

Press Release

MEP Infrastructure Developers Limited

January 07, 2019

**Rating Reaffirmed and Assigned,
Outlook Revised**



Total Bank Facilities Rated*	Rs.785.00Cr. (Enhanced from Rs.710.00 Cr)
Long Term Rating	ACUITE A- / Outlook: Negative (Reaffirmed and Assigned) (Outlook Revised from Stable)
Short Term Rating	ACUITE A1 (Reaffirmed)

* Refer Annexure for details

Rating Rationale

Acuité has reaffirmed the long term rating of '**ACUITE A-**' (read as **ACUITE A minus**) and short term rating of '**ACUITE A1**' (read as **ACUITE A one**) on the Rs.666.50 crore bank facilities and assigned the long term rating of '**ACUITE A-**' (read as **ACUITE A minus**) on the Rs.118.50 crore bank facilities of MEP Infrastructure Developers Limited. Further, Acuité has revised the outlook to '**Negative**' from '**Stable**'.

The revision in the outlook is on account of pressure on operating margins in the EPC business, Toll collection business and elongated working capital cycle which is expected over the near to medium term. The earnings before interest and tax (EBIT) in EPC business stood at 15.37 percent in H1 (April to September) of FY2019 as compared to 17.48 percent in FY2018. Further EBIT of toll collection business stood at 3.39 percent in H1 (April to September) of FY2019 as compared to 2.40 percent in FY2018. The receivable position of the company has increased to Rs.138 crore as on September 2018 as compared to Rs.87 crore and Rs.42 crore as on March 2018 and September 2017, respectively. Further, stretch in the receivable is likely to impact the financial risk profile particularly its liquidity.

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. Mhaiskar and Managing Director, Mr. Jayant D. Mhaiskar. The management of the company has extensive experience in the infrastructure sector.

Analytical Approach

Acuité has considered the standalone business and financial risk profiles of the MEPIDL to arrive at this rating on account of philosophy of sustaining the operations of the subsidiaries through their respective cash flows.

Key Rating Drivers

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 16 years in executing EPC and toll collection contracts. Further the company has won 4 new HAM projects (1084 lane km) worth Rs. 4104 crore. Of the 10 HAM projects, the six HAM projects are through joint ventures with Group San Jose of Spain and the rest 4 are through Long Jian Road and Bridge Co Ltd. 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. Further the company has raised Rs.164 crore via QIP placement in March 2018. ACUIE believes that MEPIDL's strong position and execution capabilities will support its business risk profile over the near to medium term.

- **Healthy financial risk profile marked by low gearing and comfortable coverage indicators:** MEPIDL's financial risk profile is healthy marked by networth of Rs. 606 Crore as on 31 March, 2018. The debt profile of the company includes working capital debt of Rs. 90 Crore and term loan of Rs. 228 Crore as on 31 March, 2018. The standalone gearing of MEPIDL stood at 0.60 times as on 31 March, 2018 compared to 0.84 times as on 31 March, 2017. The total outside liabilities to tangible networth (TOL/TNW) stood at 2.25 times as on 31 March, 2018 as compared to 2.74 times as on 31 March, 2017. The interest coverage ratio (ICR) has declined to 4.51 times for FY2018 from 10.67 times for FY2017 and debt coverage ratio (DSCR) at 2.72 times in FY2018 as compared to 8.98 times in FY2017. The company has invested in its Special Purpose Vehicles (SPVs) in the form of equity to the tune of Rs. 213 Crore as on 31 March, 2018. The gearing of MEPIDL may however, increase in the near to medium term given the additional equity requirements in the project SPVs.
- **Healthy revenue visibility bolstered by favourable industry environment:** MEPIDL has an order book of around Rs.7200 crore of HAM projects as on November 2018. MEPIDL has been awarded with toll and Environment Compensation Charges (ECC) collection contract for Delhi entry points in FY2018 and the company has booked revenue of Rs.665 crore from Delhi entry point. Further in toll collection segment the company has booked revenue of Rs. 605 crore from April 2019 to Nov 2019 with EBIT margins of around 4 percent and Rs.306 crore in EPC segment with EBIT margin of around 15 percent.

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. Acuite believes that the timely completion of the EPC of HAM projects and toll collection from Delhi entry point will remain key rating sensitivity.

Weaknesses

- **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 may also impact cash flows causing cash flow mismatches. However, Acuite does not expect MEPIDL to provide any cash flow support to any of the group companies exposed to traffic risks.
- **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 16 years.

