ANANDRATHI

India I Equities

Infrastructure

Company Update

Change in Estimates ☑ Target ☑ Reco ☐

18 August 2018

MEP Infrastructure

Significant upswing in all division hints at growth ahead; Hold

Rating: **Hold**
Target Price: ₹93
Share Price: ₹57

With construction operations in full swing and revenues coming in from its big tolls, MEP delivered a strong Q1 FY19, all its segments outperforming. With work set to begin on four new hybrid annuities later this year, we expect a significant rise in EPC revenues. However, the same is not yet there in our estimates as we await financial closure. Neverthless, we expect financials to be better and, consequently, retain our Hold rating.

Portfolio highlights. The company has obtained the second milestone for the Nagpur Ring Road (Packages I and II) and expects to complete them by Mar'19. A major setback was seen on the Delhi Entry Point project, where toll has been suspended for ~36 days on a Supreme Court order. Management expects toll to start by end-Sep'18.

Cash outflows. The six hybrid annuities being constructed have pending equity infusion of ~₹1.8bn, along with the JV partner. The company needs to further infuse ~₹5bn (equity) in the four newly-acquired hybrid annuities, with its Chinese partner (MEP stake: 51%). Accounting for the Mumbai Entry Point's ~₹1.8bn repayment for FY19 and assuming a similar amount for FY20 and the ~₹2.8bn RGSL project debt; the company has outflows of ~₹10bn over the next 2–2.5 years. It is banking on internal accruals and the book cash.

Monetisation trial. The company signed a non-binding term-sheet to sell six of its hybrid annuities for ~₹4.5bn. The deal, if firmed up, would help monetise portfolio by Mar'20, when construction on said projects would be complete and subject to regulatory approvals and satisfactory due diligence.

Valuation. Accounting for a temporary toll-suspension at Delhi Entry Points and as we adjust pace depreciation charge in accordance with Q1FY19 figures, we lower our FY19e earnings ~8% and raise ~10% for FY20e. Our sum-of-parts-based TP works out to ₹93. **Risks:** Failure to exercise financial prudence and delay in execution.

Key financials (YE Mar)	FY16	FY17	FY18	FY19e	FY20e
Sales (₹ m)	19,052	17,291	23,220	34,898	38,779
Net profit (₹ m)	-366	56	710	1,255	1,602
EPS (₹)	-2.3	0.3	4.4	6.8	8.7
Growth (%)	-78.0	-	1,172.0	56.7	27.6
PE (x)	-	153.7	16.5	8.3	6.5
EV / EBITDA (x)	2.3	2.8	4.6	3.4	2.9
PBV (x)	-	-	19.6	3.1	2.1
RoE (%)	14.9	-9.3	273.4	63.1	38.5
RoCE (%)	21.6	18.3	19.9	22.3	23.0
Net debt / equity (x)	-25.5	-352.3	48.0	7.3	4.4

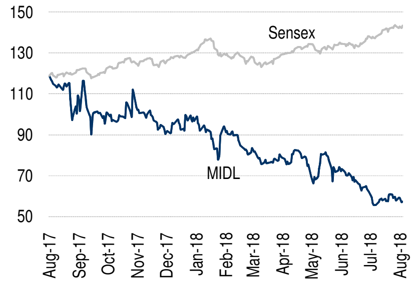
Source: Company, Anand Rathi Research

Key data	MIDL IN / MIPN.BO
52-week high / low	₹125 / 53
Sensex / Nifty	37948 / 11471
3-m average volume	$0.5m
Market cap	₹11bn / $150.1m
Shares outstanding	183m

Shareholding pattern (%)	Jun'18	Mar'18	Dec'17
Promoters	61.9	69.9	69.9
- of which, Pledged	*31.4*	*31.6*	*27.6*
Free float	38.1	30.1	30.1
- Foreign institutions	11.1	0.8	1.0
- Domestic institutions	7.9	8.7	8.8
- Public	19.1	20.6	20.4

Estimates revision (%)	FY19e	FY20e
Sales	-10.0	-2.9
EBITDA	-20.9	-17.9
Adj. PAT	-8.3	10.5

Relative price performance



Source: Bloomberg

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Quick Glance – Financials and Valuations

