

Press Release

MEP Sanjose Mahuva Kagavadar Road Private Limited (MEPSMK)

March 25, 2019



Rating Downgraded

Total Bank Facilities Rated*	Rs. 309.84 Cr.
Long Term Rating	ACUITE BBB / Outlook: Negative (Downgraded)
Short Term Rating	ACUITE A3+ (Downgraded)

* Refer Annexure for details

Rating Rationale

Acuité has downgraded the long term rating to '**ACUITE BBB**' (**read as ACUITE triple B**) from '**ACUITE BBB+**' (**read as ACUITE triple B plus**) and short term rating to '**ACUITE A3+**' (**read as ACUITE A three plus**) from '**ACUITE A2**' (**read as ACUITE A two**) on the Rs. 324.02 cr. bank facilities of MEP Sanjose Mahuva Kagavadar Road Private Limited (MEPSMK). The outlook is revised to '**Negative**' from '**Stable**'.

The rating downgrade reflects challenges faced by MEPSMK in project execution and implementation. Further the execution is around 20-25 percent behind as compared to the original construction plan. The delay in the project is on account of pending land acquisition by authority, change in ROB (road over bridge/ rail over bridge) design and delay in approval for utility shifting.

MEP Sanjose Mahuva Kagvadar Road Private Limited is a special-purpose vehicle (SPV) and a joint venture of MEP Infrastructures Developers Private Limited (MEPIDPL) and, incorporated in 2016 to undertake construction of 4-lane road between Mahuva and Kagvadar, in Gujarat. The project road is a section of National Highway-8E, with a total length of 40.02 kilometres. The project has been awarded by the National Highways Authority of India (NHAI) is to be executed under HAM on a design-build-finance-operate-and-transfer basis. The concession period is 15 years and the construction period is 2.5 years and based on semi-annual annuity payment. The project cost is Rs 604.68 crore and is funded through term loans of Rs 272.10 crore, equity of Rs 90.70 crore and grant of Rs.241.87 crore. MEPSMK signed the concession agreement with NHAI on August 09, 2016. The appointed date was obtained in May 2017(revised) and the scheduled commercial operation date (COD) was July 02, 2019 but due to delays in execution the revised COD is in November 2019.

Analytical Approach

Acuité has considered the standalone business and financial risk profiles of the MEPSMK to arrive at this rating.

Key Rating Drivers

Strengths

- **Low funding risk:**

MEPSMK has achieved financial closure for its project funding from various banks. Further, NHAI has already disbursed mobilization advance (@10 percent) of Rs.60.47 crore and the first Grant of around Rs.33.26 crore is already disbursed. The total project cost of Rs. 604.68 crore and it is funded by debt of Rs.272.10 crore, Equity of Rs.90.70 crore and NHAI grant of Rs.241.87 crore. ACUITE believes that the project funding risk is low at this stage because the sponsor has brought in 50 percent upfront equity and the loan disbursements are expected to be steady and in tranches, given the financial closure.

- **Technical support from the Sanjose India Infrastructure and Construction private Limited:**

Sanjose India Infrastructure and construction Private Limited is having 40 percent share in MEPSMK. SII CPL is part of a diversified global group present in over twenty countries around Europe, America, Asia and Africa. Its main business lines are: Construction, Energy and Environment, Concessions and Services and GSJ Solutions (Consulting Services and Project Management). Further SII CPL is giving technical support to

MEPSMK.

• Experience management:

MEPIDL (currently rated ACUITE A-/ Negative) is the primary sponsor of MEPSMK and has significant track record in the road infrastructure sector. ACUITE believes that MEPSMK will be benefited by MEPIDL's project execution capabilities and experience in the road construction and maintenance segment. The management is also supported by the technical expertise of Sanjose Group. MEPSMK's directors are Mr. Sameer Anil Apte, Mr. Yogita Ravindranath Walavalkar and Mr. Guillermo Manuel Sansano Fuentes. The directors of the company have over three decades of experience in construction and tolling.

Weaknesses

• Project execution and implementation risk:

The construction is around 20-25 percent behind as compared to the original construction plan. However, any further deviation in project execution and implementation will remain a key rating sensitivity factor. Any adverse developments in MEPIDL, its primary sponsor may also have an impact on MEPSMK's project execution and completion.

Liquidity position

MEPSMK has adequate liquidity marked by net cash accruals of Rs.8.93 crore in FY2018. The company has networth of Rs.55.71 crore as in 31st March, 2018. Moreover, the sponsor has given irrevocable and unconditional corporate guarantee to meet shortfall in interest or debt servicing of the loan.

Outlook: Negative

Acuité believes that the MEPSMK's credit profile will be impacted by significant delay in the construction. The rating may be downgraded in case of further delay in the construction, cost overrun and lack of funding support from sponsor. Conversely, the outlook may be revised to 'stable' if the company is able to complete the project construction as per the revised plan.

About the Rated Entity - Key Financials

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	166.14	NA	NA
EBITDA	Rs. Cr.	11.32	NA	NA
PAT	Rs. Cr.	8.93	NA	NA
EBITDA Margin	(%)	6.81	NA	NA
PAT Margin	(%)	5.73	NA	NA
ROCE	(%)	23.48	NA	NA
Total Debt/Tangible Net Worth	Times	1.34	NA	NA
PBDIT/Interest	Times	3.18	NA	NA
Total Debt/PBDIT	Times	4.65	NA	NA
Gross Current Assets (Days)	Days	275	NA	NA

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>
- Infrastructure Entities - <https://www.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
29-Dec-2017	Term Loan I	Long term	101.17	ACUITE BBB+/Stable (Assigned)
	Term Loan II	Long term	120.94	ACUITE BBB+/Stable (Assigned)
	Secured Overdraft	Long term	7.50	ACUITE BBB+/Stable (Assigned)
	Term Loan III	Long term	50.00	ACUITE BBB+/Stable (Assigned)
	Bank Guarantee	Short Term	30.23	ACUITE A2+ (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 I	Not Applicable	Not Applicable	Not Applicable	101.17	ACUITE BBB/Negative (Downgraded)
Term Loan II	Not Applicable	Not Applicable	Not Applicable	120.94**	ACUITE BBB/Negative (Downgraded)
Bank Guarantee (Sub-Limit)	Not Applicable	Not Applicable	Not Applicable	(22.68)**	ACUITE A3+ (Downgraded)
Secured Overdraft	Not Applicable	Not Applicable	Not Applicable	7.50	ACUITE BBB/Negative (Downgraded)
Term Loan II	Not Applicable	Not Applicable	Not Applicable	50.00	ACUITE BBB/Negative (Downgraded)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	30.23	ACUITE A3+ (Downgraded)

**IndusInd Bank sub-limit (Bank Guarantee) of Rs. 22.68 against LOC given by IIFCL

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About Acuite Ratings & Research:

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