

Press Release

MEP Longjian VTR Pvt Ltd.

October 30, 2018

Ratings

Sl. No.	Instrument/Facility	Amount (Rs. Crore)	Rating Assigned	Rating Action
1	Proposed Term Loan	567.78	IVR BBB / Stable Outlook (IVR Triple B with Stable Outlook)	Assigned
2	Proposed Non-Fund based Performance Limit:- Bank Guarantee	59.15		
3	Proposed Fund based Limits:-Overdraft	20.00		
	Total	646.93		

Details of Facilities are in Annexure 1

Detailed Rationale

The rating derives strength from the experienced promoters & management team along with good resource raising ability of the sponsor, long track record & established presence of the group in the road infrastructure segment, low counter-party credit risk, favourable clauses in concession agreement (CA) of HAM projects to address execution challenges along with funding tie-up in place.

The rating, however, is tempered by the inherent project execution risk, ability of sponsor to provide funding support in case of exigencies and volatile input prices.

Successful commissioning and completion of project without any time or cost overrun, sponsor support in case of exigencies and timely payment from NHAI are the key rating sensitivities.

List of Key Rating Drivers

- Experienced promoters & management team along with good resource raising ability of the sponsor
- Long track record & established presence of the group in the road infrastructure segment
- Low counter-party credit risk

- Favourable clauses in CA of HAM projects to address execution challenges
- Funding tie-up in place with liquidity buffer for debt repayment
- Inherent project execution risk
- Ability of sponsor to provide funding support in case of exigencies
- Volatile input prices

Detailed Description of Key Rating Drivers

Key Rating Strengths:

Experienced promoters & management team along with good resource raising ability of the sponsor

MEP Infrastructure was formed in 2002. At present, Mr. Jayant Mhaiskar, CMD, looks after the day-to-day affairs of the company. The directors of MLVPL 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.

Further, the MEP group enjoys good resource raising ability in the market due to its long standing presence,

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, who are among the original promoters of IRB Infrastructure Developers Ltd (IIDL), which is an established infrastructure company. The MEP group has demonstrated execution track record of more than 15 years in OMT and toll collection segments. The JV partner in this project, LRBCCL has constructed more than 10,000 km of road length and over 860 bridges. LRBCCL has global presence in execution of road projects (in countries like Bangladesh, Sri Lanka, Sudan, Kenya, Ethiopia and so on.)

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.

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

The Company has been sanctioned the debt for the project. The repayment of the debt is spread out over the concession period, which is expected to provide liquidity buffer for repayment of debt.

Key Rating Weaknesses:

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 has been sanctioned the term loan from bank; however, appointed date is awaited, which is expected around December 2018.

Ability of sponsor to provide funding support in case of exigencies

The sponsor, MIDL, is required to bring in its share of equity of around Rs.72.39 crore for the project. Also, as per the terms of the CA and sanction, one of the sponsors, MIDL, is required to provide financial and operational support to the SPV during the construction period, as well as to provide corporate guarantee for the debt. Further, in case LRBCL fails to bring in its share of equity contribution, MIDL is required to bridge the gap. Considering the low consolidated net worth of MIDL and the leveraged capital structure, the ability of the sponsor to support the SPV is a key rating sensitivity.

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 MLVPL. However, under HAM the BPC shall be subject to change on account of variation in price index which mitigates this input cost risk to a large extent.

Infomerics Valuation And Rating Pvt. Ltd.



Analytical Approach & Applicable Criteria:

Rating Methodology for Infrastructure Companies

Financial Ratios & Interpretation (Non-Financial Sector)

About the Company

MEP Longjian VTR Pvt Ltd (MLVPL) 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 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. MLVPL has entered into a 17.5 year Concession Agreement (CA) (including construction period of 910 days [about 2.5 yrs] from the appointed date) with National Highways Authority of India (NHAI) to design, build, operate and transfer of 23.798 km of road on hybrid annuity basis. The project under consideration aims at eight laning of the Vadape-Thane Section from Km 539.202 to Km 563.000 in the State of Maharashtra. The project includes augmentation of the existing four lanes into eight lanes. The total bid project cost (BPC) is Rs.1182.87 crore (that will be adjusted for variation in price index between bid date and COD) which is being funded through promoter's contribution of Rs.141.94 crore, term debt of Rs.567.78 crore and grant from NHAI of Rs.473.15 crore. The CA was signed on July 04, 2018, post which MLVPL had a period of upto 150 days for achieving financial closure. The company has been sanctioned the project debt. Currently, the company is in the process of obtaining the appointed date from NHAI, which is expected somewhere around December 2018, post which it will commence the construction.

Financials: As the company was incorporated in April 2018, past financials are not applicable.

Status of non-cooperation with previous CRA: Not applicable

Any other information: N.A

Rating History for last three years:

S. No.	Name of Instrument/ Facilities	Current Rating (Year 2018-19)			Rating History for the past 3 years		
		Type	Amount outstanding	Rating	Date(s) & Rating(s)	Date(s) & Rating(s)	Date(s) & Rating(s)

			(Rs. crore)		assigned in 2017- 18	assigned in 2016- 17	assigned in 2015- 16
1.	Proposed Term Loan	Long Term	567.78	IVR BBB/ Stable Outlook	--	--	--
2.	Proposed Non- Fund based Limit:- Performance Bank Guarantee	Short Term	59.15	IVR BBB/ Stable Outlook			
3.	Proposed Fund based Limits:- Overdraft	Long Term/ Short Term	20.00	IVR BBB/ Stable Outlook			

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.

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Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Proposed Term Loan	NA	NA	NA	567.78	IVR BBB/ Stable Outlook
Proposed Non-Fund based Limit:- Performance Bank Guarantee	NA	NA	NA	59.15	IVR BBB/ Stable Outlook
Proposed Fund based Limits:- Overdraft	NA	NA	NA	20.00	IVR BBB/ Stable Outlook