Outlook: Negative

Acuite believes that the MEPIDL's credit profile will be impacted by significant moderation in the profitability margins and elongated working capital cycle over near to medium term. The rating may be downgraded in case of continued moderation in its profitability margins impacting the liquidity and debt protection indicators. Conversely, the outlook may be revised to 'Stable' if the company is able to show significant growth in revenue while efficiently managing its working capital cycle and keeping the debt levels moderate.

About the Rated Entity - Key Financials

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	1,476.85	780.84	703.17
EBITDA	Rs. Cr.	220.43	617.13	626.02
PAT	Rs. Cr.	39.91	17.41	30.21
EBITDA Margin	(%)	14.93	79.03	89.03
PAT Margin	(%)	2.70	2.23	4.30
ROCE	(%)	12.74	11.20	19.00
Total Debt/Tangible Net Worth	Times	0.60	0.84	1.70
PBDIT/Interest	Times	4.51	10.67	12.34
Total Debt/PBDIT	Times	1.55	0.60	0.67
Gross Current Assets (Days)	Days	211	187	122

Status of non-cooperation with previous CRA (if applicable)

None

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-17.htm>
- Entities in the Infrastructure sector - <http://acuite.in/view-rating-criteria-14.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>

Note on complexity levels of the rated instrument

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

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr)	Ratings/Outlook
12-Feb-2018	Term Loan	Long Term	44.00	ACUITE A-/Stable (Reaffirmed)
	Term Loan	Long Term	145.00	ACUITE A-/Stable (Assigned)
	Secured Overdraft	Long Term	75.00	ACUITE A-/Stable (Assigned)
	Secured Overdraft	Long Term	10.00	ACUITE A-/Stable (Assigned)
	Term Loan	Long Term	11.50	ACUITE A-/Stable (Assigned)
	Term Loan	Long Term	49.50	ACUITE A-/Stable (Assigned)
	Bank Guarantee	Short Term	100.00	ACUITE A1 (Assigned)
	Bank Guarantee	Short Term	125.00	ACUITE A1 (Assigned)
	Bank Guarantee	Short Term	100.00	ACUITE A1

				(Assigned)
	Bank Guarantee	Short Term	50.00	ACUITE A1 (Assigned)
13-Dec-2017	Term Loan	Long Term	50.00	ACUITE 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	Not Applicable	Not Applicable	Not Applicable	34.00	ACUITE A-/Negative (Reaffirmed)
Term Loan	Not Applicable	Not Applicable	Not Applicable	142.00	ACUITE A-/Negative (Reaffirmed)
Secured Overdraft	Not Applicable	Not Applicable	Not Applicable	75.00	ACUITE A-/Negative (Reaffirmed)
Secured Overdraft	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE A-/Negative (Reaffirmed)
Term Loan	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE A-/Negative (Reaffirmed)
Term Loan	Not Applicable	Not Applicable	Not Applicable	45.50	ACUITE A-/Negative (Reaffirmed)
Term Loan	Not Applicable	Not Applicable	Not Applicable	1.20	ACUITE A-/Negative (Assigned)
Term Loan	Not Applicable	Not Applicable	Not Applicable	5.07	ACUITE A-/Negative (Assigned)
Term Loan	Not Applicable	Not Applicable	Not Applicable	6.14	ACUITE A-/Negative (Assigned)
Term Loan	Not Applicable	Not Applicable	Not Applicable	8.75	ACUITE A-/Negative (Assigned)
Term Loan	Not Applicable	Not Applicable	Not Applicable	75.00	ACUITE A-/Negative (Assigned)
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	22.34	ACUITE A-/Negative (Assigned)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	100.00	ACUITE A1 (Reaffirmed)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	100.00	ACUITE A1 (Reaffirmed)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	100.00	ACUITE A1 (Reaffirmed)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	50.00	ACUITE A1 (Reaffirmed)

Contacts

Analytical	Rating Desk
<p>Aditya Gupta Head- Corporate and Infrastructure Sector Tel: 022-49294041 aditya.gupta@acuите.in</p> <p>Vishal Choudhary Manager - Rating Operations Tel: 022-49294021 vishal.choudhary@acuiteratings.in</p>	<p>Varsha Bist Manager - Rating Desk Tel: 022-67141160 rating.desk@acuите.in</p>

About Acuité Ratings & Research:

Acuité Ratings & Research Limited (*erstwhile SMERA Ratings Limited*) is a full-service Credit Rating Agency registered with the Securities and Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI), for Bank Loan Ratings under BASEL-II norms in the year 2012. Since then, it has assigned more than 6,000 credit ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Mumbai.

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