

MEP Infrastructure Developers Limited

March 27, 2019

Rating

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long term Bank Facilities – Fund based	203.23 (reduced from 386.00)	CARE BBB-; Stable (Triple B Minus; Outlook: Stable)	Reaffirmed
Long/ Short term Bank Facilities – Non-fund based	284.00 (reduced from 505.00)	CARE BBB-; Stable/ CARE A3 [Triple B Minus; Outlook: Stable/ A Three]	Reaffirmed
Total	487.23 (Rs. Four hundred and Eighty Seven crore and twenty three lakhs only)		

Detailed Rationale & Key rating drivers

The rating reaffirmation of MEP Infrastructure Developers Limited (MEP) continues to factor in strength from well established & experienced promoters having proven track record in execution of toll collection projects, diversified portfolio of products with geographical diversification and healthy order book position.

The ratings are however tempered by high equity commitments towards HAM Projects, project execution risk related to HAM projects, limited experience in executing of large Engineering Procurement Construction (EPC) orders and traffic risk related to toll-based revenue model.

Ability of MEP to deleverage its capital structure and timely completion of HAM projects remains 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 Late Mr Dattatray Mhaikar, who are the erstwhile 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 along with its subsidiaries has completed 135 projects across 15 states in India covering 3,376 lane kms under HAM, BOT & OMT.

Diversified Revenue model- mix of HAM, BOT and toll projects with focus on HAM projects

As of 31st December 2018, the company has a portfolio of 10 HAM projects, 5 OMT toll projects, 4 long term tolling, 1 short term tolling and 1BOT toll project as at 31st March 2018. The Company is increasing its focus towards long term projects which provide visibility of revenue in the medium term. In FY18, long term toll collection projects contributed to 34% (10% in FY17), HAM projects contributed 26% (4% in FY17), OMT projects 33% (48%) while balance was short term toll collection projects(38% in FY17). of the total revenue followed by 26% by HAM 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 collection in any specific region.

¹Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications.

Healthy order book position

The order book has grown from Rs. 3837 crores in FY17 to Rs. 7942 crores in FY18. As at September 2018, MEPIDL had an BPC order book of Rs. 6980 crores to be executed over the next three years

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. In FY16 the government had introduced a Hybrid Model (HAM) to revive PPP (Public Private Partnership) in highway construction. Under HAM the financial risk is shared by the Government and leaves the road construction company with enough liquidity. During FY2017-18, the National Highways Authority of India awarded around 3,396 kms of HAM projects valued around Rs. 76,500 crore compared to 2,434 kms valued at Rs.36,300 crore in FY16.

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

MEP as a group has been mainly in the 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. However it has bid for HAM projects in JV with foreign companies providing the technical assistance.

In total, MEP bagged 10 HAM projects in FY17 and FY18. Six of these were bid as a JV with Sanjose (SIIL) in FY17 in states of Maharashtra and Gujarat. The company has achieved financial closure of all these projects. The company has achieved 2nd milestone i.e 40% physical progress completion for 2 HAM projects located at Nagpur I, Nagpur II (Maharashtra) & achieved 1st milestone i.e 20% physical progress on Mahuva Kagavadar & Talaja – Mahuva (Gujarat), and received grant payments from the respective authority. In FY 18, MEP's JV with China based Long-jian Road & Bridge company Ltd. was awarded with four new HAM projects in state of Maharashtra from NHAI worth ~ Rs 4100 cr. Out of these four HAM projects the company has received appointed date for one project.

Moderate financial risk profile and debt coverage indicators

MEP, at consolidated level, continues to report moderate financial risk profile and debt coverage indicators in FY18. The debt metrics at consolidated level remain moderate with Total Debt to Gross Cash accruals at 5.94x in FY18 (2.87x in FY17), and interest coverage at 2.01x in FY18 (2.76x in FY17). The company raised Rs.162 crore through capital market via QIP placement. The SPVs are required to meet annual premium/concessionaire fee payment to respective concessionaire authority which further puts pressure on liquidity profile of these companies. Thus they have to rely on timely support from holding company (i.e. MEP) to meet cashflow mismatches. 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.

High equity Commitments towards HAM projects and contingent liabilities

The company has pending equity commitment of Rs. 415 crores as of November 2018 for its existing 10 HAM projects. These commitments are expected to be funded by a combination of its internal accruals and divestment of stake HAM projects. The ability of the company to successfully monetise its assets in order to ensure timely infusion of equity in projects remain critical from credit perspective. The Company also has high contingent liabilities at Rs. 6187 crores in FY18 (Rs. 5992 crores in FY17).

