

Madhya Pradesh Financial Corporation

December 29, 2020

Ratings

Facilities/ Instruments	Amount (Rs. Crore)	Ratings ¹	Rating Action
Long Term Bank Facilities	190.00 (Reduced from 495.39)	CARE BBB (CE); Negative [Triple B (Credit Enhancement); Outlook: Negative]	Reaffirmed and removed from Credit watch with Negative Implications; Negative outlook assigned
Total Facilities@	190.00 (Rs. One Hundred Ninety Crore Only)		
Long Term Instrument* (Bond Issue-1) (ISIN:INE348F08019)	0.00	-	Withdrawn
Long Term Instrument (Bond Issue- 2) (ISIN:INE348F08027)	14.54 (Reduced from 25.45)	CARE B+ (CE); Negative [Single B Plus (Credit Enhancement); Outlook: Negative]	Revised from CARE D (Single D); Negative outlook assigned
Long Term Instrument (Bond Issue-3) (ISIN:INE348F08035)	10.60 (Reduced from 18.55)	CARE BBB (CE); Negative [Triple B (Credit Enhancement); Outlook: Negative]	Reaffirmed and removed from Credit watch with Negative Implications; Negative outlook assigned
Long Term Instrument (Bond Issue-4) (ISIN:INE348F08043)	100.00	CARE BBB (CE); Negative [Triple B (Credit Enhancement); Outlook: Negative]	Reaffirmed and removed from Credit watch with Negative Implications; Negative outlook assigned
Total Instruments^	125.14 (Rs. One Hundred Twenty-Five Crore and Fourteen Lakhs Only)		

Details of facilities/instruments in Annexure-1

**the instrument is withdrawn based on full redemption of bonds, as confirmed by Debenture trustee*

@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 [Reaffirmed]
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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 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. The rated instruments are also 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 is not being adhered to.

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

CARE has removed the ratings assigned to bank facilities and bond issues of MPFC from 'Credit watch with negative implications' upon emergence on reasonable clarity over collections after the end moratorium in September 2020 with improvement observed in September and October 2020, albeit remained lower than pre-Covid levels.

The revision in the rating assigned to the bond issue -II of MPFC is on account of default free track record in repayments of bonds of over 90 days as per CARE's curing period policy.

Moreover, CARE also takes note of the company availing moratorium granted by its lenders for a period of six months for its debt obligations towards bank facilities, as a COVID relief measure (as permitted by the Reserve Bank of India).

Madhya Pradesh's economy has seen a favorable growth over the years. After exhibiting fiscal strength over the years, the state's finance witnessed a moderation in FY20 and was unable to adhere to the fiscal consolidation norms stipulated by the Finance Commission. Due to the pandemic led disruptions, the state's fiscal position in FY21 is expected to be pressured further. Moreover, the state has low self-reliance for revenues and its debt has been growing over the years. The state has witnessed sustained positive growth in own tax revenues in recent years and has been maintaining a Guarantee Redemption Fund (GRF) to meet its guarantee obligation. It has also exhibited prudent liquidity and fiscal management 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 lender.

Rating Sensitivities of GoMP

Positive factors

- Higher growth in revenue receipts
- Improvement in self-reliance
- Adherence to the stipulated target for fiscal deficit
- Creation of Consolidated Sinking fund

Negative factors

- Further deterioration in the state's finances
- Non adherence to the FRBM targets

Outlook: Negative

Negative outlook has been assigned on account of sharp deterioration in the finances of the government of Madhya Pradesh in FY20 and the expectation of a further deterioration in FY21. The outlook can be revised to stable if the state demonstrates considerable improvement in its finances and abides by the fiscal consolidation guidelines going ahead.

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 over the years with an annual average growth of 8% during FY13-FY20. In FY20, the state is estimated to have grown by 7.6% over the 5.8% growth in FY19. GDP growth however was lower than the 12.4% (y-o-y) growth witnessed in FY17. Madhya Pradesh's economy is fairly broad based. While the services sector accounted for 41% of state's GVA, the share of agriculture sector was ~32% and industry had 27% share in GVA in FY20. All the 3 sectors have registered year-on-year positive growth during FY17-20.