Fig 1 – Income statement (₹ m) - standalone

Year-end: Mar	FY16	FY17	FY18	FY19e	FY20e
Order backlog	16,207	34,656	27,538	16,031	3,013
Order inflows	16,207	19,082	-	-	-
Net revenues	**19,052**	**17,291**	**23,220**	**34,898**	**38,779**
Growth (%)	*-5.2*	*-9.2*	*34.3*	*50.3*	*11.1*
Direct costs	2,600	3,280	12,926	22,800	25,758
SG&A	1,144	1,123	1,567	1,875	2,019
EBITDA	**15,308**	**12,888**	**8,727**	**10,223**	**11,002**
EBITDA margins (%)	*80.3*	*74.5*	*37.6*	*29.3*	*28.4*
Depreciation	10,122	8,680	4,189	4,171	4,934
Other income	757	864	1,203	656	691
Interest expenses	6,422	4,931	4,696	4,817	4,345
PBT	-479	141	1,046	1,892	2,414
Effective tax rate (%)	*32.9*	*61.6*	*36.6*	*33.7*	*33.7*
+ Associates / (minorities)	-45	2	47	-	-
Net income	-366	1,089	710	1,255	1,602
Adjusted income	-366	56	710	1,255	1,602
WANS	163	163	163	183	183
FDEPS (₹ / sh)	-2.3	0.3	4.4	6.8	8.7

Fig 2 – Balance sheet (₹ m) - standalone

Year-end: Mar	FY16	FY17	FY18	FY19e	FY20e
Share capital	1,626	1,626	1,626	1,834	1,834
Net worth	-1,124	-79	598	3,381	4,944
Total debt	30,531	29,578	30,320	28,442	24,671
Minority interest	-	-	-	-	-
DTL / (assets)	-2,045	-1,520	-1,322	-1,322	-1,322
Capital employed	**27,362**	**27,979**	**29,597**	**30,501**	**28,292**
Net tangible assets	609	508	927	748	618
Net intangible assets	35,269	24,140	23,863	20,775	17,233
Goodwill	-	-	-	-	-
CWIP (tang. & intang.)	67	282	267	250	250
Investments (strategic)	217	1,663	2,397	4,217	4,217
Investments (financial)	-	-	-	-	-
Current assets (ex cash)	14,271	19,155	18,981	16,477	15,098
Cash	1,867	1,691	1,631	3,756	2,792
Current liabilities	24,938	19,458	18,469	15,723	11,915
Working capital	-10,667	-303	512	754	3,182
Capital deployed	**27,362**	**27,979**	**29,597**	**30,501**	**28,292**
Contingent liabilities	7,773	28,650	67,357	-	-

Fig 3 – Cash-flow statement (₹ m) – standalone

Year-end: Mar	FY16	FY17	FY18	FY19e	FY20e
PBT	5,186	4,208	4,538	6,053	6,068
+ Non-cash items	10,122	8,680	4,189	4,171	4,934
Oper. prof. before WC	15,308	12,888	8,727	10,223	11,002
- Incr. / (decr.) in WC	3,625	10,364	815	242	2,428
Others incl. taxes	307	-440	176	937	1,206
Operating cash-flow	11,376	2,965	7,736	9,044	7,368
- Capex (tang. + intang.)	6,040	-2,336	4,317	888	1,261
Free cash-flow	5,336	5,301	3,420	8,157	6,106
Acquisitions	-	-	-	-	-
- Div.(incl. buyback & taxes)	20	39	29	39	39
+ Equity raised	511	-	-	209	-
+ Debt raised	-3,071	-428	940	-1,878	-3,771
- Fin investments	-106	1,446	735	1,820	-
- Misc. (CFI + CFF)	2,705	3,564	3,656	2,503	3,260
Net cash-flow	156	-176	-60	2,125	-964

