

Press Release

MEP Infrastructure Developers Limited (MEPIDL)

12 February, 2018

Rating Reaffirmed and Assigned



Total Bank Facilities Rated*	Rs.710.00 Cr
Long Term Rating	SMERA A-/Stable (Assigned)

**Refer Annexure for details*

Rating Rationale

SMERA has reaffirmed long term rating of **'SMERA A-' (read as SMERA A minus)** on the Rs.44.00 crore bank facilities. Further SMERA has assigned long term rating of **'SMERA A-' (read as SMERA A minus)** and short term rating of **'SMERA A1' (read as SMERA A one)** on the Rs.666.00 crore bank facilities of MEP Infrastructure Developers Limited (MEPIDL). The outlook is **'Stable'**.

MEP Infrastructures Developers Limited (MEPIDL), incorporated in 2002, is the flagship entity of the MEP Group and an established player in toll collection and Operate Maintain and Transfer (OMT) business for roads and highways. The MEP Group engages in either short or long term contracts ranging from one to sixteen years to undertake such business. MEPIDL also undertakes Engineering, Procurement and Construction (EPC) contracts for the road sector. In FY2016, the MEP group has been awarded with six Hybrid Annuity Model (HAM) projects which are being executed through special Purpose Vehicles (SPVs). The group also has a presence in Build, Operate and Transfer (BOT) projects through its subsidiaries.

MEPIDL is listed on BSE and NSE. The day-to-day operations are led by the Chairman, Mr. Dattatray P. Mhaikar and Managing Director, Mr. Jayant D. Mhaikar. The management of the company has extensive experience in the infrastructure sector.

The rating is based on the stand-alone evaluation of MEPIDL given the group philosophy of sustaining the operations of the subsidiaries through their respective cash flows.

List of key rating drivers and their detailed description

Strengths:

Established position and experience in toll collection and EPC: MEPIDL is primarily engaged in toll collection and EPC business for road projects being developed by the group through various mechanisms like HAM or BOT. MEPIDL has an established track record of more than 15 years in executing EPC and toll collection contracts. The company has constructed more than 3632 lane kilometres of road since inception. Further the company has 6 HAM projects (1060 lane km), 1 BOT project (42 lane km with 5 toll plazas), 3 OMT projects (1361 lane km under maintenance with 9 toll plazas) and 4 toll collection projects (5 toll plazas in 5 states). Of the 14 projects, the six HAM projects are through joint ventures with Group San Jose of Spain and the rest are either under MEPIDL or its wholly owned subsidiaries. MEPIDL handles EPC contracts for all such projects and is also responsible for its Operations and Maintenance (O&M) and toll collection wherever applicable. The group's track

record and experience in toll collection has enabled it to win the toll contracts for both Mumbai and Delhi entry points.

SMERA believes that MEPIDL's strong position and execution capabilities will support its business risk profile over the near to medium term.

Healthy revenue visibility bolstered by favourable industry environment: MEPIDL has an order book of around Rs.4000 Crore as on November 2017 that includes HAM and BOT projects worth Rs. 3837 Crore and OMT services. MEPIDL has been awarded with toll and Environment Compensation Charges (ECC) collection contract for Delhi entry points and the projected collections is around Rs.700 Crore from Delhi entry point in FY2017-18.

Road construction has healthy prospects on account of government policies and initiatives of NHAI (National Highway Authority of India). Initiatives such as faster clearances of projects and allowing tender bids only after 80 per cent of land acquisition are steps in the right direction for efficient execution of road projects. Further, NHAI has introduced the Hybrid Annuity Model (HAM) for road development that reduce the equity commitment and the project risks faced by developers considerably.

Healthy financial risk profile marked by low gearing and comfortable coverage indicators: MEPIDL's financial risk profile is healthy marked by networth of Rs. 463 Crore as on 31 March, 2017 supported by steady profitability and regular equity infusion. The debt profile of the company includes working capital debt of Rs. 165 Crore and term loan of Rs. 200 Crore as on 31 March, 2017. Since the company benefits from trade credit and mobilisation advances, its dependence on the banking system for working capital limits is moderate. The standalone gearing of MEPIDL stood at 0.84 times as on 31 March, 2017 compared to 1.70 times as on 31 March, 2016. The total outside liabilities to tangible networth (TOL/TNW) stood at 2.74 times as on 31 March, 2017. The interest coverage ratio (ICR) stood comfortable at 10.67 times and debt coverage ratio (DSCR) at 8.98 times in FY2016-17. The company has invested in its Special Purpose Vehicles (SPVs) in the form of equity to the tune of Rs. 144 Crore as on 31 March, 2017. The gearing of MEPIDL may however, increase in the near to medium term given the additional equity requirements in the project SPVs.

