
Rating Review Rationale

Brickwork Ratings modifies the rating to BWR AA for Bangalore Metro Rail Corporation Limited's Long Term Secured Non-Convertible Redeemable Debentures (NCDs) issue of ₹ 500 Crs having tenor up to 10 years

NCD Issue Rating: BWR AA

Outlook : Stable

Brickwork Ratings, on a review, have modified the rating for Bangalore Metro Rail Corporation Limited's (BMRCL or "the Corporation") Secured NCD issue of ₹ 500 Crs having tenor up to 10 years to BWR AA [Pronounced BWR Double A]. The outlook for the Rating would continue to be Stable. Instruments with BWR AA rating are considered to have a high degree of safety regarding timely servicing of financial obligations and such instruments carry very low credit risk.

Bangalore Metro Rail project is being implemented as a Central Sector project through BMRCL the SPV, with Govt. of India (GOI) and Govt. of Karnataka (GOK) being Joint promoters with equal equity holding. The project is being implemented in two phases. Currently Phase I of the project costing ₹ 13845.01 Crs is underway and about 85% is complete. Funding of the phase I is through equity contribution of ₹ 3966.54 Crs and debt of ₹ 9878.47 Crs. The proceeds of the proposed NCD issue of ₹ 500 Crs will be used towards Phase I and General Corporate purpose. BMRCL has so far not raised any money under the proposed issued rated by us.

The BWR AA rating primarily factors BMRCL's very crucial Metro Rail project being implemented as a Central Sector project, MOU between BMRCL, Govt. of India (GOI) and Govt. of Karnataka (GOK) and the current status of the project. The MOU, inter alia, requires GOK to ensure making up any shortfall in BMRCL meeting the debt obligations. The MOU also provides for setting up a Metro Infrastructure Fund. However, the proposed Metro Infrastructure Fund (MIF) which is expected to direct about 60% of additional funds mobilized to support BMRCL in meeting debt obligations, is yet to be created by the GOK as it requires changes in relevant laws.

Background

Bangalore Metro Rail project (“*namma metro*”) is being implemented as a Central Sector project through BMRCL the SPV, with GOI and GOK being Joint promoters with equal equity holding. The Metro Project comprises of East-West corridor - 18.10 km long, starting from Baiyappanahalli in the East and terminating at Mysore Road terminal in the West and a 24.20 km North-South corridor commencing at Nagasandra in the North and terminating at Puttenahalli in the South.

Total length of Metro Phase I is 42.30 km, including North-South extension of 9.3 K.m.,(Elevated – 33.48 km, Underground – 8.82 km) with 40 stations, Majestic being the interchange station. The project (Phase I) is expected to be complete by Sep’15. First section of 6.7 Km from Baiyappanahalli to MG Road station has commenced commercial operation on 20thOct 2011 and section 9.9 km from Peenya Industry to Sampiege Road has commenced from 01st March 2014

BMRCL has appointed a consortium of Rail India Technical & Economic Services Ltd (RITES), Oriental Consultants Co Ltd, Japan (OCCL), Parsons Brinkerhoff International (PBI) USA, and SYSTRA France as Project Management Consultant for the project.

Proposed NCD issue and salient features

BMRCL proposes to raise NCD of ₹ 500 Crs with a tenor of 10 years for the Phase I towards funding the project cost. Govt. of Karnataka and the Govt. of India have already provided (including Equity and Subordinated Debt) of ₹ 3979 Crs and ₹ 2259 Crs respectively towards the project cost of ₹ 11609 Crs. GOI and GOK equity contribution towards the project is ₹ 1634.91 Crs each. The project cost has since been revised to ₹ 13845.01 Crs with debt component going upto ₹ 9878.47 Crs from ₹ 8339.18 Crs.

GOK, GOI and BMRCL have signed an MOU on 24th Dec. 2010 and have recorded there in their understandings, commitments, obligations, covenants and their interfaces in respect of this project. All the parties have also signed a supplementary to the said MOU on 10thJuly, 2013, to further define the role and commitments of the respective parties in funding the debt of the Bond holders and other senior term lenders and approve a payment mechanism to ensure repayment of all debt in full. In terms of the MOU, the Govt. of Karnataka is committed to fund any shortfall 25 days prior to the due date in

SCS (*Shadow Cash Support*) and TRA (*Trust and Retention Account*) Accounts to enable BMRCL to meet debt obligations.

IL&FS Trust Company Limited has been appointed as the Trustee for the proposed Bond issue by BMRCL with appropriate powers to protect the interests of the investors. The Trust agreement between the issuer and the investors, inter alia, has also specified the method and the time for meeting the payment obligations and define the rights of the debenture holders, the powers of the Debenture Trustee, events of default and trigger points for initiating specific action by the Trustee. Notwithstanding the modification of the Rating from BWR AA (SO) to BWR AA for the said NCD issue during the review process as said above, all the essential characteristics and features of the issue remain as before. Instruments with BWR AA rating are considered to have a high degree of safety regarding timely servicing of financial obligations and such instruments carry very low credit risk.

