Press Release

MEP Longjian ACR Pvt Ltd (MLAPL)

March 26, 2020

Rating

Sl. No.	Instrument/Facility	Amount (Rs. Crore)	Rating Assigned	Rating Action
1	Fund Based – OD	20.00	IVR BB+/ Stable (IVR Double B Plus with Stable Outlook)	Revised from IVR BBB / Stable Outlook
2	Proposed Term Loan	407.34		
3	Non Fund Based - BG	42.43		
	Total	**469.77**		

Details of facilities are in Annexure 1

Rating Rationale

The revision in the rating is on account of impasse that the project is facing due to protests from the local community on the project site that has largely affected the planned schedule, volatile input price and the high level of contingent liabilities of the parent company. The rating continue to derive strength from the experience of promoters and management team, long track record of group, low counter party risk and favourable clauses in CA of HAM projects.

Key Rating Sensitivities

- **Upward Factors –**
  - Breaking of current impasse and completion of project without substantial cost overruns, continued support from sponsors
  - Timely payments from NHAI
- **Downward Factors –**
  - Further delay in execution of project would impact the completion schedule and result in cost overruns.

Detailed Description of Key Rating Drivers

Key Rating Strengths

Experienced promoters & management team

IRB Infrastructure Developers Ltd (IDL) was founded by Mr. Dattatrey Mhaiskar and his sons Mr.Virender Mhaiskar and Mr.Jayant Mhaiskar in 1998. IIDL was demerged and MEP Infrastructure was formed in 2002, with Mr. DattatreyMhaishkar as Chairman and in the capacity as MD, while Mr. Virendra Mhaiskar took over the day-to-day affairs of IIDL. Mr Jayant Mhaiskar is engaged in the day-to-day affairs of the company. The directors of MLAPL have more than a decade of experience in the infrastructure sector. They are also assisted by a team of experienced professionals having relevant industry experience.

Long track record & established presence of the group in the road infrastructure segment

The MEP group was founded by Mr Jayant Mhaiskar and Mr Dattatray Mhaiskar (Chairman), who are among the original promoters of IRB Infrastructure Developers Ltd (IIDL), which is an established infrastructure company with expertise in development of BOT toll road projects with annual turnover of over Rs.5000 crore. IIDL was demerged in 2002 and MIDL was formed. The MEP group has demonstrated execution track record of more than 15 years in operating and maintaining and toll collection OMT. The group has geographical presence in around 15 states in India. In collaboration with Sanjose India Infrastructure & Construction Private Limited (SIIL), the group has undertaken road construction under six HAM projects since FY17 with aggregate bid project cost being Rs.3836.69 crore. These projects have all achieved financial closure and are presently in various stages of construction. The JV partner in this project, LRBCL has constructed more than 10,000 km of road length and over 860 bridges Across the globe in countries like Bangladesh, Sri Lanka, Sudan, Kenya, Ethiopia

Low counter-party credit risk

NHAI functions as the nodal agency for development, maintenance and management of the national highways in the country. NHAI receives high level of support from GoI due to its strategic importance as the country’s nodal agency for implementing various road sector projects including various phases of National Highways Development Programme (NHDP).By virtue of being a quasi-government body with an established & long track record, the counter-party risk on NHAI appears to be minimal.

Favourable clauses in CA of HAM projects to address execution challenges

The Government of India has approved HAM projects to increase the pace of award and construction of National Highways apart from de-risking developers and lenders from inherent short comings associated with conventional toll and annuity based model. The favourable clauses of the model include lower sponsor contribution due to high proportion of grant, inflationary adjustment to project cost and O&M cost, disbursement of grant in instalments upon achievement of various milestones and payment of interest by NHAI on reducing balance of final construction cost at bank rate plus 3%, as a part of the annuity.

Funding tie-up in place with liquidity buffer for debt repayment

The company has achieved financial closure with Yes Bank for the project debt. The repayment of the debt is spread out over the concession period, which is expected to provide liquidity buffer for repayment of debt. As per the terms of sanction of the project debt, the company shall maintain DSRA, out of the first two annuity payments of an amount equivalent to next six months of principal repayment and interest payment due and payable in respect of the term debt facility. Further, as per the terms of sanction, the DSRA is to be replenished with the next 6 months debt servicing requirement on receipt of each annuity. The principal and interest payment would be made by utilizing the amounts in DSRA.

