

## MEP Infrastructure Developers Limited

September 10, 2018

### Summary of rated instruments

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

\*Instrument details are provided in Annexure-1

### Rating action

ICRA has assigned a short-term rating of [ICRA]A3+ (pronounced ICRA A three plus) for the Rs. 50 crore<sup>1</sup> non-fund based facility of MEP Infrastructure Developers Limited (MEPIDL)<sup>2</sup>.

### Rationale

The assigned rating 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. MEPIDL recently ventured into the EPC segment, wherein it is undertaking execution of its captive hybrid annuity mode (HAM) road projects, the unexecuted order book of ~Rs. 7,200 crore provides revenue visibility in the medium term. The rating is also supported by MEPIDL's comfortable capital structure with TOL/TNW of 2.2 times and healthy debt coverage metrics with Debt/OPBDITA at 1.7 times and interest coverage at 4.4 times as on March 31, 2018 at the standalone level. The capital structure is expected to improve further in FY2019 as MEPIDL successfully raised Rs. 162 crore equity through Qualified Institutional Placement (QIP) in April 2018. The rating also takes into account the well-established presence of the promoters in the toll collection business.

The equity requirements in the near to medium term owing to foray into HAM projects and under-implementation nature of all its HAM projects are key rating constraints. Besides this, MEPIDL, in its capacity as sponsor, may also have to provide cost overrun/operational shortfall support towards its project SPVs. While MEPIDL plans to meet its equity requirements through a mix of internal accruals and proceeds from divestment of six under-construction HAM projects, timely progress of these projects would remain important from a credit perspective. MEPIDL has limited experience in the EPC business thus exposing it to execution related risks, however, the risk is mitigated to an extent as it has entered into joint venture with foreign partners providing technical assistance. The operating leverage for MEPIDL's tolling segment, which contributed 56% to FY2018 revenues, remains high given the variable nature of tolling income and fixed amount of payment to authority as concession fees. Any slowdown in toll collections may have an impact on its operating profits. While assigning the rating, 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). Given that MEPIDL acts as a sponsor, it may have to support cost overrun and operational shortfall for its projects.

<sup>1</sup> 100 lakh = 1 crore = 10 million

<sup>2</sup> For complete rating scale and definitions, please refer to ICRA's website [www.icra.in](http://www.icra.in) or other ICRA Rating Publications

## 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 ~40% of FY2018 operating income. The unexecuted order book stands at ~Rs. 7,200 crore as on July 31, 2018 providing decent revenue visibility in the medium term.
- **Comfortable capital structure and healthy debt coverage indicators:** MEPIDL's capital structure remains comfortable with TOL/TNW at 2.2 times and healthy debt coverage metrics with debt / OPBIDTA at 1.7 times and interest cover at 4.4 times as on March 31, 2018. The capital structure is expected to improve further in FY2019 on back of successful QIP issue of Rs. 162 crore in April 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

- **High equity commitments:** Given the aggressive foray into HAM projects, MEPIDL has equity commitments of ~Rs. 350 crore over the next three years. The company is looking to meet the funding requirements through internal accruals and asset monetization. Thus, the company's ability to tie-up the requisite funds, especially through asset monetisation, would remain important from credit perspective.
- **High operating leverage for tolling projects:** MEPIDL's revenue from tolling segment, which contributed 56% to FY2018 revenues, remains exposed to high operating leverage given the variable nature of tolling income and fixed amount of payment to authority as concession fees. Any slowdown in toll collections may have an impact on its operating profits. 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.
- **Exposed to time and cost over-run risks:** Given the under-implementation nature of the projects, with some of them in nascent stages, and limited experience in EPC segment, MEPIDL remains exposed to time and cost over-run risks.
- **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.

#### Analytical approach:

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.

For arriving at the ratings, ICRA has also applied its rating methodologies as indicated below.

**Links to applicable criteria:**

[Corporate Credit Rating Methodology](#)

[Rating Methodology for Construction Entities](#)

[Financial consolidation and Rating approach](#)

**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 June 30, 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:**

		Current Rating (FY2019)			Chronology of Rating History for the Past 3 Years		
Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating September 2018	Date & Rating in FY2018	Date & Rating in FY2017	Date & Rating in FY2016
1	Non-fund based Short Term	50	50	[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](http://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

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