

MEP Infrastructure Developers Limited

July 18, 2017

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating	Rating Action
Long-term Bank Limits	386.00 (reduced from 400.00)	CARE BBB-; Stable [Triple B Minus; Outlook : Stable]	Reaffirmed
Long-term /Short-term Bank Limits	505.00 (enhanced from 375.00.)	CARE BBB-/CARE A3 [Triple B Minus; Outlook: Stable/A Three]	Reaffirmed
Total	891 (Rupees 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 the 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 achieving financial closure for all of the 6 HAM projects.

The ratings strength continues to be tempered by moderate financial risk profile & debt protection metrics, project execution risk related to Hybrid Annuity Model (HAM) projects and inherent risk related to execution of large Engineering Procurement Construction (EPC) orders and toll-based revenue model.

Ability of MEP to deleverage its capital structure, outcome on pending claims with respective concessionaire authorities are the key rating sensitivities. Furthermore, execution of HAM projects within envisaged time & cost would also be the key rating sensitivity.

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 Mhaikar and Mr Dattatray Mhaikar (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 successfully completed Initial Public Offer (IPO) issue on April 21, 2015 with a price band of Rs.63-65 per share. 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.

Industry Prospects

India has one of the largest road networks in the world, aggregating 4.7 million kms. Roads constitute the most common mode of transportation. Roads account for around 85% of passenger traffic and 60% of the freight traffic in the country. In India, National Highways, with a length around 79,000 kms, constitute a mere 2% of the road network, but carry about 40% of the total road traffic. Road activity has seen a sharp spike in the past few years, aided by improved and better connectivity between cities, towns and villages in the country. The Government has set aside 20% of the investment of USD 1 trillion reserved for infrastructure during 2012-17 to develop roads. The value of roads and bridges infrastructure in India is projected to grow at a CAGR of 17.4% from USD 6.9 Bn in FY2009 to USD19.2 Bn by FY2017. Thus, companies like MEP would benefit from such initiatives.

Key rating weakness**Execution risk with implementation of HAM projects**

During FY17 (refers to the period April 1 to March 31), MEP through its subsidiaries bagged six out of eight HAM projects in states of Maharashtra 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

At a consolidated level, the net worth of MEP is negative. However, at standalone level, it continues to have moderate overall gearing ratio of about 1.34 as on March 31, 2017. At consolidated level, Total Debt to Gross cash accruals of the company is high at 3.27 times as on March 31, 2017. The major portion of total debt comprises of 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.

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 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 a 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 Maharashtra.

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.

Consolidated

Brief Financials (Rs. crore)	FY16 (A)	FY17 (A)
Total operating income	1976.20	1814.87
PBILDT	1601.80	1374.93
PAT	-36.85	108.44
Overall gearing (times)*	NM	NM
Interest coverage (times)	2.49	2.79

A: Audited

*Net worth is negative

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.

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In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

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

Annexure 2: Rating History for 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	505.00	CARE BBB-; Stable / CARE A3	1)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)	1)CARE BBB- / CARE A3 (04-Apr-14)
3.	Fund-based - LT-Working Capital Limits	LT	386.00	CARE BBB-; Stable	1)CARE BBB-; Stable (24-Apr-17)	-	1)CARE BBB- (16-Mar-16)	-

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