Project Status

The project cost has been revised to ₹ 13845.01 Crs from its earlier sanctioned cost of ₹ 11609 Crs. The project cost is to be funded by equity of ₹ 3966.54 Crs, sub-debt of ₹ 4058.99 Crs and senior debt of ₹ 5819.48 Crs, including the proposed bond. As per revised cost funding, both GOI and GOK will have to inject additional capital of ₹ 348.36 Crs each, they shall also have to bear any project cost escalations due to change in statutory levies and duties, exchange rate variations and price escalations. Rest of the debt funds is being raised through financial institutions such as JICA (*Japan International Cooperation Agency*), ADB (*Asian Development Bank*), AFD (*Agence Francaise de Development*), KUIDFC, HUDCO and Banks.

BMRCL is expected to complete Phase I of Metro rail by Sep'15, a further delay of ~6 months from the revised estimated time of Mar'15. BMRCL has received ~80% (₹ 11045 Crs) as of June'14 out of the total project cost of ₹ 13845 Crs. BMRCL has achieved financial progress of ~85% and physical progress of 85% as of June'14 of the project.

Financial performance:

As per initial financial results for FY14 provided by BMRCL for review, BMRCL's Balance sheet size has increased from ₹ 9150.30 Crs in FY13 to ₹ 10884.74 Crs in FY14. The Long

term borrowing has increased from ₹ 5581.27 Crs in FY13 to ₹ 7015.47 Crs in FY14. The fixed asset including CWIP has increased from ₹ 8222.50 Crs in FY13 to ₹ 10104.92 Crs in FY14. The total revenue has reduced from ₹ 49.46 Crs in FY13 to ₹ 36.61 Crs in FY14, due to reduction in other income derived from short term deposits. The net loss has increased from ₹ 57.06 Crs in FY13 to ₹ 96.40 Crs in FY14 due to increase in Salaries and Wages (since project is labour intensive) apart from increase in Depreciation. Due to increase in losses, there is a marginal decline in the Net-worth to ₹ 3114.79 Crs in FY14 as compared to ₹ 3211.19 Crs in FY13. BMRCL has since provided provisional financial results for FY14 which are given in the Annexures I and II.

Outlook

Bangalore is the fifth largest metropolis in India. The population of Bangalore Urban Agglomeration (BUA) has increased to around 7.8 million in 2011 and expected to increase to 11 million by 2021. Presently, Bangalore city's mass transit system is mainly the fleet of buses operated by Bangalore Metropolitan Transport Corporation Ltd. (BMTC). Bangalore has more than 2.5 million vehicles plying on the roads. BMTC has a fleet of about 2,450 buses, which carry about 22.28 lakh passenger trips per day. Other buses (Factory buses/Chartered buses, etc.) and auto rickshaws carry about 1.65 lakh and 2.2 lakh passenger trips per day. Bangalore Metro Rail is a very important and prestigious urban infrastructure project for Karnataka.

Implementation of Metro System in Bangalore is expected to result in substantial reduction in number of buses, usage of private vehicles, air pollution and increase in the speed of road based vehicles. Metro project would result in substantial social benefits such as saving time of commuters using the Metro vis-à-vis the existing transport modes, prevention of accidents and pollution, savings in road infrastructure and development costs and better accessibility and mobility. Also, it would save fuel consumption on account of less number of vehicles on road and decongestion effect, saving on capital and operating cost of carrying the total volume of passenger traffic by existing public transport system.

The rating, inter alia, has factored the financial support including equity participation from GOI and GOK, current status of the project, substantial investment from the prospective investor- EPFO and the strong commitment of GOK to the project. The

ability of BMRCL to fully complete Phase I of the project by Sep'15 as per revised schedule is a crucial rating sensitivity.

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Bangalore Metro Rail Corporation Limited Annexure - I

Bangalore Metro Rail Corporation Limited

(A Joint Venture of Government of Karnataka & Government of India)

Regd. Office: B.M.T.C. Complex, 3rd Floor, K.H.Road, Shanthi Nagar, Karnataka, Bangalore - 560 027. India

Balance sheet As at March 31, 2014

(Amount in Rs.)

