

Press Release

MEP Sanjose Mahuva Kagvadar Road Private Limited

September 10, 2019



Rating Downgraded

Total Bank Facilities Rated*	Rs. 309.84 Cr.
Long Term Rating	ACUITE BB+ / Outlook: Negative
Short Term Rating	ACUITE A4+

* Refer Annexure for details

Rating Rationale

Acuité has downgraded the long-term rating of '**ACUITE BBB**' (**read as ACUITE triple B**) to '**ACUITE BB+**' (**read as ACUITE double B plus**) and short-term rating of '**ACUITE A3+**' (**read as ACUITE A three plus**) to '**ACUITE A4+**' (**read as ACUITE A four plus**) on the Rs.309.84 crore bank facilities of MEP SANJOSE MAHUVA KAGVADAR ROAD PRIVATE LIMITED (MEPSMK). The outlook is '**Negative**'.

The rating downgrade reflects challenges faced by MEPSMK in project execution and implementation. Further the execution is about 35-40 per cent 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.

MEPSMK is a special-purpose vehicle (SPV) and a joint venture of MEP Infrastructures Developers Private Limited (MEPIDPL), 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 kilometers. The project has been awarded by the National Highways Authority of India (NHAI), which 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, based on semiannual 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 04, 2019; but due to delays in execution the revised COD is in March 2020.

Analytical Approach

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

Key Rating Drivers

Strengths

- **Experienced management**

MEPIDL is the primary sponsor of MEPSMK and has significant track record in the road infrastructure sector. Acuité 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.

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

Sanjose India Infrastructure and Construction Private Limited (SIIICPL) is having 40 per cent share in MEPSMK. SIIICPL 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 SIIICPL provides technical support to MEPSMK.

Weaknesses

• Project execution and implementation risk

The construction is around 35-40 per cent 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. The company has networth of Rs.56.26 crore as in 31 March, 2019. 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	FY19 (Actual)	FY18 (Actual)	FY17 (Actual)
Operating Income	Rs. Cr.	44.60	166.14	NA
EBITDA	Rs. Cr.	0.40	11.32	NA
PAT	Rs. Cr.	0.50	8.93	NA
EBITDA Margin	(%)	0.91	6.81	NA
PAT Margin	(%)	1.12	5.37	NA
ROCE	(%)	11.19	23.48	NA
Total Debt/Tangible Net Worth	Times	1.27	1.34	NA
PBDIT/Interest	Times	1.22	3.18	NA
Total Debt/PBDIT	Times	5.47	4.65	NA
Gross Current Assets (Days)	Days	1,823	275	NA

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

Not applicable

Any other information

Acuité is yet to receive the latest No Default Statement (NDS) from the rated entity, despite repeated requests and follow-ups.

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
25-Mar-2019	Term Loan	Long Term	101.17	ACUITE BBB/ Negative (Downgraded)
	Term Loan	Long Term	120.94*	ACUITE BBB/ Negative (Downgraded)
	Secured Overdraft	Long Term	7.50	ACUITE BBB/ Negative (Downgraded)
	Term Loan	Long Term	50.00	ACUITE BBB/ Negative (Downgraded)
	Bank Guarantee	Short Term	30.23	ACUITE A3+ (Downgraded)
28-Dec-2017	Term Loan	Long Term	101.17	ACUITE BBB+/Stable (Assigned)
	Term Loan	Long Term	120.94	ACUITE BBB+/Stable (Assigned)
	Secured Overdraft	Long Term	7.50	ACUITE BBB+/Stable (Assigned)
	Term Loan	Long Term	50.00	ACUITE BBB+/Stable (Assigned)
	Bank Guarantee	Short Term	30.23	ACUITE A2+ (Assigned)

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

*Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Term Loan	Not Applicable	Not Applicable	Not Applicable	101.17	ACUITE BB+/ Negative (Downgraded)
Term Loan	Not Applicable	Not Applicable	Not Applicable	120.94*	ACUITE BB+/ Negative (Downgraded)
Secured Overdraft	Not Applicable	Not Applicable	Not Applicable	7.50	ACUITE BB+/ Negative (Downgraded)
Term Loan	Not Applicable	Not Applicable	Not Applicable	50.00	ACUITE BB+/ Negative (Downgraded)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	30.23	ACUITE A4+ (Downgraded)

*IndusInd Bank sub-limit (Bank Guarantee) of Rs. 24.12 against LOC given by IIFCL

Contacts

Analytical	Rating Desk
Aditya Gupta Head - Corporate and Infrastructure Sector Ratings Tel: 022-49294041 aditya.gupta@acuite.in	Varsha Bist Manager - Rating Desk Tel: 022-49294011 rating.desk@acuite.in
Aishwarya Phalke Senior Analyst - Rating Operations Tel: 022-49294031 aishwarya.phalke@acuite.in	

About Acuité Ratings & Research:

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