Weaknesses:

Exposure of MEPIDL to timely execution of EPC contracts: MEPIDL is exposed to risks such as delays in receipt of approvals in the infrastructure segment, which may impact operational cash flows. The timely flow of orders and their execution are critical to the maintenance of a steady revenue growth. The EPC sector is marked by the presence of several mid to big size players. The company faces intense competition from the other players in the sectors which is reflected through aggressive bidding risks in the contracts. Being an EPC contractor, the revenue of MEPIDL depends on the number of successful bids and the tenders being released in the financial year. However, this risk is mitigated to an extent as the management has experience in domestic infrastructure sector for last 15 years.

Significant exposure to traffic risks: The cash flows of a toll based project are dependent on traffic volumes which in turn are largely influenced by the level of economic activity in and around the area of operation. MEPIDL's toll collection business margins are linked with the traffic volume growth in the respective road corridors. Additionally, lower than expected traffic volumes arising from adverse events such as demonetisation and public agitations may also impact cash flows causing cash flow mismatches. However, SMERA does not expect MEPIDL to provide any cash flow support to any of the group companies exposed to traffic risks.

Analytical approach: SMERA has considered the standalone business and financial risk profile of the company along with its investment in various SPVs for arriving at a rating. However, no consolidations of the financials have been considered as we believe that MEPIDL will not provide any significant financial support to its SPVs apart from fulfilling its equity infusion commitments.

Applicable Criteria

- Infrastructure Entities: <https://www.smera.in/criteria-infra.htm>
- Application of Financial Ratios and Adjustments: <https://www.smera.in/criteria-fin-ratios.htm>
- Default Recognition: <https://www.smera.in/criteria-default.htm>

Outlook: Stable

SMERA believes the outlook on MEPIDL's rated facilities will remain stable over the medium term on account of its established track record of operations in the road sector and its experienced management. The outlook may be revised to 'Positive' in case of a substantial and sustainable increase in revenue and margins while maintaining the leverage at conservative levels. The outlook may be revised to 'Negative' if there is a considerable delay in project implementation, low toll collection, or significant increase in exposure to new projects, necessitating sizeable equity investment and impacting the financial risk profile.

About the Rated Entity

	Unit	FY17 (Actual)	FY16 (Actual)	FY15 (Actual)
Operating Income	Rs. Cr.	780.84	703.17	907.20
EBITDA	Rs. Cr.	617.13	626.02	40.82
PAT	Rs. Cr.	17.41	30.21	16.15
EBITDA Margin	(%)	79.03	89.03	4.50
PAT Margin	(%)	2.23	4.30	1.78
ROCE	(%)	11.20	19.00	36.82
Total Debt/Tangible Net Worth	Times	0.84	1.70	-6.19
PBDIT/Interest	Times	10.67	12.34	1.90
Total Debt/PBDIT	Times	0.60	0.67	5.96
Gross Current Assets (Days)	Days	187	122	93

Status of non-cooperation with previous CRA (if applicable): Not Applicable

Any other information: Not Applicable

Rating History for the last three years:

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
December 13, 2017	Term Loan	Long Term	50.00	SMERA A-/Stable (Assigned)

***Annexure – Details of instruments rated:**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Crore)	Ratings/ Outlook
Term Loan	N.A	N.A	N.A	44.00	SMERA A-/Stable (Reaffirmed)
Term Loan	N.A	N.A	N.A	145.00	SMERA A-/Stable (Assigned)
Overdraft	N.A	N.A	N.A	75.00	SMERA A-/Stable (Assigned)
Overdraft	N.A	N.A	N.A	10.00	SMERA A-/Stable (Assigned)
Term Loan	N.A	N.A	N.A	11.50	SMERA A-/Stable (Assigned)
Term Loan	N.A	N.A	N.A	49.50	SMERA A-/Stable (Assigned)
Bank Guarantee	N.A	N.A	N.A	100.00	SMERA A1 (Assigned)
Bank Guarantee	N.A	N.A	N.A	125.00	SMERA A1 (Assigned)
Bank Guarantee	N.A	N.A	N.A	100.00	SMERA A1 (Assigned)
Bank Guarantee	N.A	N.A	N.A	50.00	SMERA A1 (Assigned)

Note on complexity levels of the rated instrument:

<https://www.smera.in/criteria-complexity-levels.htm>

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ABOUT SMERA

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