| | Notes | As at March 31, 2014 | As at March 31, 2013 |
|----------------------------------------------------------------------|-------|-------------------------|-------------------------|
| Equity and Liabilities | | | |
| Shareholders' Funds | | | |
| Share Capital | 4 | 32,698,200,000 | 32,698,200,000 |
| Reserves and Surplus | 5 | (1,418,148,292) | (586,342,379) |
| | | 31,280,051,708 | 32,111,857,621 |
| Share Application Money Pending Allotment | 6 | 796,300,000 | 751,300,000 |
| Non-current Liabilities | | | |
| Long-Term Borrowings | 7 | 70,176,661,395 | 55,812,715,695 |
| Other Long-Term Liabilities | 8 | 1,207,733 | 13,133,598 |
| Long-term provisions(Employee Benefits) | 11 | 13,573,819 | 4,362,571 |
| | | 70,191,442,947 | 55,830,211,864 |
| Current Liabilities | | | |
| Short-Term Borrowings | 9 | 2,049,566,851 | - |
| Other Current Liabilities | 10 | 4,274,131,962 | 2,425,639,586 |
| Short-Term provisions | 11 | 411,359,153 | 383,991,640 |
| | | 6,735,037,966 | 2,809,631,226 |
| TOTAL | | 109,002,832,621 | 91,503,000,712 |
| Assets | | | |
| Fixed Assets | | | |
| -- Tangible Assets | 12 | 53,700,406,044 | 21,724,075,289 |
| -- Intangible Assets | 12 | 4,314,095 | 6,779,666 |
| Capital work-in-progress | | | |
| -- Tangible Assets | 13 | 47,867,299,593 | 60,588,204,771 |
| -- Intangible Assets under Development | 13 | 4,977,451 | 3,524,063 |
| Non-Current assets | | | |
| -- Long-Term Loans and Advances | 14 | 1,430,247,200 | 517,810,837 |
| -- Other Non-Current Asset | 15 | 55,103,341 | 468,830,121 |
| | | 103,062,347,724 | 83,309,224,747 |
| Current Assets | | | |
| Cash and Bank Balances | 16 | 1,472,819,108 | 4,354,762,204 |
| Short-term Loans and Advances | 17 | 940,769,566 | 747,947,278 |
| Other Current Assets | 18 | 3,501,904,891 | 3,086,113,568 |
| Trade Receivables | 19 | 24,991,332 | 4,952,915 |
| | | 5,940,484,897 | 8,193,775,964 |
| TOTAL | | 109,002,832,621 | 91,503,000,712 |
| Nature of Operations/Corporate Information | 1 | | |
| Basis of Preparation of Financial Statements | 2 | | |
| Summary of Significant Accounting Policies | 3 | | |
| The accompanying notes are an integral part of financial statements. | | | |

Bangalore Metro Rail Corporation Limited Annexure - II

Bangalore Metro Rail Corporation Limited
(A Joint Venture of Government of Karnataka & Government of India)
Regd. Office: B.M.T.C. Complex, 3rd Floor, K.H.Road, Shanthi Nagar, Karnataka, Bangalore - 560 027. India

Statement of Profit and Loss for the year ended 31 March , 2014

| (Amount in Rs.) | | | |
|---------------------------------------------------------------------------------------|-------|--------------------------------------|--------------------------------------|
| Particulars | Notes | For the year ended March 31, 2014 | For the year ended March 31, 2013 |
| Income | | | |
| Revenue from Operations | 20 | 98,726,291 | 86,585,317 |
| Other Operating Income | 21 | 131,424,565 | 63,163,826 |
| Other Income | 22 | 129,182,916 | 344,850,229 |
| Total Revenue (A) | | 359,333,772 | 494,599,372 |
| Expenses | | | |
| Employee Benefit Expenses | 23 | 354,038,788 | 183,355,849 |
| Operating Expenses | 24 | 172,112,121 | 166,337,982 |
| Other Expenses | 25 | 83,336,391 | 74,400,814 |
| Prior Period Expenses/ (Income) | 26 | (121,602,511) | 16,359,425 |
| Total Expenses Before Interest, Depreciation and Tax (B) | | 487,884,789 | 440,454,070 |
| Profit/(Loss) Before Interest, Depreciation and Tax (A-B) = C | | (128,551,018) | 54,145,301 |
| Finance Cost (Interest) (D) | | 62,641,498 | 33,357,196 |
| Depreciation and Amortisation (E) | | 640,360,908 | 591,085,912 |
| Total Expenses before Tax (D+E) | | 703,002,406 | 624,443,108 |
| Profit / (loss) before Tax (C+D+E) | | (831,553,424) | (570,297,807) |
| Tax Expenses | | | |
| Current Tax (Wealth Tax) | | 252,490 | 314,100 |
| Profit/(loss) for the year from continuing operations | | (831,805,914) | (570,611,907) |
| Profit/(loss) for the year from discontinuing operations(after tax) | | - | - |
| Profit/(loss) for the period | | (831,805,914) | (570,611,907) |
| Earnings per equity share [nominal value Per share of Rs 10 (March 31, 2013 : Rs 10)] | | | |
| (1)Basic | | (0.25) | (0.21) |
| (2)Diluted | | (0.25) | (0.21) |
| Summary of significant accounting policies | 3 | | |
| The accompanying notes are an integral part of financial statements. | | | |