MEP Infrastructure Developers Limited

April 24, 2017

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long-term bank limits	400.00	**CARE BBB-; Stable [Triple B Minus; Outlook : Stable]**	**Reaffirmed**
Long-term /Short-term bank limits	375.00	**CARE BBB-/CARE A3 [Triple B Minus; Outlook: Stable/A Three]**	**Reaffirmed**
Total	**775.00 (Rupees Seven hundred and seventy five 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 and successful completion of Initial Public Offer (IPO) resulting in improved net worth level as on March 31, 2016.

The rating strengths continues to be tempered by moderate financial risk profile & debt protection metrics, high project execution risk related to underlying 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 are key rating sensitivities. Further, execution of HAM projects within envisaged time & cost would also be key rating sentivity.

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 Jayant Mhaiskar and Mr Dattatray Mhaiskar (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 completed Initial Public Offer (IPO) issue on April 21, 2015. The issue size was of Rs. 324 crore.

Geographical diversification in toll collection projects

MEP operates in three key segments short-term toll collection, long-term toll collection & OMT projects. 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 Weaknesses

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. 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 Sanjose India Infrastructure & Construction Private Limited (SIIL, joint venture partner for HAM projects & Indian subsidiary of Group San Jose, Spain) in executing EPC orders of such scale across different countries/regions.

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 FY16. Despite IPO, the overall gearing ratio of the company continues to be significantly high at 30.58 times as on March 31,

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

2016. Total Debt to Gross cash accurals of the company continues to be high at 16.81 times at end-FY16. 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 1.18 times in FY15 to 1.55 times in FY16 on account of lower interest and finance expenses. The monies raised from IPO were utilised towards repayment of few term loans resulting in lowering of interest and finances cost for the company in FY16.

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

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 (Baramati Tollway 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 bid for 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.

At consolidated level, the company Profit After Tax (PAT) of Rs. 26.33 crore on Total Operating Income (TOI) of Rs. 2,047.06 crore in FY16 (refers to period April 01, to March 31,) as compared to loss of Rs. 115.33 crore on TOI of Rs. 2,039.81 crore in FY15. Further, the company reported PAT of Rs. 96.88 crore on TOI of Rs. 12,97.46 crore in 9MFY17 as compared to loss of Rs. 28.38 crore on TOI of Rs. 1,397.28 crore in 9MFY16.

At standalone level, the company reported PAT of Rs. 26.73 crore on TOI of Rs. 739.99 crore in FY16 as compared to PAT of Rs. 16.14 crore on TOI of Rs. 932.66 crore in FY15. Further, the company reported PAT of Rs. 10.07 crore on TOI of Rs. 554.09 crore in 9MFY17 as compared to PAT of Rs. 18.36 crore on TOI of Rs. 512.22 crore in 9MFY16.

Status of non-cooperation with previous CRA: Not Applicable

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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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	-	-	-	400.00	CARE BBB-; Stable
Non-fund-based - LT/ ST-Bank Guarantees	-	-	-	375.00	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 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015
1.	Fund-based - LT-Term Loan	LT	-	-	-	-	1)Withdrawn (29-Apr-15)	1)CARE BBB- (04-Apr-14)
2.	Non-fund-based - LT/ ST-Bank Guarantees	LT/ST	375.00	CARE BBB-; Stable / CARE A3	-	-	1)CARE BBB- / CARE A3 (16-Mar-16) 2)CARE BBB- / CARE A3 (20-Jan-16) 3)CARE BBB- / CARE A3 (29-Apr-15)	1)CARE BBB- / CARE A3 (04-Apr-14)
3.	Fund-based - LT-Working Capital Limits	LT	400.00	CARE BBB-; Stable	-	-	1)CARE BBB- (16-Mar-16)	-

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