MEP Infrastructure Developers Limited

October 07, 2019

Ratings

Facilities	Amount (Rs. crore)	Rating1	Rating Action
Long term Bank Facilities – Fund based	19.24 (Reduced from 149.98)	**CARE BB+; Negative (Double B Plus; Outlook: Negative)**	**Revised from CARE BBB-; Stable(Triple B Minus; Outlook: Stable)**
Long-term/Short-term Bank Facilities – Non-fund based	47.99 (Reduced from 247.99)	**CARE BB+; Negative/CARE A4+ (Double B Plus; Outlook: Negative/A Four Plus)**	**Revised from CARE BBB-; Stable/ CARE A3 (Triple B Minus; Outlook: Stable/ A Three)**
Total	**67.23 (Rs. Sixty Seven crore and twenty three lakhs only)**		

Details of facilities in Annexure-1

Detailed Rationale& Key Rating Drivers

The revision in the ratings assigned to the bank facilities of MEP Infrastructure Developers Limited (MEPIDL) takes into account decline in the operations and profitability at consolidated level due to significantly low contribution from construction segment leading to deterioration in debt coverage indicators; slow physical progress in its HAM (Hybrid Annuity Model) projects which are facing execution delays; high impending equity commitments as well as contingent liabilities and slower than expected progress in the company's asset monetization plans.

The ratings are also tempered by project execution risks related to HAM projects, the company's limited experience in executing large Engineering, Procurement and Construction(EPC) orders and traffic risk related to toll-based revenue model.

However, the ratings continue to factor in well-established and experienced promoters having proven track record in execution of toll collection projects, diversified portfolio of products with geographical diversification and healthy order book position.

Ability of the company to improve its operations with maintaining the profitability; timely fulfill its equity commitments by monetizing assets and on time completion of HAM projects, would be the key rating sensitivities. The financing risk for the company has further aggravated as evidenced with its Special Purpose Vehicles(SPVs) facing debt servicing delays.

Outlook: Negative

The revision in the outlook from Stable to Negative factors in the longer than expected time taken by the company in monetizing its assets which moderate its liquidity profile. Further, the ongoing execution delay in its underlying HAM projects increase the reliance on sponsor i.e. MEPIDL in the near to medium term.

The rating outlook may revised to stable in case of significant improvement in the company's operational performance and successful on-time asset monetization, translating into favorable debt coverage indicators as well as financial risk profile.

Detailed description of the key rating drivers

Key Rating Weaknesses

Decline in the operations as well as profitability

At consolidated level, the company's total operating income(TOI) stood at Rs. 2878 crore during FY19 as against Rs. 2395 crore during FY18 on the back of toll revenue driven by Delhi entry point (DEP) as well as Mumbai entry point (MEP). DEP project reported lower than expected turnover on account of toll suspension for 53 days and also due to the opening of Eastern Express and Western Express periphery road. In addition to this, the company could not recognize a claim of Rs.167 Crore (approximately Rs. 35 lacs per day) pending with SDMC on an estimated basis pertaining to October 2017 to March 2019 with respect to revenue loss on account of passing of commercial vehicles through free lanes 13 major border entry points of Delhi. Timely approval and disbursal of these claims is critical and remains to be seen.

During FY19, the company also reported lesser than anticipated construction revenue on the back of delay in the execution of six HAM projects due to certain alignment issues at the order from the Supreme Court, land acquisition issues, etc. The company has requested for EOT (Extension of time) to NHAI against these delays, however the outcome is awaited till September, 2019. During Q1FY20, the revenue declined to Rs 692 crore which is on a lower side as compared to Rs. 842 crore during Q1FY19 due to substantial drop in the construction revenue which was Rs. 110 crore (decline of 47% Y-o-Y) during Q1FY20 as against Rs. 207 crore in Q1FY19.

Consequently, the PBILDT margins declined to 36.84% in FY19 as against 40.66% during FY18. During Q1FY20, the PBILDT margins declined to 28.10% as against 34.96% during Q1FY19 on the back of lower revenue generation.

