Madhya Pradesh Financial Corporation

May 5, 2020

Ratings

Facilities	Amount (Rs. Crore)	Ratings[1]	Rating Action
Long-term Bank Facilities	300.00	**CARE A- (CE) [Single A Minus (Credit Enhancement)] Under credit watch with Negative implications**	**Placed on credit watch with Negative implications**
Long-term Bank Facilities	195.39	**CARE A- (CE) [Single A Minus (Credit Enhancement)] Under credit watch with Negative implications**	**Placed on credit watch with Negative implications**
Total Facilities	**@495.39 (Rupees Four Hundred Ninety Five Crore Thirty Nine lakh only)**		
Long-term bond Issue	158.86	**CARE A- (CE) [Single A Minus (Credit Enhancement)] Under credit watch with Negative implications**	**Placed on credit watch with Negative implications**
	^158.86 (Rupees One Hundred Fifty Eight Crore Eighty Six lakh only)		

Details of facilities in Annexure-1

@The above facilities are backed by credit enhancement in the form of unconditional and irrevocable guarantees extended by Government of Madhya Pradesh (GoMP) for timely servicing of the said bank facilities.

^The bond issues are backed by credit enhancement in the form of guarantees extended by GoMP for timely servicing of these bonds.

Unsupported Rating [2]	**CARE D**

Note: Unsupported Rating does not factor in explicit credit enhancement

Detailed Rationale & Key Rating Drivers

The rating of the bank facilities of Madhya Pradesh Financial Corporation (MPFC) is primarily based on the credit enhancement available in the form of an unconditional and irrevocable guarantees extended by Government of Madhya Pradesh (GoMP) for ensuring timely debt servicing of these facilities. Further, the rating of the rated instruments is also based on government guarantees extended by GoMP for ensuring timely debt servicing of these instruments.

CARE has placed the ratings of MPFC under 'Credit watch with negative implications' owing to non-payment of interest on one of the bonds issued by MPFC, on due date. The debt servicing of the aforesaid bond issue (with ISIN no.INE348F08035) is guaranteed by government of Madhya Pradesh (GoMP).

As per CARE's interaction with the management of MPFC, the aforesaid payment was delayed on account of operational issues due to lockdown situation in the country, owing to the spread of Covid-19 pandemic. Furthermore, as per CARE's interaction with the debenture trustee, government guarantee on the aforesaid bond is not yet invoked.

CARE has sought data on liquidity position of MPFC and shall also monitor the actions of the debenture trustee / GoMP with regards to such non-payment of interest. CARE shall resolve the watch once clarity on the above events and its impact on the credit risk profile of MPFC or guarantor emerge.

[1] *Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications*

[2] *As stipulated vide SEBI circular no SEBI/ HO/ MIRSD/ DOS3/ CIR/ P/ 2019/ 70 dated June 13, 2019*

CARE also takes note of the company availing moratorium for its debt obligations, including interest on working capital limits, as a Covid relief measure (as permitted by the Reserve Bank of India). The moratorium is approved by majority of its lenders.

Madhya Pradesh continues to be fiscally strong and its economy has seen a favorable growth over the years. The state has been adhering to the fiscal consolidation norms of the 14th Finance Commission and is eligible for additional fiscal limit as per the recommendations of the 14th Finance Commission. The state has been focusing on asset creation and has been maintaining a Guarantee Redemption Fund (GRF).
With the revenue expenditure of the state growing at a faster pace than its revenue income, its revenue surplus has seen moderation. The state is seen to have low self- reliance for revenues and its debt has been growing over the years. The liquidity situation of Madhya Pradesh is adequate.

For unsupported rating:
The unsupported rating of MPFC is based on its standalone credit assessment and takes into account on-going delays in debt servicing of term loan principal and interest (not rated by CARE) by MPFC, as informed by the client and confirmed by the lenders. The delays are mainly on account of deterioration in asset quality of MPFC's loan portfolio resulting in delay in recoveries, adversely impacting the liquidity of the company.