Moderate outstanding guarantees

The outstanding guarantees of the state have remained more or less stable. As of December 2019, outstanding guarantees amounted to Rs. 30,917 crore, 1% higher than a year ago. The guarantees are mainly extended towards food, civil supplies and consumer protection department (74%), energy department (9%) and urban development and housing department (11%).

Improved ease of doing business ranking

In 2019, Madhya Pradesh ranked 4th in the Ease of Doing Business ranking, up from 7th rank in 2017.

Maintenance of GRF to meet contingencies

The state has a Guarantee Redemption Fund (GRF) since FY06, with a corpus of Rs 408.79 crore by the end of FY20 as per state budget documents. As per RBI bulletin, the state maintained Rs. 891 crore in GRF as on March 2020 which increased to Rs. 925 crore as on September 2020.

Key Rating Weaknesses**Revenue deficit**

The state is estimated to have slipped into a revenue deficit in FY20 (of Rs. 2,698 crore) after maintaining a revenue surplus for the past 9 years following contraction in revenue receipts and growth in revenue expenditure. It has further budgeted for revenue deficit worth Rs. 17,514 crore in FY21.

Non-adherence to fiscal consolidation roadmap

The coronavirus pandemic has adversely impacted the state's finances. The state has been unable to adhere to the fiscal consolidation norms laid out by the Finance Commission (revenue surplus, interest to revenue receipts < 10%, debt to GSDP ratio < 25%). In FY21, interest payments as a proportion of Revenue Receipts has been budgeted to increase to 12.1% while debt to GSDP ratio is slated to be 28.8%.

Lower degree of self-reliance

The state has low self-reliance. The own revenue of the state accounted for 44% of the total revenue receipts in FY20 (RE).

High debt burden

The outstanding debt of the state has been increasing over the years registering double digit growth. As of end FY20 (RE), the outstanding debt stood at Rs. 2.26 lakh crore, a growth by 17% over the outstanding debt of Rs. 1.94 lakh crore in FY19. In FY21 (BE) the debt is slated to grow further by 21% to Rs. 2.74 lakh crore.

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 been availing the Ways and means advances (WMA) within the prescribed limits of the RBI on time to time basis. However, the state has not availed overdraft facility from the RBI. 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 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](#)

[Policy on Withdrawal of ratings](#)

[Criteria for Rating Credit Enhanced Debt](#)

[Rating Methodology: Notching by factoring linkages with Government](#)

[Rating Methodology - State Governments](#)

[Rating Methodology - Non Banking Finance Companies \(NBFCs\)](#)

[Financial ratios - Financial Sector](#)

[CARE's Policy on Curing period](#)

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 had allowed moratorium of six months to standard accounts, which had severely affected its collection efficiency.

Brief Financials of MPFC (Rs. Crore)	FY19 (A)	FY20 (A)
Total Operating Income	99.08	73.66
PAT	-58.45	-66.51
PBILDT / Interest Coverage (times)	0.21	0.09
Total assets	1,136.51	1,054.79
Net NPA (%)	38.55	67.35
ROTA (%)	-5.43	-6.07

