

Madhya Pradesh Financial Corporation

August 11, 2020

Ratings

| Facilities/ Instruments | 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) | Continues on credit watch with negative implications |
| Long-term Bank Facilities | 195.39 | CARE BBB (CE) [Triple B (Credit Enhancement)] (Credit watch with Negative implications) | Continues on credit watch with negative implications |
| Total Facilities | @495.39 (Rupees Four Hundred Ninety Five Crore Thirty Nine lakh only) | | |
| Long Term Instrument (Bond Issue-1) (ISIN:INE348F08019) | 14.86 | CARE D [Single D] | Revised from CARE BBB (CE) [Triple B (Credit Enhancement)] (Credit watch with Negative implications) |
| Long Term Instrument (Bond Issue- 2) (ISIN:INE348F08027) | 25.45 | CARE D [Single D] | Reaffirmed |
| Long Term Instrument (Bond Issue-3) (ISIN:INE348F08035) | 18.55 | CARE BBB (CE) [Triple B (Credit Enhancement)] (Credit watch with Negative implications) | Continues on credit watch with negative implications |
| Long Term Instrument (Bond Issue-4) (ISIN:INE348F08043) | 100.00 | CARE BBB (CE) [Triple B (Credit Enhancement)] (Credit watch with Negative implications) | Continues on credit watch with negative implications |
| Total Instruments | ^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 Rating² | CARE D |
|---------------------------------------|---------------|

Note: Unsupported Rating does not factor in explicit credit enhancement

Detailed Rationale & Key Rating Drivers

CARE has revised the rating of one of the bond issues of MPFC (ISIN INE348F08019) as the payment towards its redemption has not been made even one month after invocation of the guarantee of GoMP (on July 02, 2020). We note

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

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

that MPFC had, on May 14, 2020 (much before the due date i.e. June 30, 2020) requested for an extension of time for payments due, till December 31, 2020 and such approval has been received only from a small proportion of the investors. The rating has been revised after considering a reasonable period of one month to account for operational challenges due to the outbreak of Covid-19 pandemic. CARE notes that GoMP has adequate funds in the Guarantee Redemption Fund of Rs.892 crore as at April 2020 end as against the bond redemption amount of Rs.14.86 crore.

The rated instruments are supported with an SPM, wherein, the designated account is 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 which arose due to the spread of the Covid-19 pandemic. Further, there remains persisting uncertainty due to outbreak of COVID-19 pandemic pertaining to behavior of MPFC's borrowers after the end of the moratorium period extended by RBI under the relief package in August 2020, translating into uncertainty related to MPFC's ability to make upcoming repayments towards NCDs and bank facilities, thereby leading to possibility of guarantee invocation by the lenders. 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 collection efficiency and liquidity of MPFC post end of moratorium period alongwith any meaningful support from GoMP by way of fund infusion. CARE shall resolve the watch once adequate clarity on the aforesaid issues emerges.

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% y-o-y 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 crore 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 crore 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. 892 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 for the rated bank facilities and bond issues.

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.

The performance of MPFC has gradually weakened with sustained deterioration in asset quality of its loan portfolio resulting in delay in recoveries, adversely impacting the liquidity of the corporation alongwith worsening negative returns

on total assets. Further, the units financed by MPFC are also facing difficulties due to the pandemic and MPFC has allowed moratorium of six months to standard accounts, which has severely affected its collection efficiency.

Covenants of rated instrument / facility: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

