MEP Infrastructure Developers Limited

April 05, 2019

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Non-fund based limits	50	50	[ICRA]A3; downgraded from [ICRA]A3+

*Instrument details are provided in Annexure-1

Rationale

The downgrade in the rating factors in the lower than anticipated gross-billings in FY2019 for the construction business on account of delays in execution of MEP Infrastructure Developers Limited 's (MEPIDL) on-going hybrid annuity mode (HAM) road projects with current progress being behind schedule. The projects are facing various execution related challenges including delays in tree cutting, utility shifting and other regulatory approvals, changes in design etc., hampering the project implementation. ICRA notes that out of the six on-going projects, MEPIDL has received extension of timeline approval from the authority for four projects in the range of four to five months, nevertheless limited experience of MEPIDL in EPC business exposes the projects to execution related risks. Furthermore, the BOT (HAM) projects continue to remain exposed to funding risk as major portion of the equity was to be funded through asset monetization of six under-construction HAM projects and balance debt drawdown from lenders. There has been slower than anticipated progress on asset monetization vis-à-vis timelines indicated by the management. With the projects' progress behind schedule, timely completion of these projects remains critical and would remain a key rating monitorable going forward. Besides this, MEPIDL, in its capacity as sponsor, would also have to provide cost overrun/operational shortfall support towards its project SPVs. The rating action also factors in the high degree of operating leverage for MEPIDL's tolling segment which has witnessed a slowdown in its toll collections, especially, from its Delhi Entry Points tolling contract. ICRA has also taken note MEPIDL's contingent liabilities by way of corporate guarantees and performance bank guarantees for its project special purpose vehicles (SPVs).

The rating, however, factors in the diversified portfolio of projects with presence across six states in long-term tolling contracts, short-term tolling contracts, OMT Toll (operate-maintain-transfer) projects, BOT Toll (build-operate-transfer) project and engineering-procurement-construction (EPC) business thereby reducing dependence on any particular geography or segment/sub-segment for revenue generation. The rating also takes into MEPIDL's comfortable debt coverage metrics with Debt/OPBDITA at 1.2 times and interest coverage at 5.6 times as on September 30, 2018 at the standalone level. The rating also takes into account the well-established presence of the promoters in the toll collection business.

Key rating drivers

Credit strengths

- **Diversified portfolio of projects:** MEPIDL has well diversified portfolio of twenty projects spread across six states. It includes 10 HAM projects, 3 OMT toll projects, 3 long-term tolling contracts, 3 short-term tolling contracts and 1 BOT toll project. Thus, diversifying company's revenue mix and reducing cash flow dependence on any particular geography or segment.

- **Healthy order book position:** With recent foray into EPC business for its captive HAM projects, construction business contributed ~30% of 9MFY2019 operating income. The unexecuted order book stands at ~Rs. 6,800 crore as on December 31, 2018 providing good revenue visibility in the medium term.
- **Comfortable capital structure and debt coverage indicators:** MEPIDL's capital structure remains comfortable with TOL/TNW at 1.8 times and debt coverage metrics with debt / OPBIDTA at 1.2 times and interest cover at 5.6 times as on September 30, 2018.
- **Experienced promoter Group:** The promoters have well-established presence in tolling business wherein it commenced its operations in 2002 with collection of toll at Mumbai entry points. As of 28 February 2018, the company has executed 134 projects over the years and has completed 120 projects including 222 toll plazas and 1,393 lanes across 15 states.

