MEP Infrastructure Developers Limited

April 06, 2018

Ratings

Facilities	**Amount (Rs. crore)**	**Rating[1]**	**Rating Action**
Long-term Bank Facilities (Fund Based)	386.00	**CARE BBB-; Stable [Triple B Minus; Outlook: Stable]**	Reaffirmed
Long / Short -term Bank Facilities (Non-fund based)	505.00	**CARE BBB-; Stable/ CARE A3 [Triple B Minus; Outlook: Stable/ A Three]**	Reaffirmed
Total Facilities	**891.00 (Rs. Eight hundred and Ninety One crore only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key rating drivers

The reaffirmation of ratings assigned to bank facilities of MEP Infrastructure Developers Limited (MEP) continues to derive strength from well established & experienced promoters having proven track record in execution of toll collection projects, geographical diversification in toll collection projects, achievement of first milestone in three HAM projects and successfully raising of Rs.162 crore through capital market via QIP placement in March, 2018.
The rating strengths continues to be tempered by moderate financial risk profile & debt protection metrics, high project execution and funding risk related to Hybrid Annuity Model (HAM) projects, large Engineering, Procurement & Construction (EPC) orders and toll collection projects.
Ability of MEP to deleverage its capital structure, favourable outcome on pending claims with respective concessioning authorities and execution of HAM projects within envisaged time & cost will be key rating sensitivities.

Detailed description of the key rating drivers
Key rating strengths
Well established & experienced promoters in the infrastructure – road sector
The MEP group is promoted by Mr JayantMhaiskar and Mr DattatrayMhaiskar (Chairman), who are among the original promoters of Ideal Road Builders Pvt. Ltd which has been involved in execution of BOT projects since the first ever BOT project of the country namely the "Thane-Bhiwandi Bypass Phase– I" in the state of Maharashtra. The company itself has a decade long experience in toll collection and maintenance activities with presence at Pune and Mumbai entry points (Airoli, Vashi, Mulund, LBS Marg and Dahisar) since 2002. The company successful raised Rs.162 crore through the capital market via QIP placement in March 2018.
Geographical diversification in toll collection projects
MEP operates in three key segments short-term toll collection, long-term toll collection & OMT projects and it has recently forayed into EPC segment also by winning HAM projects across Gujrat and Maharshtra. The company (along with its SPVs) has toll collection contracts spread across the country diversifying its cash flows geographically and providing it immunity over any political or social resistance towards toll payment in any specific region.

Key rating weakness
High execution risk with implementation of HAM projects
During FY17, MEP through its subsidiaries bagged six out of eight HAM projects in states of Maharastra and Gujarat. These projects are awarded by Ministry of Road Transport and Highways and NHAI. Furhter, it has been awarded four more HAM projects in Maharashtra by NHAI. MEP as a group has been majorly into business of tolling and OMT. The group does not have any prior experience in implementing EPC orders of such scale. Thus, the operational performance of the company is highly exposed to inherent risk associated with execution of EPC orders. In order to mitigate it, MEP would be entering into long term contract with major suppliers of raw material (i.e. cement and steel) for HAM projects. Also, the group would benefit from proven track record of its JV partners (i.e. Sanjose India Infrastructure & Construction Private Limited (SIIL) and Long Jian Road and Bridge Company Limited) in executing EPC orders of such scale across different countries/regions.

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

Moderate in financial risk profile and debt coverage indicators
MEP, at consolidated level, continues to report moderate financial risk profile and debt coverage indicators in FY17. The overall gearing ratio of the company has turned negative as on March 31, 2017 on account of negative net worth. Total Debt to Gross cash accurals of the company was at 3.21 as on March 31, 2017. The major portion of total debt comprises borrowings towards Mumbai Entry Point project. The entire concession fees for the project were to be paid in advance as per the agreement with authority resulting higher debt levels of the company. However, interest coverage ratio of the company improved from 2.49 times in FY16 to 2.79 times in FY17 on account of lower interest and finance expenses. The monies raised from QIP will be utilised for supporting business operations of the company and its SPVs.
Inherent revenue risk associated with toll-based road projects
With major part of cash outlay being fixed in nature in the form of payments to the concession authority, committed maintenance cost and interest rates; MEP's cash flows of toll based projects are inherently sensitive to traffic growth, traffic composition, traffic diversion to any alternative routes, interest rate changes etc. MEP's cash flows are further exposed to risks arising out of change in government policies, local issues in the vicinity of toll plazas and political/local resistance towards toll payments. Any adverse variation in any of these parameters may impact debt servicing ability of the company.