| 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) |
| Secured Redeemable Bond Issue -1 (ISIN: INE348F08019) | June 30, 2010 | 9.15%, | June 30, 2020 | 14.86 | CARE D |
| Secured Redeemable Bond Issue -2 (ISIN: INE348F08027) | June 01, 2011 | 8.89% | June 01, 2021 | 25.45 | CARE D |
| Secured Redeemable Bond Issue -3 (ISIN: INE348F08035) | March 05, 2012 | 10.20% | March 01, 2021 | 18.55 | CARE BBB (CE) (Under Credit watch with Negative Implications) |
| Redeemable Non-Convertible Unsecured Taxable Bond Issue -4 (ISIN: INE348F08043) | November 19, 2014 | 9.20% | November 19, 2024 | 100.00 | 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 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 BBB (CE) (Under Credit watch with Negative Implications) | 1)CARE BBB (CE) (Under Credit watch with Negative Implications) (07-Jul-20) 2)CARE BBB (CE) (Under Credit watch with Negative Implications) (29-Jun-20) 3)CARE BBB (CE) (Under Credit watch with Negative Implications) (09-Jun-20) 4)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)CAR E A- (SO); Stable (04-Oct-17) |
| 2. | Term Loan-Long Term | LT | 195.39 | CARE BBB (CE) (Under Credit watch with Negative Implications) | 1)CARE BBB (CE) (Under Credit watch with Negative Implications) (07-Jul-20) 2)CARE BBB (CE) (Under Credit watch with Negative Implications) (29-Jun-20) 3)CARE BBB (CE) (Under Credit watch with Negative Implications) (09-Jun-20) 4)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)Provi sional CARE A- (SO); Stable (04-Oct-17) |
| 3. | Secured Redeemable Bond Issue -1 (ISIN: INE348F08019) | LT | 14.86 | CARE D | 1)CARE BBB (CE) (Under Credit watch with Negative Implications) (07-Jul-20) 2)CARE BBB (CE) (Under Credit watch with Negative Implications) (29-Jun-20) 3)CARE BBB (CE) (Under Credit watch with Negative Implications) (09-Jun-20) 4)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)CAR E A- (SO); Stable (04-Oct-17) |
| 4. | Secured | LT | 25.45 | CARE D | 1)CARE D | 1)CARE | 1)CARE | 1)CAR |

| 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 |
| | Redeemable Bond Issue -2 (ISIN: INE348F08027) | | | | (07-Jul-20) 2)CARE BBB (CE) (Under Credit watch with Negative Implications) (29-Jun-20) 3)CARE BBB (CE) (Under Credit watch with Negative Implications) (09-Jun-20) 4)CARE A- (CE) (Under Credit watch with Negative Implications) (05-May-20) | A- (CE); Stable (13-Dec-19) | A- (SO); Stable (14-Sep-18) | E A- (SO); Stable (04-Oct-17) |
| 5. | Secured Redeemable Bond Issue -3 (ISIN: INE348F08035) | LT | 18.55 | CARE BBB (CE) (Under Credit watch with Negative Implications) | 1)CARE BBB (CE) (Under Credit watch with Negative Implications) (07-Jul-20) 2)CARE BBB (CE) (Under Credit watch with Negative Implications) (29-Jun-20) 3)CARE BBB (CE) (Under Credit watch with Negative Implications) (09-Jun-20) 4)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)CAR E A- (SO); Stable (04-Oct-17) |
| 6. | Redeemable Non-Convertible Unsecured Taxable Bond Issue -4 (ISIN: INE348F08043) | LT | 100.00 | CARE BBB (CE) (Under Credit watch with Negative Implications) | 1)CARE BBB (CE) (Under Credit watch with Negative Implications) (07-Jul-20) 2)CARE BBB (CE) (Under Credit watch with Negative Implications) (29-Jun-20) 3)CARE BBB (CE) (Under Credit watch with Negative Implications) (09-Jun-20) 4)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)CAR E A- (SO); Stable (04-Oct-17) |
| 7. | Un Supported Rating (Long Term) | LT | 0.00 | CARE D | 1)CARE D (07-Jul-20) 2)CARE D (29-Jun-20) 3)CARE D (09-Jun-20) 4)CARE D (05-May-20) | 1)CARE D (13-Dec-19) | - | - |

Annexure 3: Key covenants of outstanding rated NCDs

| Particulars | Covenants | | | |
|-----------------------------------|---|---|--|--|
| ISIN | INE348F08019 | INE348F08027 | INE348F08035 | INE348F08043 |
| A. Financial Covenants | - | - | - | - |
| B. Non-financial covenants | - | - | - | <p>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.</p> |
| | <p>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.</p> | | | <p>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.</p> |
| | <p>Put/ call option: Put/call option available on June 30, 2015</p> | <p>Put/ call option: Put/call option available on June 1, 2016</p> | <p>Put/ call option: Put/call option available on March 1, 2017</p> | <p>Put/ call option: Put/call option available on November 19, 2019</p> |

Annexure 4: Complexity level of various instruments rated for this company

| Sr. No. | Name of the Instrument | Complexity Level |
|---------|--|------------------|
| 1. | Redeemable Non-Convertible Unsecured Taxable Bonds | Simple |
| 2. | Secured Redeemable Bonds | Simple |
| 3. | Fund-based - LT-Cash Credit | Simple |
| 4. | Term Loan-Long Term | Simple |
| 5. | Un Supported Rating (Long Term) | Simple |

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.

Disclaimer

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Our ratings do not factor in any rating related trigger clauses as per the terms of the facility/instrument, which may involve acceleration of payments in case of rating downgrades. However, if any such clauses are introduced and if triggered, the ratings may see volatility and sharp downgrades

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