

## Press Release

### MEP INFRASTRUCTURE DEVELOPERS LIMITED

January 30, 2019

#### Rating Reaffirmed and Assigned



<b>Total Bank Facilities Rated*</b>	Rs.885.00 Cr. (Enhanced from Rs.785.00 Cr)
<b>Long Term Rating</b>	ACUITE A- / Outlook: Negative
<b>Short Term Rating</b>	ACUITE A1

\* Refer Annexure for details

#### Rating Rationale

Acuite 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.785.00 crore bank facilities and assigned short term rating of '**ACUITE A1**' (read as **ACUITE A one**) on the Rs.100.00 crore bank facilities of MEP INFRASTRUCTURE DEVELOPERS LIMITED. The outlook is '**Negative**'.

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.

#### Analytical Approach

Acuite 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. Acuite 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 net worth 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 net worth (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.

### **Liquidity Position**

MEPIDL has stressed liquidity on account of pressures on operating margins marked by declining net cash accruals which stood at Rs.158.31 crore for FY2018 from Rs.572.49 crore for FY2017, while its maturing debt obligations for FY2019 stood at Rs.45.21 crore. Operations of the company are working capital intensive marked by gross current asset (GCA) days of 211 in FY2018 against 187 in FY2017 on account of increase in

the receivables position. MEPIDL has maintained unencumbered cash and bank balances of Rs.14.10 crore as on March 31, 2018. The current ratio declined from 1.68 times as on March 31, 2017 to 0.80 times as on March 31, 2018. Acuite believes any further decline in operating margins or elongation in the working capital is likely to impact the liquidity position and the financial risk profile of the company.

#### 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
07-Jan-2019	Term Loan	Long Term	34.00	ACUITE A-/Negative (Reaffirmed)
	Term Loan	Long Term	142.00	ACUITE A-/Negative (Reaffirmed)
	Secured Overdraft	Long Term	75.00	ACUITE A-/Negative (Reaffirmed)
	Secured Overdraft	Long Term	10.00	ACUITE A-/Negative (Reaffirmed)
	Term Loan	Long Term	10.00	ACUITE A-/Negative (Reaffirmed)
	Term Loan	Long Term	45.50	ACUITE A-/Negative (Reaffirmed)
	Term Loan	Long Term	1.20	ACUITE A-/Negative (Assigned)
	Term Loan	Long Term	5.07	ACUITE A-/Negative (Assigned)
	Term Loan	Long Term	6.14	ACUITE A-/Negative (Assigned)

	Term Loan	Long Term	8.75	ACUITE A-/Negative (Assigned)
	Term Loan	Long Term	75.00	ACUITE A-/Negative (Assigned)
	Proposed Bank Facility	Long Term	22.34	ACUITE A-/Negative (Assigned)
	Bank Guarantee	Short Term	100.00	ACUITE A1 (Reaffirmed)
	Bank Guarantee	Short Term	100.00	ACUITE A1 (Reaffirmed)
	Bank Guarantee	Short Term	100.00	ACUITE A1 (Reaffirmed)
	Bank Guarantee	Short Term	50.00	ACUITE A1 (Reaffirmed)
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	ize 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 (Reaffirmed)
Term Loan	Not Applicable	Not Applicable	Not Applicable	5.07	ACUITE A-/Negative (Reaffirmed)
Term Loan	Not Applicable	Not Applicable	Not Applicable	6.14	ACUITE A-/Negative (Reaffirmed)
Term Loan	Not Applicable	Not Applicable	Not Applicable	8.75	ACUITE A-/Negative (Reaffirmed)
Term Loan	Not Applicable	Not Applicable	Not Applicable	75.00	ACUITE A-/Negative (Reaffirmed)
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	22.34	ACUITE A-/Negative (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	100.00	ACUITE A1 (Reaffirmed)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	50.00	ACUITE A1 (Reaffirmed)
Letter of credit	Not Applicable	Not Applicable	Not Applicable	100.00	ACUITE A1 (Assigned)

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**About Acuite Ratings & Research:**

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