

Press Release

MEP Sanjose Talaja Mahuva Road Private Limited (MEPSTM)

29 December, 2017



Rating Assigned

Total Bank Facilities Rated*	Rs.329.02 Cr
Long Term Rating	SMERA BBB+/Stable (Assigned)
Short Term Rating	SMERA A2+ (Assigned)

*Refer Annexure for details

Rating Rationale

SMERA has assigned a long term rating of '**SMERA BBB+**' (**read as SMERA triple B plus**) and short term rating of '**SMERA A2+**' (**read as SMERA A two plus**) on the Rs.329.02 crore bank facilities of MEP Sanjose Talaja Mahuva Road Private Limited (MEPSTM). The outlook is '**Stable**'. This is the first rating on a hybrid annuity model (HAM) project assigned by SMERA.

MEP Sanjose Talaja Mahuva 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 Talaja and Mahuva, in Gujarat. The project road is a section of National Highway-8E, with a total length of 45.46 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 643.05 crore and is funded through term loans of Rs 289.37 crore, equity of Rs 96.46 crore and grant of Rs.257.22 crore. MEPSTM signed the concession agreement with NHAI on July 08, 2016. The appointed date was obtained in December 2016 and the scheduled commercial operation date (COD) is June 02, 2019.

List of key rating drivers and their detailed description

Strengths:

Steady progress in project execution supported by substantial ROW and approvals, characteristic of HAM projects: MEPSTM has already seen a steady progress in project execution with X per cent of project work having been already completed. It has received substantial ROW and approvals which were important to commence the construction of the project. In HAM, the developer gets 80 percent of land upfront and concession period starts from the commercial operation date (15 years from COD). Further if the 100 percent ROW is not provided to concessionaire within 180 days of appointment date, then the scope of the project would be changed and the cost escalation assurance is provided by the NHAI.

Low Funding Risk: MEPSTM has achieved financial closure for its project funding from various banks. Further, NHAI has already disbursed mobilization advance (@10 percent) of Rs.61.31 crore and the first Grant of around Rs.35.37 crore is already disbursed. The total project cost of Rs. 643.05 crore and it is funded by debt of Rs.289.37 crore, Equity of Rs.96.46 crore and NHAI grant of Rs.257.22 crore. SMERA 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 MEPSTM. SIICPL 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 SIICPL is giving technical support to MEPSTM.

Experienced management: MEPIDPL (currently rated SMERA A-/Stable) is the primary sponsor of MEPSTM and has significant track record in the road infrastructure sector. SMERA believes that MEPSTM will be benefited by MEPIDPL'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. MEPSTM's directors are Mr. Amit Arun Mokashi, Mr. Uttam Sadashiv Pawar and Mr. Alvaro Bastida Cilleruelo. The directors of the company have over three decades of experience in construction and tolling.

Weaknesses:

Project execution and implementation risk: The construction has already started from the month of December 2016 and as of now the construction work is around 100 days ahead of schedule. However, any deviation in project execution and implementation will remain a key rating sensitivity factor. Any adverse developments in MEPIDPL, its primary sponsor may also have an impact on MEPSTM's project execution and completion.

Analytical approach: SMERA has considered the standalone business and financial risk profiles of the company.

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 that MEPSTM will maintain a stable outlook on account of the intrinsic features of HAM projects which has in-built support from NHAI along with requisite financial and operational support from MEPIDL. The outlook may be revised to 'Positive' in case the company completes the project construction before the schedule. Conversely, the outlook may be revised to negative if there is delay in construction work, cost overrun and lack of funding support from sponsor.

About the Rated Entity: Key Financials

	Unit	FY17 (Actual)	FY16 (Actual)	FY15 (Actual)
Operating Income	Rs. Cr.	N.A.	N.A.	N.A.
EBITDA	Rs. Cr.	N.A.	N.A.	N.A.
PAT	Rs. Cr.	N.A.	N.A.	N.A.
EBITDA Margin	(%)	N.A.	N.A.	N.A.
PAT Margin	(%)	N.A.	N.A.	N.A.
ROCE	(%)	N.A.	N.A.	N.A.
Total Debt/Tangible Net Worth	Times	N.A.	N.A.	N.A.
PBDIT/Interest	Times	N.A.	N.A.	N.A.

Total Debt/PBDIT	Times	N.A.	N.A.	N.A.
Gross Current Assets (Days)	Days	N.A.	N.A.	N.A.

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

Any other information: Not Applicable

Rating History for the last three years: Not Applicable

***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	N.A	N.A	N.A	100.00	SMERA BBB+/Stable (Assigned)
Term Loan II	N.A	N.A	N.A	60.76	SMERA BBB+/Stable (Assigned)
Overdraft	N.A	N.A	N.A	7.50	SMERA BBB+/Stable (Assigned)
Term Loan III	N.A	N.A	N.A	128.61	SMERA BBB+/Stable (Assigned)
Bank Guarantee	N.A	N.A	N.A	32.15	SMERA A2+ (Assigned)

Note on complexity levels of the rated instrument:

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

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ABOUT SMERA

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