Madhya Pradesh Financial Corporation

June 09, 2020

Ratings

Facilities	Amount (Rs. Crore)	Ratings[1]	Rating Action
Long-term Bank Facilities	300.00	**CARE BBB (CE) [Triple B (Credit Enhancement)] (Credit watch with Negative implications)**	**Revised from CARE A- (CE) [Single A Minus (Credit Enhancement)] (Credit watch with Negative implications)**
Long-term Bank Facilities	195.39	**CARE BBB (CE) [Triple B (Credit Enhancement)] (Credit watch with Negative implications)**	**Revised from CARE A- (CE) [Single A Minus (Credit Enhancement)] (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 BBB (CE) [Triple B (Credit Enhancement)] (Credit watch with Negative implications)**	**Revised from CARE A- (CE) [Single A Minus (Credit Enhancement)] (Credit watch with Negative implications)**
Total	**^158.86 (Rupees One Hundred Fifty Eight Crore Eighty Six lakh only)**		

Details of facilities/instruments 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. The timely debt servicing of the bond issues is also facilitated by a Structured Payment Mechanism (SPM) through an escrow mechanism.

Unsupported Rating [2]	CARE D

Note: Unsupported Rating does not factor in explicit credit enhancement

Detailed Rationale & Key Rating Drivers

The revision in the rating assigned to the bank facilities and instruments of Madhya Pradesh Financial Corporation (MPFC) takes into account weakening of the SPM and pending approval of moratorium request from investors as per regulatory guidelines issued under present COVID scenario.

The rated instruments are supported with a SPM wherein the designated account is supposed to be funded 40 days prior to the due dates and the government guarantee is to be invoked 20 days prior to the due dates, in case of non-funding of the designated account. However, the aforesaid structure was not adhered to in light of uncertainty arisen due to the spread of the COVID-19 pandemic. Further, company had sought approval from the debenture holders for deferment of redemption of one of the NCD issues under the regulatory guidelines, which is awaited from requisite number of investors. As per the management, a portion of investors have already provided their written consent and for the balance investors it is under approval stage. Meantime, trustee has invoked the guarantee on June 03, 2020 due to delay in timely redemption of the aforesaid bond (with ISIN no.INE348F08027) which was due on June 01, 2020. The trustee has extended seven days of time from the date of notice of invocation, which is by June 11, 2020, to GoMP, to service the guaranteed debt obligation. Hence, the rating continues to be 'under credit watch with negative implications'.

CARE shall continue to monitor the developments in this regard with respect to the payment within the stipulated time prescribed by the Debenture Trustee and status of requisite approval from the debenture holders for granting

[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*

moratorium on the aforesaid payment. CARE shall resolve the watch once adequate clarity on the aforesaid issues emerges.
The performance of MPFC has also gradually weakened with sustained deterioration in asset quality its loan portfolio resulting in delay in recoveries, adversely impacting the liquidity of the corporation alongwith worsening negative returns on total assets.
In recent years i.e., based on state budgets for the period FY14-FY20, Madhya Pradesh has been seen to be fiscally strong and its economy too has seen favorable growth. The state has over the years been adhering to the fiscal consolidation norms (zero revenue deficit, interest to revenue receipts less than 15% and debt to GSDP less than 25%) of the Finance Commission and was also eligible for additional fiscal space. The state has been seen to be focusing on asset creation and has been maintaining a Guarantee Redemption Fund (GRF).
At the same time, the state is seen to have low self- reliance for revenues and its debt has seen an increase over the years.

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.

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 during FY14-18. 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 is seen to be fiscally strong over the years i.e., based on the state budgets until FY20. Over the years, it has been seen to be in adherence with the fiscal consolidation norms laid down by the Finance Commission and was granted fiscal flexibility of additional borrowing (additional 0.5% fiscal deficit) under the 14th Finance Commission during FY17 – FY20. 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 a revenue surplus during FY05-20(BE). However, there was 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 891 crore by the end of FY20.

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) and is budgeted at 44.2% as per FY20(BE).

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 in FY20. As such, the liquidity situation of the Madhya Pradesh government can be perceived to be adequate in FY20.