Analytical approach: Consolidated
The rating on bank loan facilities of MEP is arrived by taking consolidated view of MEP's operations. The operations of MEP and its subsidiaries are closely linked and same is underpinned by centralized management and common treasury functions among various entities through which it operates in toll collection business. In addition to it, MEP has given unconditional & irrevocable corporate guarantee to lenders of SPVs towards timely debt servicing.

Applicable Criteria
CARE's criteria on assigning Outlook to Credit Ratings
CARE's policy on Default Recognition
Factoring Linkages in Ratings
CARE's methodology for Short-term Instruments
Financial ratios – Non-Financial Sector
CARE's methodology for Infrastructure sector
CARE's methodology for Toll Road Projects

About the Company
Incorporated in 2002, MEP Infrastructure Developers Limited (MEP) principally undertakes road project contracts for toll collection and OMT (Operate, Maintain & Transfer). These projects are in period of one year to sixteen years. The company at standalone level executes toll collection projects with tenure of upto one to three years. In case of projects beyond one to three years are executed through Special Purpose Vehicles (SPVs).The financing of these SPVs is actively managed by MEP, which has substantial exposure in the form of investments as well as advances. Additionally, the company is undertaking road BOT project through its subsidiary (BaramatiTollway Private Limited) in Maharastra.
Also, the group through its subsidiary MEP Highway Solutions Private Limited does in-house Engineering Procurement Construction (EPC) towards repair and maintenance work of roads as a part of some of the contracts awarded to few SPVs.
During FY17, MEP ventured into implementation of road projects through Hybrid Annuity Mode (HAM). The company made a bidfor eight projects but bagged six projects. MEP entered into joint venture (74: 26 & 60:40) with Sanjose India Infrastructure & Construction Private Limited (SIIL), Indian subsidiary of Group San Jose, Spain towards bidding for HAM projects.
Group San Jose was founded in 1962 in Pontevedra as a company devoted to the construction and rehabilitation. The Group is present (through Carlos Casado S.A.) on the Buenos Aires Stock Exchange (since 1958) and New York Stock Exchange (since 2009). The Group is a diversified global company in over 20 countries around Europe, America, Asia and Africa. Recently,the company has won 4 more HAM projects worth Rs.4100 cr. from NHAI in state of Maharashtra in JV with Long Jian (Chinese infra company).
Consolidated

Brief Financials (Rs. crore)	FY16 (A)	FY17 (A)
Total operating income	1976	1815
PBILDT	1602	1375
PAT	(37)	108
Overall gearing (times)	-ve	-ve
Interest coverage (times)	2.49	2.79

A: Audited
Standalone

Brief Financials (Rs. crore)	FY16 (A)	FY17 (A)
Total operating income	740	810
PBILDT	666	646
PAT	30	17
Overall gearing (times)	1.05	1.60
Interest coverage (times)	11.85	10.63

A: Audited

Status of non-cooperation with previous CRA: None

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

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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****For detailed Rationale Report and subscription information, please contact us at www.careratings.com**

About CARE Ratings:
CARE Ratings commenced operations in April 1993 and over 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.

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-Working Capital Limits	-	-	Jan-2022	386.00	CARE BBB-; Stable
Non-fund-based - LT/ ST-Bank Guarantees	-	-	-	505.00	CARE BBB-; Stable / CARE A3

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 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Fund-based - LT-Term Loan	LT	-	-	-	-	-	1)Withdrawn (29-Apr-15)
2.	Non-fund-based - LT/ ST-Bank Guarantees	LT/ST	505.00	CARE BBB-; Stable / CARE A3	-	1)CARE BBB-; Stable / CARE A3 (18-Jul-17) 2)CARE BBB-; Stable / CARE A3 (24-Apr-17)	-	1)CARE BBB- / CARE A3 (16-Mar-16) 2)CARE BBB- / CARE A3 (20-Jan-16) 3)CARE BBB- / CARE A3 (29-Apr-15)
3.	Fund-based - LT-Working Capital Limits	LT	386.00	CARE BBB-; Stable	-	1)CARE BBB-; Stable (18-Jul-17) 2)CARE BBB-; Stable (24-Apr-17)	-	1)CARE BBB- (16-Mar-16)

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