Rating Sensitivities of GoMP
Positive factors
- State maintaining a revenue surplus
- Adherence to all the FRBM targets
- Creation of Consolidated Sinking fund

Negative factors
- Non adherence to the FRBM targets
- Additional farm loan waivers that could pressurize state finances.

Detailed description of the key rating drivers (i.e. GoMP, the credit enhancement provider)
Key Rating Strengths
Favorable Economic Growth
The state has registered positive economic growth since FY14. At 7% yoy growth in FY19, the state's GSDP growth was higher than the 6.2% growth in previous year. However, it continued to be lower than the 9.1% growth in FY16 and the 12.5% growth in FY17. Madhya Pradesh's economy is fairly broad based. While the services sector had 39% share in the GSDP, that of agriculture sector was nearly 34% and industrial sector had nearly 27% share in the GSDP of Madhya Pradesh in FY19. The 3 main sectors have registered positive growth over the past 3 years.

Fiscal Prudence
The state continues to be fiscally strong. It has been in adherence to the fiscal consolidation norms laid down by the Finance Commission and has been granted fiscal flexibility of additional borrowing (additional 0.5% fiscal deficit) under the 14th Finance Commission during FY17 – FY19. The state has been sustaining a revenue surplus since FY05 and has been maintaining its fiscal deficit within the stipulated target (below 3% and 3.5%). The debt burden too is manageable with the interest payments accounting for less than 10% of its revenues and outstanding debt being less than 25% of GSDP.

Sustained Revenue Surplus
The State has been maintaining revenue surplus since FY05. However, there has been a notable decline in the quantum of state's revenue surplus in recent years. In FY19, at Rs.137 crs it was 97% lower than year ago as the revenue expenditure of the state grew at a higher pace than the revenue receipts and increased revenue expenditure on economic and social services. The revenue surplus is budgeted to increase to Rs. 733 cr in FY20.

Expenditure incurred towards asset creation
The State has been seen to undertake increased expenditure towards asset creation. The capital outlay of the state is mainly concentrated towards economic services such as irrigation and flood control (32%), transport (21%), rural development (11%) and social services such as water supply sanitation and urban development (9%).

Improvement in Infrastructure

The State has seen improvement in physical infrastructure over the years. Rail density improved from 16.1 kms per thousand sq km in FY11 to 16.6 kms per thousand sq km in FY17. Road density has improved considerably from 94.1 km per 100 sq km in FY16 to 111.2 km per 100 sq km in FY17. As on FY18, the State did not face any power deficit.

Maintenance of GRF to meet contingencies

The state has a Guarantee Redemption Fund (GRF) since FY06, with a corpus of Rs 409.79 crore by the end of FY19.

Key Rating Weaknesses

Lower degree of self-reliance

The self sufficiency of the state measured as states own revenue as a percentage of revenue receipts was low at 41.3% in FY19 (RE).

Absence of consolidated sinking fund

The state does not have a Consolidated Sinking Fund (CSF). In terms of the guidelines of the Reserve Bank of India, States are required to contribute to the Consolidated Sinking Fund, a minimum of 0.5% of their outstanding liabilities as at the end of the previous year.

Liquidity: Adequate

The state has not availed liquidity support from the RBI by way of WMA or overdraft facility so far in 2019-20 (as of January 2020). As such, the liquidity situation of the Madhya Pradesh government can be perceived to be adequate in 2019-20.

Analytical Approach:

Unsupported rating: Standalone

Credit Enhancement (CE) rating: Assessment of the Guarantor, GoMP

CARE has analyzed MPFC's credit profile by considering credit enhancement provided by irrevocable and unconditional guarantee deeds / order extended by GoMP to the lenders of MPFC for the rated bank facilities and one of the four series of bond issues.