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' to Credit Ratings
CARE's Policy on Default Recognition
Criteria for Rating Credit Enhanced debt
Rating Methodology - State Governments
Financial ratios - Financial Sector
Rating Methodology: Consolidation and Factoring Linkages in Ratings

About the Company
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/ Facilities	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 BBB (CE) (Under Credit watch with Negative Implications)
Term Loan-Long Term	-	-	November 2025	195.39	CARE BBB (CE) (Under Credit watch with Negative Implications)
Bonds-Redeemable Non-Convertible Unsecured Taxable Bonds (ISIN: INE348F08043)	November 07, 2014	9.20% p.a.	19-11-2024	100.00	CARE BBB (CE) (Under Credit watch with Negative Implications)
Bonds-Secured Redeemable Bonds (ISIN: INE348F08019, INE348F08027, INE348F08035)	March 15, 2010 March 16, 2011 February 23, 2012	9.15%, 8.89% and 10.20%	June 30, 2020 June 1, 2021 March 1, 2021	58.86	CARE BBB (CE) (Under Credit watch with Negative Implications)
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 Out-standing (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.	Bonds-Secured Redeemable Bonds	LT	58.86	CARE BBB (CE) (Under Credit watch with Negative Implications)	1)CARE A- (CE) (Under Credit watch with Negative Implications) (05-May-20)	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.	Fund-based - LT-Cash Credit	LT	300.00	CARE BBB (CE) (Under Credit watch with Negative Implications)	1)CARE A- (CE) (Under Credit watch with Negative Implications) (05-May-20)	1)CARE A- (CE); Stable (13-Dec-19)	1)CARE A- (SO); Stable (14-Sep-18)	1)CARE A- (SO); Stable (04-Oct-17)
3.	Bonds-Redeemable Non-Convertible Unsecured Taxable Bonds	LT	100.00	CARE BBB (CE) (Under Credit watch with Negative Implications)	1)CARE A- (CE) (Under Credit watch with Negative Implications) (05-May-20)	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.	Term Loan-Long Term	LT	195.39	CARE BBB (CE) (Under Credit watch with Negative Implications)	1)CARE A- (CE) (Under Credit watch with Negative Implications) (05-May-20)	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)
5.	Un Supported Rating-Un Supported Rating (Long Term)	LT	0.00	CARE D	1)CARE D (05-May-20)	1)CARE D (13-Dec-19)	-	-

Annexure 3: Key covenants of outstanding rated NCDs

<table>
<tr><th>Particulars</th><th colspan="4">Covenants</th></tr>
<tr><th>ISIN</th><th>INE348F08019</th><th>INE348F08027</th><th>INE348F08035</th><th>INE348F08043</th></tr>
<tr><td>A. Financial Covenants</td><td>-</td><td>-</td><td>-</td><td>-</td></tr>
<tr><td rowspan="3">B. Non-financial covenants</td><td>-</td><td>-</td><td>-</td><td>Rating related triggers: The Bond holder/s/Beneficial Owner shall have the right to recall/redeem the Bonds in case the Corporation defaults/ irregular in the payment of interest/downgrading of rating, and / or installment of principal in terms of this Agreement to the satisfaction of the Bond holder/Beneficial Owner.</td></tr>
<tr><td colspan="3">Event of default: In the Event of Default, the Trustee will have a right to accelerate the repayment/redemption of the Bonds along with all applicable outstanding dues including Interest and demand immediate repayment of the principal.</td><td>Event of default: In the event of defaults, the Bondholder(s) shall by a notice in writing to the Corporation declare all the Bonds outstanding together with redemption premium, if any, and all accrued interest thereon to be due and the same shall thereupon become due and payable forthwith.
In the event of any default in the payment of interest and/or redemption of the Bonds, the Corporation shall pay to the holder/s of the Bonds, further interest at the rate of 2 % p.a over the interest rate for the default in payment of interest, additional interest and/or principal amount till the dues are cleared.</td></tr>
<tr><td>Put/ call option: Put/call option available on June 30, 2015</td><td>Put/ call option: Put/call option available on June 1, 2016</td><td>Put/ call option: Put/call option available on March 1, 2017</td><td>Put/ call option: Put/call option available on November 19, 2019</td></tr>
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***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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