra's opinion, large rail projects are more capital intensive than other transportation projects and are inevitably characterised by completion delays. BMRCL is implementing metro projects in two phases. Under Phase I of the project, a stretch of 42.3km has been fully functional since June 2017. The company started executing Phase II of the project in 2016 with an initial cost of INR264.05 billion. At end-November 2021, the physical progress of phase II project in terms of weightage was 60% and the financial progress was 62%, according to BMRCL.

Completion Risk Remains: The ratings continue to factor in the construction and completion risks associated with metro projects due to their size and complexity. However, the agency draws comfort from the vast experience of the international contractors. As per BMRCL, all the civil contracts for construction including the underground packages have already been awarded and 100% of total land acquisition had been done at end- November 2021.

RATING SENSITIVITIES

Positive: Events that could, individually or collectively, lead to a positive rating action include:

- a fall in reliance on sponsors' fund support;
- the interest coverage exceeding 2.0x on a sustained basis;
- an improvement in the EBITDA, excluding grants from governments, on a sustained basis;
- an improvement in the GoK's credit quality;
- strengthening of BMRCL's relationship with the GoK and the GoI.

Negative: Events that could, individually or collectively, lead to a negative rating action include:

- lack of explicit financial support from the sponsors for capital works and timely debt servicing;
- any weakening of the linkages with the GoK;
- a significant deterioration in the GoK's credit profile

COMPANY PROFILE

BMRCL is a special purpose company jointly sponsored by the GoK and the GoI in September 2005 to construct the metro facility in Bengaluru. BMRCL raised INR3,000 million bonds for 10 years at 8.79% in December 2014.

FINANCIAL SUMMARY

Particulars	FY20	FY21
Total income (INR million)	4,762.28	819.69
EBITDA including grant and transfers (INR million)	983.78	-2,122.35
EBITDA margin including grant and transfers (%)	20.66	-258.92
Debt/EBITDA (x)	206.34	-111.06
Interest coverage ratio (x)	0.89	-1.98
Source: BMRCL, Ind-Ra		

RATING HISTORY

Instrument Type	Current Rating/Outlook			Historical Rating/Outlook		
	Rating Type	Rating Limits (million)	Rating	5 February 2021	6 February 2020	6 February 2019
Issuer rating	Long-term	-	IND AA/Stable	IND AA/Stable	IND AA/Stable	IND AA/Stable
Bonds	Long-term	INR3,000	IND AA/Stable	IND AA/Stable	IND AA/Stable	IND AA/Stable

ANNEXURE

Annexure I: Bonds Structured Payment Mechanism

BMRCL shall provide the GoK the projected cash support required for each quarter 45 calendar days prior to the due date.

The GoK will fund the shortfall, in the SCS account with the required cash support as per the projected cash support 60 days before the required due date. On receipt of the funds into the SCS account, BMRCL will, on the same day, transfer the fund to the trust and retention account (TRA) and on the same day will transfer the required funds in the sub-account.

In the event of BMRCL's inability to meet its obligations to the senior-term lenders and to the bond holders, necessary funds shall be provided by the GoK to service the senior-term lenders and the bond holders as per the payment structure mechanism as given below:

Milestones	Actions
T-60 days	BMRCL, along with the trustees under the TRA, would be required to monitor the balance in the TRA. At least 60 days (T-60) prior to the due date of each debt servicing, the trustee will ensure that: <ul style="list-style-type: none"> • the due date of payment to the various senior term lenders and the bond holders, and • the respective amount to be paid (interest and/ or principal)
T-30 days	BMRCL shall ensure that 30 days (T-30) prior to every due date for payment of interest/principal instalment, adequate funds are available in the TRA for meeting the forthcoming interest/principal payments.
T-25 days	In the event of any shortfall in the TRA account, the trustees would make a demand for funds equivalent to the shortfall (shortfall amount) in writing to the BMRCL at least 25 days (T-25) prior to the due date.

T-5 working days	<p>Within five business days after receiving the intimation from the trustee, BMRL would inform in writing to the designated official in the GoK:</p> <ul style="list-style-type: none"> · the due date of payment, and · the amount to be paid equivalent to the shortfall (shortfall amount) <p>The GoK shall, without any demur, fund the SCS account with the shortfall amount within five business days after the intimation from BMRL. On receipt of the funds into the SCS accc</p>
T-1 day	The payment of interest and/or principal shall be made to the investors on the due date for payment.
Source: BMRL, Ind-Ra	

COMPLEXITY LEVEL OF INSTRUMENTS

Instrument Type	Complexity Indicator
Bond	Low

For details on the complexity level of the instruments, please visit <https://www.indiaratings.co.in/complexity-indicators>.

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Applicable Criteria

[Rating of Public Sector Entities](#)
[Revenue-Supported Rating Criteria](#)

Analyst Names

Primary Analyst

Divya Shrivastava

Senior Analyst

India Ratings and Research Pvt Ltd Harmony Square 3rd Floor, Door No. 48 & 50 Prakasam Street T Nagar Chennai - 600017
+91 44 43401705

Secondary Analyst

Kabilan A

Analyst
+91 44 43401741

Committee Chairperson

Dr. Sunil Kumar Sinha

Principal Economist and Director Public Finance
+91 124 6687255

Media Relation

Ankur Dahiya

Manager – Corporate Communication
+91 22 40356121