Key Rating Weaknesses

Stalled Project (Inherent project execution risk)

As the EPC of the said project will be done in-house, the group is exposed to inherent construction risk attached to EPC projects. The project is in impasse currently as the local community has been protesting on the site because of unreceived compensation. Although the matter is raised with the concerned authority many times, there is no solution for the near future in sight.

Volatile input prices

Major raw materials used in civil/construction activities are steel and cement which are usually sourced from large players at proximate distances. The input prices are generally volatile and have direct linkage with state of the economy which may impact the profitability of MLLWRPL. However, under HAM the BPC shall be subject to change on account of variation in Price Index Multiple (which is the weighted average of Wholesale Price Index (WPI) and Consumer Price Index (CPI) in the ratio of 70:30) on monthly basis till the achievement of commercial operations date (COD), which mitigates this input cost risk to a large extent.

High Contingent Liabilities of MIDL

The total contingent liabilities of MIDL (Parent Company) as on March 31, 2019 stood at Rs.8039 Crore that comprised of Rs.7572 Crores worth of corporate guarantees extended on behalf of its subsidiaries towards their borrowings and another Rs. 237.89 Crores worth of Bank Guarantees. With the reduced profitability owning to reduced construction revenue and the fact that few of the projects are under stress, the materialization of these guarantees would have an aggravated effect on financial profile and in turn, debt coverage parameters of the parent company.

Analytical Approach & Applicable Criteria:

- Rating Methodology for Infrastructure Companies
- Financial Ratios & Interpretation (Non-Financial Sector)
- Criteria on Parent/Group Support

Liquidity: Stretched

Cash flow is dependent on the company achieving the envisaged revenues and profitability level, along with timely infusion of equity and support from NHAI. The proposed debt is expected to have a corporate guarantee by the sponsor MIDL. However with the project being currently stalled, the liquidity is expected to be stretched in the short run.

About the project

MEP Longjian ACR Pvt Ltd (MLAPL) is a joint venture floated in April 2018 by MIDL (51% stake) and LRBCL (49% stake). MIDL is engaged in contracts for collection of toll for NHAI, PWD, etc, OMT (Operate, Maintain & Tolling) for existing highways & bridges and and execution of HAM projects of State/National Highways. LRBCL is a Chinese Government owned Company, engaged in construction of road and bridges both in domestic and overseas fronts. MLAPL had entered into a 17 year Concession Agreement (CA) with National Highways Authority of India (NHAI) to design, build, operate and transfer of 58.510 km of road on hybrid annuity basis. The project under consideration aims at four laning of the Ausa-Chakur Section from Km 55.835 at Ausa to Km 114.345 at Chakur in the State of Maharashtra. The project includes augmentation of the existing two lanes into four lanes.

Financials - *(As the company was incorporated in April 2018, past financials are not applicable.)*

(Rs. Crore)

	FY19
Revenue	0.00
Other Income	0.02
Expense	0.00
Finance Cost	0.19
PBT	-0.17
PAT	-0.17

* Classification as per Infomerics' standards

Any other information: N.A

No Cooperation status with previous CRA: NIL

Rating History for last three years:

<table>
<tr><th rowspan="2">Name of Instrument/ Facilities</th><th colspan="3">Current Rating (Year 2019-20)</th><th colspan="3">Rating History for the past 3 years</th></tr>
<tr><th>Type</th><th>Amount outstanding (Rs. Crore)</th><th>Rating</th><th>Rating assigned in 2018-19</th><th>Rating assigned in 2017-18</th><th>Rating assigned in 2016-17</th></tr>
<tr><td>Proposed Term Loan</td><td>Long Term</td><td>407.34</td><td rowspan="3">IVR BB+/ Stable Outlook</td><td rowspan="3">IVR BBB/ Stable Outlook (Dec 18, 2018)</td><td>--</td><td>--</td></tr>
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Note on complexity levels of the rated instrument: Infomerics has classified instruments rated by it on the basis of complexity and a note thereon is available at www.infomerics.com.

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About Infomerics:

Infomerics commenced rating & grading operations in April 2015 after having spent over 25 years in various segments of financial services. Infomerics is registered with the Securities and Exchange Board of India (SEBI) and accredited by Reserve Bank of India. Company's long experience in varied spectrum of financial services is helping it to fine tune its product offerings to best suit the market.

Annexure 1: Details of Facilities

Sr. no	Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. crores)	Rating Assigned/ Outlook
1	Proposed TL	--	--	--	407.34	IVR BB+/Stable Outlook
2	Non Fund Based – BG	--	--	--	42.43	
3	Fund Based - OD	--	--	--	20.00	
Total					**469.77**	