Source: Company, Anand Rathi Research

Fig 4 – Ratio analysis

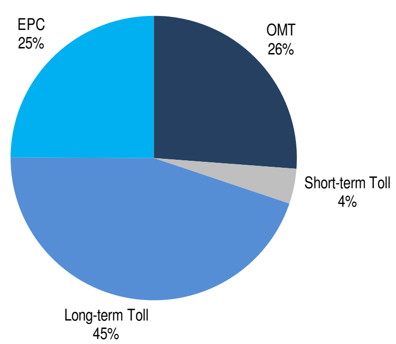
Year-end: Mar	FY16	FY17	FY18	FY19e	FY20e
P/E (x)	-	153.7	16.5	8.3	6.5
EV / EBITDA (x)	2.3	2.8	4.6	3.4	2.9
EV / sales (x)	1.8	2.1	1.7	1.0	0.8
P/B (x)	-	-	19.6	3.1	2.1
RoE (%)	14.9	-9.3	273.4	63.1	38.5
RoCE (%)	21.6	18.3	19.9	22.3	23.0
Sales / FA (x)	0.5	0.7	0.9	1.6	2.1
DPS (₹ / sh)	0.2	0.2	0.1	0.2	0.2
Dividend yield (%)	0.5	0.4	0.2	0.3	0.3
Dividend payout (%) - incl. DDT	14.9	70.1	4.1	3.1	2.4
Net debt / equity (x)	-25.5	-352.3	48.0	7.3	4.4
Receivables (days)	0	7	14	15	16
Inventory (days)	-	-	-	-	-
Payables (days)	438	280	180	110	91
CFO : PAT %	-	5,313.2	1,090.1	720.6	460.0

Source: Company, Anand Rathi Research

Fig 5 – Price movement

Source: Bloomberg

Fig 6 – Q1 FY19 Revenue break-up



Source: Company

Concall highlights

Income statement

- **Strong revenue growth.** The company reported phenomenal Q1 FY19 revenue, up ~117% to ~₹8.2bn, against ~₹3.8bn a year ago. Sequentially, it's up ~6% from ~₹7.7bn. The out-performance can be attributed to ~81% y/y growth in EPC revenue, from ~₹1.1bn to ~₹2bn. Mumbai and Delhi Entry points, apart from the Vidyasagar Setu project boosted revenues further.
- **EBITDA declines on smaller base.** Though the company secured top-of-the-line revenue, this was not translated to higher margins; rather the margin contracted 1397bps y/y, though q/q it was up 211bps. This contraction was partly the result of the commencement of the Delhi Entry Point (lower margin project). Besides, the change in the revenue mix, given the significant rise in the share of lower-margin construction revenues further added to the burden.
- Notwithstanding higher finance costs (thanks to an upfront loan taken for the RGSL project), depreciation (~₹1.2bn amortization, again mainly due to the RGSL project) and an increase in taxes in the quarter (mainly due to revision in tax rates in some of the subsidiaries), profit grew ~102% y/y to ~₹262m.

Fig 7 – Quarterly results

YE: Mar (₹ m)	Q1 FY18	Q1 FY19	% Y/Y	Q4 FY18	% Q/Q	FY17	FY18	% Y/Y
Sales	3,801	8,253	117.1	7,762	6.3	17,291	23,220	34.3
EBITDA	1,814	2,785	53.6	2,456	13.4	12,888	8,727	-32.3
EBITDA margin (%)	47.7	33.7	-1397bps	31.6	211bps	74.5	37.6	-3695bps
Interest	1,159	1,173	1.2	1,187	-1.2	4,931	4,696	-4.8
Depreciation	908	1,273	40.2	1,231	3.4	8,680	4,189	-51.7
Other income	417	154	-63.0	351	-56.0	864	1,203	39.3
Exceptional item	-	-		-	-	-1,579	-	
PBT	163	493	201.6	388	27.0	1,719	1,046	-39.2
Tax	46	195	326.6	137	41.8	633	383	-39.4
PAT	118	298	153.2	251	18.9	1,087	663	-39.0
Adj. cons. PAT	130	262	102.2	266	-1.4	57	710	-