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

High execution risk with implementation of HAM projects

MEPIDL has been mainly in the business of tolling and OMT (Operation, Maintenance and Toll). The company 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 the existing HAM portfolio is in JV (Joint venture) with foreign companies providing technical assistance to the company. There has been substantial delay in achieving physical progress under the company's six HAM projects. In FY19, contribution from EPC to the total revenue was 21% and as on June 30, 2019 the company had an outstanding an EPC order book of Rs. 6500 crore.

Moderated financial risk profile and debt coverage indicators

MEPIDL's net worth position improved to Rs. 239.18 crore as on March, 2019 as compared to Rs. 31.55 crore as on March, 2018 on account of QIP (Qualified Institutional Placement) issue amounting to Rs. 161.79 crore during the month of April, 2018. However, the total debt at consolidated level continued to remain high at Rs. 2768.22 crore as on March, 2019. The company has total consolidated debt repayment obligations of Rs. 539 crore due in FY20 out of which around Rs. 155 crore has been repaid as on September, 2019. During Q1FY20, the interest coverage ratio deteriorated to 1.85x as against 2.01x during the year FY19 due to declined revenue.

High equity commitments towards HAM projects and increased contingent liabilities

The company's HAM portfolio consists of 10 HAM projects which are primarily based in Maharashtra (8) and Gujarat (2) and all the projects are currently under-construction. The HAM projects require initial capex wherein 60% of project cost is financed by the developer. Although the equity infusion required for all the 10 HAM projects is Rs. 215 crore as on June 30, 2019, the company needs to infuse approximately Rs. 50 crore in the current financial year i.e. FY20 and the balance amount in FY21. These equity commitments are expected to be funded by a combination of its internal accruals and divestment of stake in the Sanjose projects. However, there is a slower than expected progress in the monetization of its assets which increases the financing risk for these projects.

The company also reported high contingent liabilities at Rs. 8062 crore at the end of FY19 (at Standalone level) of which Rs. 7573 crore were towards financial guarantees and Rs. 238 crore towards performance bank guarantees. The increased level of contingent liabilities is mainly due to increase in the corporate guarantee extended by the company in relation to the four new HAM projects. Timely support by the company to fund its SPVs to sustain their operational and financial challenges would be highly critical during execution and operational phase.

Inherent revenue risks 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; MEPIDL'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. MEPIDL'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.

Key Rating Strengths

Established and experienced promoters in the infrastructure – road sector

MEPIDL was promoted by Mr Jayant Mhaiskar and Late Mr Dattatray Mhaiskar, who are the erstwhile promoters of Ideal Road Builders Pvt. Ltd which has been involved in execution of Build Operate & Transfer(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 140 projects across 15 states in India covering 3,628 lane kms under HAM, BOT and OMT.

In April 2018, the Company had successfully raised Rs. 162 crores through a qualified institutional Payment (QIP) of equity shares thereby resulting into increase in the paid-up capital to that extent.

Diversified revenue model – mix of HAM, BOT and toll projects with focus on HAM projects

As on June 30, 2019, the company has a portfolio of 10 HAM projects, 3 OMT toll projects, 3 long term toll collection projects, 2 short term toll projects and 1 BOT toll project. The company is increasing its focus on long term projects as may be seen from its reduced short term tolling exposure. As of FY19, 95% of the revenue came from LT 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.

Healthy order book position

As on March 31, 2019 MEPIDL has an order book of Rs. 6500 crore to be executed over a period of next two years, which is 2.31x of FY19 revenue.

Industry Prospects
In view of slowdown in pace of awards under Hybrid Annuity model and Engineering Procurement Construction (EPC) model, CARE opines that to keep the pace of construction at current rate of 30 km per day entails private investment under Build operate transfer (BOT) model. However, road developers and lenders are wary of BOT road projects due to traffic and construction risks in BOT model.
Currently, most HAM players are vying to sell their equity stake in operational as well as under-construction projects, including newly awarded HAM projects. If this trend of selling their equity stake in under-construction projects continues, giving eligible players the bandwidth to bid for new projects, the share of HAM projects in future could increase. This could increase the total awarding by the NHAI. However the progress of the under construction projects and performance of operational projects holds key in the success of this option.

