

Press Release

MEP Sanjose Talaja Mahuva Road Private Limited (MEPSTM)

March 25, 2019



Rating Downgraded

Total Bank Facilities Rated*	Rs. 329.02 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 Talaja Mahuva Road Private Limited (MEPSTM). The outlook is revised to '**Negative**' from '**Stable**'.

Further Acuité has assigned long term rating of **ACUITE BBB** (read as ACUITE triple B) on the Rs. 5.00 crore bank facilities of MEPSTM. The outlook is '**Negative**'.

The rating downgrade reflects challenges faced by MEPSTM 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 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 April 2017 (revised) and the scheduled commercial operation date (COD) was June 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 MEPSTM to arrive at this rating.

Key Rating Drivers

Strengths

- **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 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. ACUITE believes that the project funding risk is low at this stage because the sponsor has brought in 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
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and Africa. Its main business lines are: Construction, Energy and Environment, Concessions and Services and GSJ Solutions (Consulting Services and Project Management). Further SIIPL is giving technical support to MEPSTM.

• Experience management:

MEPIDL (currently rated ACUITE A-/ Negative) is the primary sponsor of MEPSTM and has significant track record in the road infrastructure sector. ACUITE believes that MEPSTM 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. 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 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 MEPSTM's project execution and completion.

Liquidity position

MEPSTM has adequate liquidity marked by net cash accruals of Rs.6.20 crore in FY2018. The company has networth of Rs.72.94 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

Acuite believes that the MEPSTM'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.	134.13	NA	NA
EBITDA	Rs. Cr.	10.75	NA	NA
PAT	Rs. Cr.	5.42	NA	NA
EBITDA Margin	(%)	8.02	NA	NA
PAT Margin	(%)	4.04	NA	NA
ROCE	(%)	18.79	NA	NA
Total Debt/Tangible Net Worth	Times	1.13	NA	NA
PBDIT/Interest	Times	2.10	NA	NA
Total Debt/PBDIT	Times	4.86	NA	NA
Gross Current Assets (Days)	Days	380	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	Long term	100.00	ACUITE BBB+/Stable (Assigned)
	Term Loan	Long term	60.76	ACUITE BBB+/Stable (Assigned)
	Secured Overdraft	Long term	7.50	ACUITE BBB+/Stable (Assigned)
	Term Loan	Long term	128.61	ACUITE BBB+/Stable (Assigned)
	Bank Guarantee	Short Term	32.15	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	Not Applicable	Not Applicable	Not Applicable	100.00	ACUITE BBB/Negative (Downgraded)
Term Loan	Not Applicable	Not Applicable	Not Applicable	60.76	ACUITE BBB/Negative (Downgraded)
Secured Overdraft	Not Applicable	Not Applicable	Not Applicable	7.50	ACUITE BBB/Negative (Downgraded)
Term Loan	Not Applicable	Not Applicable	Not Applicable	128.61**	ACUITE BBB/Negative (Downgraded)
Bank Guarantee (Sub-Limit)	Not Applicable	Not Applicable	Not Applicable	(24.12)**	ACUITE A3+ (Downgraded)
Secured Overdraft	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE BBB/Negative (Assigned)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	27.15	ACUITE A3+ (Downgraded)

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

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About Acuité Ratings & Research:

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