Further for the balance three series of bond issues, CARE has considered credit enhancement in the form of an irrevocable and unconditional government guarantee deed extended in favour of MPFC (the issuer), where bondholders shall encounter challenges to enforce these provisions of unconditionality and irrevocability against GoMP in case of default; as per a legal opinion provided by Mumbai based law firm M/s Sterling Associates.

Applicable Criteria:

Criteria on assigning 'outlook' and 'credit watch'
CARE's Policy on Default Recognition
Rating Methodology - State Governments
Financial ratios - Financial Sector
Rating Methodology: Consolidation and Factoring Linkages in Ratings

About the Company (MPFC)

Madhya Pradesh Financial Corporation (MPFC) was incorporated in 1955 under the State Financial Corporations Act, 1951. It is a state level financial corporation providing long term and medium term, fund based and non-fund based financial assistance to industrial, infrastructural, social sector organizations in Madhya Pradesh (MP) with focus on small and medium sized industries. It has its headquarters at Indore – the industrial hub of MP and has a network of nine branches and seven business development centres. MPFC is headed by the board of directors which includes senior bureaucrats, nominees of SIDBI, HUDCO and LIC, financial experts and banking professionals.

Brief Financials of MPFC (Rs. Crore)	FY18 (A)	FY19 (A)
Total Operating Income	112.56	99.08
PAT	-11.39	-58.45
PBILDT / Interest Coverage (times)	0.91	0.21
Net NPA (%)	16.31	33.03
ROTA (%)	-1.00	-5.43

A: Audited

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History (Last three years): Please refer Annexure-2

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Cash Credit	-	-	-	300.00	CARE A- (CE) (Under Credit watch with Negative Implications)
Term Loan-Long Term	-	-	Nov. 2025	195.39	CARE A- (CE) (Under Credit watch with Negative Implications)
Bonds-Redeemable Non-Convertible Unsecured Taxable Bonds	November 07, 2014	9.20% p.a.	19-11-2024	100.00	CARE A- (CE) (Under Credit watch with Negative Implications)
Bonds-Secured Redeemable Bonds	15.03.2010 16.03.2011 23.02.2012	9.15%, 8.89% and 10.20%	30.06.2020 01.06.2021 01.03.2021	58.86	CARE A- (CE) (Under Credit watch with Negative Implications)
Un Supported Rating-Un Supported Rating (Long Term)	-	-	-	0.00	CARE D

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based - LT-Cash Credit	LT	300.00	CARE A- (CE) (Under Credit watch with Negative Implications)	-	1)CARE A- (CE); Stable (13-Dec-19)	1)CARE A- (SO); Stable (14-Sep-18)	1)CARE A- (SO); Stable (04-Oct-17)
2.	Term Loan-Long Term	LT	195.39	CARE A- (CE) (Under Credit watch with Negative Implications)	-	1)CARE A- (CE); Stable (13-Dec-19)	1)CARE A- (SO); Stable (14-Sep-18)	1)Provisional CARE A- (SO); Stable (04-Oct-17)
3.	Bonds-Redeemable Non-Convertible Unsecured Taxable Bonds	LT	100.00	CARE A- (CE) (Under Credit watch with Negative Implications)	-	1)CARE A- (CE); Stable (13-Dec-19)	1)CARE A- (SO); Stable (14-Sep-18)	1)CARE A- (SO); Stable (04-Oct-17)
4.	Bonds-Secured Reedemable Bonds	LT	58.86	CARE A- (CE) (Under Credit watch with Negative Implications)	-	1)CARE A- (CE); Stable (13-Dec-19)	1)CARE A- (SO); Stable (14-Sep-18)	1)CARE A- (SO); Stable (04-Oct-17)
5.	Un Supported Rating-Un Supported Rating (Long Term)	LT	0.00	CARE D	-	1)CARE D (13-Dec-19)	-	-

Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

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About CARE Ratings:
CARE Ratings commenced operations in April 1993 and over nearly two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

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