

August 26, 2019

MEP Infrastructure Developers Limited: Rating downgraded and withdrawn

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Non-fund based limits	50	50	[ICRA]A4+; downgraded from [ICRA]A3 and withdrawn

*Instrument details are provided in Annexure-1

Rationale

The downgrade in the rating of MEP Infrastructure Developers Limited (MEPIDL) factors in the slower than anticipated progress in the six under-construction hybrid annuity mode (HAM) road portfolio with current progress lagging behind schedule. Given that MEPIDL is the engineering, procurement and construction (EPC) contractor for its HAM road projects, the slow progress in these projects had resulted in significantly lower than anticipated gross billing for MEPIDL's construction business.. The limited experience of MEPIDL in EPC business exposes the projects to execution related risks. The rating also factors in the elevated levels of equity mobilisation risk for the under construction HAM portfolio of MEPIDL as 50% of the MEPIDL's total equity commitments were to be funded through asset monetization and there has been no major progress on asset monetisation front vis-à-vis timelines indicated by the management earlier. Furthermore, MEPIDL's tolling segment has witnessed a slowdown in toll collections and consequently impacted its profitability, especially, from its Delhi Entry Points tolling contract. Besides this, MEPIDL, in its capacity as sponsor, would also have to provide cost overrun/operational shortfall support towards its project SPVs. 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 risk for MEPIDL gets exacerbated by the fact that some of these SPVs are currently defaulting on their debt servicing.

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 account the well-established presence of the promoters in the toll collection business.

The rating has been withdrawn in accordance with ICRA's policy on withdrawal and suspension, as desired by the company and based on the no objection certificate provided by the lender.

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, 2 OMT toll projects, 2 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 ~31% of FY2019 operating income. The unexecuted order book stands at ~Rs. 6,500 crore as on March 31, 2019 providing good revenue visibility in the medium term.
- **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.

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 currently under-construction and four have commenced execution recently. 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.
- **High equity commitments:** MEPIDL has equity commitments of ~Rs. 215 crore towards the under-construction projects over the next two years. The company remains exposed to equity mobilization risk as 50% of equity commitments were to be met through asset monetization and there has been no major progress on this front vis-à-vis timelines indicated by the management earlier. Thus, the company's ability to tie-up the requisite funds through asset monetisation would remain critical.
- **High operating leverage for tolling projects:** MEPIDL's revenue from tolling segment, which contributed ~69% of FY2019 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, 2019, the reported contingent liabilities stood at Rs. 8,040 crore of which Rs. 7,573 crore were towards financial guarantees and Rs. 238 crore towards performance guarantees. The risk for MEPIDL gets exacerbated by the fact that some of these SPVs are currently defaulting on their debt servicing.

Liquidity Position:

MEPIDL's cash and bank balance stood at ~Rs. 69.7 crore as on March 31, 2019 of which Rs. 62.6 crore is encumbered. The company has debt repayment obligations of Rs. 89 crore due in FY2020.

Analytical approach:

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Construction Entities ICRA Policy on Withdrawal and Suspension of Credit Rating
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)

	FY2018	FY2019
Operating Income (Rs. crore)	1,477	1,882
PAT (Rs. crore)	40	30
OPBDIT/OI (%)	14.8%	12.2%
RoCE (%)	11.7%	10.2%
Total Debt/TNW (times)	0.57	0.49
Total Debt/OPBDIT (times)	1.66	1.74
Interest coverage (times)	4.36	3.81

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

		Current Rating (FY2020)					Chronology of Rating History for the Past 3 Years		
Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating		Date & Rating in FY2019 September 2018	Date & Rating in FY2018	Date & Rating in FY2017	
				August 2019	April 2019				
1 Non-fund based	Short Term	50	50	[ICRA]A4+; withdrawn	[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]A4+; Withdrawn

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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