Credit challenges

- **Exposed to time and cost over-run risks with on-going projects lagging behind schedule:** MEPIDL has ten HAM projects, of which six are under-construction and four are to commence execution shortly. The progress of the six on-going projects is currently behind schedule on account of various work front availability challenges and limited experience of MEPIDL as EPC contractor. The projects, thus, remain exposed to time and cost over-run risks. While company has received extension of timeline for four projects from the authority, timely completion of the project remains important from credit perspective.
- **High equity commitments:** Given the aggressive foray into HAM projects, MEPIDL has equity commitments of ~Rs. 345 crore over the next three years. The company is looking to meet the funding requirements through internal accruals and asset monetization. The company's ability to tie-up the requisite funds, especially through asset monetisation, would remain critical.
- **High operating leverage for tolling projects:** MEPIDL's revenue from tolling segment, which contributed 70% of 9MFY2019 revenues, remains exposed to high operating leverage given the variable nature of tolling income and fixed amount of payment to authority as concession fees. Further, the revenue from this segment remains exposed to risk inherent from tolling projects including political acceptability of toll rate hike over the concession period, development/improvement of alternate routes and likelihood of toll leakages. The segment is witnessing a slowdown in its toll collections, especially, from its Delhi Entry Points tolling contract thereby impacting its operating profits.
- **High quantum of contingent liabilities:** MEPIDL has extended corporate guarantees to various subsidiaries and joint ventures for debt availed by them, in addition to performance guarantees extended for various Group projects. As on March 31, 2018, the reported contingent liabilities stood at Rs. 6,197 crore of which Rs. 5,763 crore were towards financial guarantees and Rs. 334 crore towards performance guarantees.

Liquidity Position:

The liquidity of the company remains moderate with cash and bank balance of ~Rs. 66 crore as on September 30, 2018 which is largely encumbered. The company has debt repayment obligations of Rs. 47 crore due in FY2020.

Analytical approach:

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Construction Entities Financial consolidation and Rating approach
Parent/Group Support	NA
Consolidation/Standalone	For arriving at the ratings, ICRA has used limited consolidation approach, under which the proposed equity investments/funding commitments to various subsidiaries towards debt servicing and operational shortfall have been considered. The list of companies that are consolidated to arrive at the rating are given in Annexure 2 below.

About the company

Incorporated in 2002 by Mr. Dattatray Mhaiskar and Jayant Mhaiskar, MEP Infrastructure Developers Limited (MEPIDL) is one of the leading Operate Maintenance & Transfer (OMT) and Toll collection companies in India. MEPIDL commenced operations with toll collection at five entry points to Mumbai for 6 years. Over the years, MEPIDL has recently forayed into BOT(HAM) road projects. As on December 31, 2018, MEPIDL has 1 BOT (Toll), 3 OMT, 10 BOT(HAM), 3 long-term and 3 short-term tolling contracts.

Key financial indicators (Standalone & audited)

	FY2017	FY2018
Operating Income (Rs. crore)	781	1,477
PAT (Rs. crore)	27	64
OPBDIT/OI (%)	78.9%	14.8%
RoCE (%)	8.9%	11.7%
Total Debt/TNW (times)	0.65	0.57
Total Debt/OPBDIT (times)	0.63	1.66
Interest coverage (times)	10.26	4.36

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

	Instrument	Current Rating (FY2020)				Chronology of Rating History for the Past 3 Years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating April 2019	Date & Rating in FY2019 September 2018	Date & Rating in FY2018	Date & Rating in FY2017
1	Non-fund based	Short Term	50	**50**	**[ICRA]A3**	**[ICRA]A3+**	**-**	**-**

Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in.

Annexure-1: Instrument Details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Non-fund based limit	-	NA	-	50	[ICRA]A3

Source: MEPIDL

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
MEP Infrastructure Private Limited	99.99%	Limited Consolidation
Baramati Tollways Private Limited	100%	Limited Consolidation
Rideema Toll Bridge Private Limited	99.99%	Limited Consolidation
MEP RGSL Toll Bridge Private Limited	100%	Limited Consolidation
MEP Nagpur Ring Road 1 Private Limited	74%	Limited Consolidation
MEP Sanjose Nagpur Ring Road 2 Private Limited	74%	Limited Consolidation
MEP Sanjose Arawali Kante Road Private Limited	74%	Limited Consolidation
MEP Sanjose Kante Wakad Road Private Limited	74%	Limited Consolidation
MEP Sanjose Mahuva Kagavdar Road Private Limited	60%	Limited Consolidation
MEP Sanjose Talaja Mahuva Road Private Limited	60%	Limited Consolidation
MEP Longjian ACR Private Limited	51%	Limited Consolidation
MEP Longjian CLR Private Limited	51%	Limited Consolidation
MEP Longjian VTR Private Limited	51%	Limited Consolidation
MEP Longjian Loha Waranga Road Private Limited	51%	Limited Consolidation
MEP Hyderabad Bangalore Toll Road Private Limited	99.99%	Limited Consolidation
MEP Infraprojects Private Limited	100%	Limited Consolidation

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About ICRA Limited:

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