Liquidity Analysis:- Stretched
The current ratio of MEPIDL at consolidated level is below unity. The operating cycle of the company is negative on account higher creditor levels. The unencumbered cash and bank balance position as on March, 2019 is Rs. 36.68 crore. As per consolidated audit report for the year FY19, there were delays in making principal repayments as on March 31, 2019 against loan availed by its SPVs viz., MEP Infrastructure Private Limited, Baramati Tollways Private Limited, MEP RGSL Toll Bridge Private Limited, MEP Tormato Private Limited and MEP Infraprojects Private Limited which were subsequently paid. The Gross Cash Accruals(GCA) as on March, 2019 stood at Rs. 570 crore with a repayment obligation of Rs. 539 crore for the year FY20 out of which Rs. 155 crore has been repaid as on August 31, 2019. The corporate guarantee extended by MEPIDPL has not been invoked by lenders.

Analytical approach: Consolidated
MEPIDL has given unconditional & irrevocable corporate guarantee to lenders of SPVs towards timely debt servicing. The operations of MEPIDL and its subsidiaries are closely linked and same is underpinned by the centralized management and common treasury functions among various entities through which it operates in toll collection business.

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
CARE's methodology for HAM projects

About the Company
MEP Infrastructure Developers Limited (MEPIDL)
Incorporated in 2002, MEP Infrastructure Developers Limited (MEPIDL) 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 17 current ongoing projects: 3 long term tolling projects, 10 HAM (Hybrid annuity model) projects, 3 OMT projects and 1 BOT project as on 31st March 2019. 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 MEPIDL, 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.

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

San Jose Group (JV partner of MEPIDL for 6 HAM projects):
Group San Jose was founded in 1962 in Pontevedra, Spain 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.

Longjian Road & Bridge Co. Ltd (JV partner of MEPIDL for 4 New HAM projects):
Longjian Road & Bridge Co., Ltd. is a China based company principally engaged in the infrastructure construction of roads and bridges. The Company is mainly engaged in road construction general contracting, road surface engineering professional contracting, highway subgrade engineering professional contracting, bridge engineering professional contracting and municipal public engineering construction contracting business. In addition, it is also engaged in toll highway and design consultancy business. The Company operates its business within the domestic market and overseas markets.

Covenants of rated facility: *Detailed explanation of covenants of the rated facilities is given in Annexure-3*

MEP Infrastructure Developers Ltd. (Consolidated Key Financials)

Brief Financials (Rs. crore)	FY18 (A)	FY19 (A)
Total operating income	2394.84	2877.84
PBILDT	945.55	1022.84
PAT	70.97	55.98
Overall gearing (times)	95.97x	11.57x
Interest coverage (times)	2.01x	2.20x

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

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

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	ISIN	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	-	-	-	-	47.99	CARE BB+; Negative / CARE A4+
Fund-based - LT-Working Capital Limits	-	-	-	-	19.24	CARE BB+; Negative

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 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Non-fund-based - LT/ ST-Bank Guarantees	LT/ST	47.99	CARE BB+; Negative / CARE A4+	-	1)CARE BBB-; Stable / CARE A3 (27-Mar-19) 2)CARE BBB-; Stable / CARE A3 (06-Apr-18)	1)CARE BBB-; Stable / CARE A3 (18-Jul-17) 2)CARE BBB-; Stable / CARE A3 (24-Apr-17)	-
2.	Fund-based - LT-Working Capital Limits	LT	19.24	CARE BB+; Negative	-	1)CARE BBB-; Stable (27-Mar-19) 2)CARE BBB-; Stable (06-Apr-18)	1)CARE BBB-; Stable (18-Jul-17) 2)CARE BBB-; Stable (24-Apr-17)	-

Annexure 3: Detailed explanation of covenants of the rated facilities

Name of the Instrument	Detailed explanation
A. Non financial covenants	
I. Working capital loans	Regularly furnish statement of stocks and book debts on monthly basis every 25th of subsequent month
	Furnish not later than 180 days after the close of each financial year an original signed or certified true copy of complete audited financials

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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