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. However with MEP's shift towards a HAM focused portfolio, revenue risk is partially mitigated. 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.

Liquidity: The current ratio of MEP at consolidated level is below unity. It has a negative operating cycle; however cash and bank balances is reduced to Rs. 113 crores in FY 18 from Rs. 144 crores in FY17.

Analytical approach: Consolidated. The rating on bank loan facilities of MEP Nagpur Ring Road 1 Private Limited is arrived by taking consolidated view of MEP's operations. The operations of MEP and its subsidiaries/Joint Ventures 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) started out with road project contracts for toll collection and OMT (Operate, Maintain & Transfer). However, it has now evolved into an integrated road infrastructure developer with 19 current ongoing projects: 3 OMT projects, 3 Long term Toll Projects, 3 Short Term Toll Projects, 10 HAM (Hybrid annuity model) projects and 1 BOT project as on 31st March 2018.

The toll collection and OMT projects are for a 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 Maharashtra. 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.

MEP in JV (74: 26 & 60:40) with Sanjose India Infrastructure & Construction Private Limited (SIIL), Indian subsidiary of Group San Jose, Spain; won 6 HAM projects in March 2016. Group San Jose was founded in 1962 in Pontevedra as a company engaged in construction and rehabilitation. It was renamed as Constructora San Jose in 1975. 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.

In March 2018, MEP in JV with (51:49) Long Jian (a Chinese road infrastructure Company); won 4 HAM projects in Maharashtra worth INR 4100 crores covering 1084 lane kms.

Consolidated

Brief Financials (Rs. crore)	FY17 (A)	FY18 (A)
Total operating income	1814.87	2442.37
PBILDT	1374.93	997.79
PAT	108.44	70.97
Overall gearing (times)*	NM	50.04
Interest coverage (times)	2.79	2.01

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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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	-	-	-	284.00	CARE BBB-; Stable / CARE A3
Fund-based – LT	-	-	FY25	203.23	CARE BBB-; Stable

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	284.00	CARE BBB-; Stable / CARE A3	1)CARE BBB-; Stable / CARE A3 (06-Apr-18)	1)CARE BBB-; Stable / CARE A3 (18-Jul-17)	-	1)CARE BBB- / CARE A3 (16-Mar-16) 2)CARE BBB- /

						2)CARE BBB-; Stable / CARE A3 (24-Apr-17)		CARE A3 (20-Jan-16) 3)CARE BBB- / CARE A3 (29-Apr-15)
3.	Fund-based - LT- Working Capital Limits	LT	203.23	CARE BBB-; Stable	1)CARE BBB-; Stable (06-Apr-18)	1)CARE BBB-; Stable (18-Jul-17) 2)CARE BBB-; Stable (24-Apr-17)	-	1)CARE BBB- (16-Mar-16)

Annexure-3 : Entities consolidated with MEPIDL

1. MEP Infrastructure Developers Limited
2. MEP Infrastructure Private Limited
3. Raima Ventures Private Limited
4. Rideema Toll Private Limited
5. Baramati Tollways Private Limited
6. Rideema Toll Bridge Private Limited
7. MEP Nagzari Toll Road Private Limited
8. MEP IRDP Solapur Toll Road Private Limited
9. MEP Hyderabad Bangalore Toll Road Private Limited
10. Raima Toll Road Private Limited
11. MEP Chennai Bypass Toll Road Private Limited
12. MEP Highway Solutions Private Limited
13. MEP RGSL Toll Bridge Private Limited
14. Raima Toll and Infrastructure Private Limited
15. MEP Roads and Bridges Private Limited
16. Mhaiskar Toll Road Private Limited
17. MEP infra Constructions Private Limited
18. MEP Toll and Infrastructure Private Limited
19. MEP Tormato Private Limited
20. MEP Infraprojects Private Limited
21. MEP Nagpur Ring Road 1 Private Limited
22. MEP Sanjose Arwali Kante Road Private Limited
23. MEP Sanjose Kaante Wakad Road Private Limited
24. MEP Sanjose Mahuwa Kagavdar Road Private Limited
25. MEP Sanjose Nagpur Ring Road 2 Private Limited
26. MEP Talaja Mahuva Road Private Limited

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