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

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

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

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	-	-	-	127.13	CARE BBB (CE); Negative
Term Loan-Long Term	-	-	January 2025	62.87	CARE BBB (CE); Negative
Secured Redeemable Bond Issue -1 (ISIN: INE348F08019)	June 30, 2010	9.15%	June 30, 2020	0.00	Withdrawn
Secured Redeemable Bond Issue -2 (ISIN: INE348F08027)	June 01, 2011	8.89%	June 01, 2021	14.54	CARE B+ (CE); Negative
Secured Redeemable Bond Issue -3 (ISIN: INE348F08035)	March 05, 2012	10.20%	March 01, 2021	10.60	CARE BBB (CE); Negative
Redeemable Non-Convertible Unsecured Taxable Bond Issue -4 (ISIN: INE348F08043)	November 19, 2014	9.20%	November 19, 2024	100.00	CARE BBB (CE); Negative
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	127.13	CARE BBB (CE); Negative	1)CARE BBB (CE) (Under Credit watch with Negative Implications) (11-Aug-20) 2)CARE BBB (CE) (Under Credit watch with Negative Implications) (07-Jul-20) 3)CARE BBB (CE) (Under Credit watch with Negative Implications) (29-Jun-20) 4)CARE BBB (CE) (Under Credit watch with Negative Implications) (09-Jun-20) 5)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.	Term Loan-Long Term	LT	62.87	CARE BBB (CE); Negative	1)CARE BBB (CE) (Under Credit watch with Negative Implications) (11-Aug-20) 2)CARE BBB (CE) (Under Credit watch with Negative Implications) (07-Jul-20) 3)CARE BBB (CE) (Under Credit watch with Negative Implications) (29-Jun-20) 4)CARE BBB (CE) (Under Credit watch with Negative Implications) (09-Jun-20) 5)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)
3.	Bonds-Secured Redeemable Bonds Bond Issue -1 (ISIN: INE348F08019)	LT	-	-	1)CARE D (11-Aug-20) 2)CARE BBB (CE) (Under Credit watch with Negative Implications) (07-Jul-20) 3)CARE BBB (CE) (Under Credit watch with Negative Implications) (29-Jun-20) 4)CARE BBB (CE) (Under Credit watch with Negative Implications) (09-Jun-20) 5)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.	Bonds-Secured Redeemable Bonds Bond Issue -2 (ISIN: INE348F08027)	LT	14.54	CARE B+ (CE); Negative	1)CARE D (11-Aug-20) 2)CARE D (07-Jul-20) 3)CARE BBB (CE) (Under Credit watch with Negative Implications) (29-Jun-20) 4)CARE BBB (CE) (Under Credit watch with Negative Implications) (09-Jun-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)

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
					20) 5)CARE A- (CE) (Under Credit watch with Negative Implications) (05-May-20)			
5.	Bonds-Secured Redeemable Bonds Bond Issue -3 (ISIN: INE348F08035)	LT	10.60	CARE BBB (CE); Negative	1)CARE BBB (CE) (Under Credit watch with Negative Implications) (11-Aug-20) 2)CARE BBB (CE) (Under Credit watch with Negative Implications) (07-Jul-20) 3)CARE BBB (CE) (Under Credit watch with Negative Implications) (29-Jun-20) 4)CARE BBB (CE) (Under Credit watch with Negative Implications) (09-Jun-20) 5)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)
6.	Bonds- Redeemable Non-Convertible Unsecured Taxable Bonds Bond Issue -4 (ISIN: INE348F08043)	LT	100.00	CARE BBB (CE); Negative	1)CARE BBB (CE) (Under Credit watch with Negative Implications) (11-Aug-20) 2)CARE BBB (CE) (Under Credit watch with Negative Implications) (07-Jul-20) 3)CARE BBB (CE) (Under Credit watch with Negative Implications) (29-Jun-20) 4)CARE BBB (CE) (Under Credit watch with Negative Implications) (09-Jun-20) 5)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)
7.	Un Supported Rating-Un Supported Rating (Long Term)	LT	0.00	CARE D	1)CARE D (11-Aug-20) 2)CARE D (07-Jul-20) 3)CARE D (29-Jun-20) 4)CARE D (09-Jun-20) 5)CARE D (05-May-20)	1)CARE D (13-Dec-19)	-	-

Annexure 3: Key covenants of outstanding rated NCDs

Particulars	Covenants			
	ISIN	INE348F08027	INE348F08035	INE348F08043
A. Financial Covenants	-	-	-	-
B. Non-financial covenants	-	-	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.	
	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.		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.	
	Put/ call option: Put/call option available on June 1, 2016 (expired)	Put/ call option: Put/call option available on March 1, 2017 (expired)	Put/ call option: Put/call option available on November 19, 2019 (expired)	

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

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