Source: Company

Fig 8 – Segment-wise details

Business Verticals	Q1 FY18	Q1 FY19	% Y/Y	Q4 FY18	% Q/Q	FY17	FY18	% Y/Y
Revenue								
Toll collection / Repairs & maintenance	2,656	6,181	*132.7*	6,104	*1.3*	16,421	17,269	*5.2*
Construction revenue	1,145	2,072	*81.0*	1,659	*24.9*	870	5,951	*584.4*
Total	**3,801**	**8,253**	***117.1***	**7,762**	***6.3***	**17,291**	**23,220**	***34.3***
Margins %								
Toll collection / Repairs & maintenance	*31.2*	*19.8*	*-1146bps*	*31.7*	*-1190bps*	*25.8*	*24.8*	*-98bps*
Construction revenue	*4.6*	*15.6*	*1097bps*	*21.7*	*-609bps*	*4.6*	*17.6*	*1295bps*

Source: Company

Fig 9 – Major revenue contributors

₹m	Q1 FY18	Q1 FY19	% y/y
Delhi Entry Point	-	3,279	-
HAM- EPC	1,145	2,072	81.1
Mumbai Entry Point	1,142	1,327	16.2
Hyderabad-Bangalore	412	485	17.7
Rajiv Gandhi Sea Link (RGSL)	246	358	45.9
Vidyasagar Setu	163	295	81.1
Kalyan Shilphata	77	94	21.2
Baramati Toll	21	29	36.4
Others	595	315	-47.1
Total	**3,801**	**8,253**	**117.1**

Source: Company

Order backlog / Projects update

- On 30th Jun'18, the EPC order backlog was ~₹69bn. The order backlog includes EPC potential for the recently secured hybrid annuities wherein financial closure is yet awaited.

Hybrid Annuities

- **Incremental on under construction six hybrid annuities**
  - Of the two packages of **the Nagpur Ring Road project**, the company has achieved milestone-2 in Package 2. It aims to complete both by end-Mar'19.
  - The six hybrid annuity projects being constructed require ~₹5.8bn equity, of which ~₹4bn has already been infused along with the JV partner.
- **Four newly acquired hybrids.** The company is well within the time limit stipulated in the concession agreements and is at advanced stages to attain financial closures. Management expects to tie-up ~`20bn of debt through under works financial closures. These four projects, of ~₹41bn, are part of the Bharatmala programme.
  - The equity infusion for these (~₹5bn over 2–2.5 years) will be funnelled from a mix of QIP monies (~₹1.6bn), internal accruals and EPC margins.
  - The land acquisition statuses of these hybrid annuities are at various stages (3A, 3G, etc). The company maintains, however, that lending institutions expect a minimum land availability status of 80%. Thus, when work finally starts, a minimum of 80% of the land can be assumed.

Toll projects

- The company added two additional short-term tolls (NHAI tolls, from Tamil Nadu) to its portfolio, thus the current toll portfolio is three short-term, three long-term, three OMT projects and one BOT project.
- **The Delhi Entry Point project.** This project brought ~41% to Q1 FY19 revenue. While the revenue was in line with management expectations, toll has been suspended by the Authority due to a Supreme Court order for ~36 days.
  - Management estimates to commence toll collection (again) sometime around end-Sep'18.

  - It intends to raise a claim once the toll is again operational, after which it expects the claim to materialise as early as Q3 FY19.
  - This is a five-year concession, of which the company is in the 11th month of operation.
- While the company sees promise in short-term tolls (concession less than or equal to one year), revenue trends seems to suggest significant growth contribution from long-term tolls.

Future Scope

- The company sees further scope in improving its toll portfolio, and has consequently recognised ~18 projects (one long-term, 17 short-term) across various Authorities (the NHAI, PWD, MSRDC) with a collective annual potential of ~₹13.4bn.
- It has, on the hybrid annuities front, recognised ~28 projects from the NHAI with a collective cost of ~₹276bn.
- It also identified ~12 projects by the PWD (Maharashtra) under the OMT model, with an estimated project cost of ~₹93.5bn.
- Besides these, management plans to participate in Phase-II TOT bids recently opened by the government. It had not participated in Phase-I and is in talks with multiple potential players, after which bids will be submitted.

Balance Sheet

- **Debt position.** Outstanding debt on 30th Jun'18 was ~₹29bn, which can largely be attributable to ~₹3.6bn for the listed company (MEP), the Mumbai Entry Point accounting for ~₹22bn and the RGSL project the balance ~₹2.8bn.
- **Debt-reduction plan.** Most outstanding debt is project specific and will be repaid over the life of the project. The MEP debt of ~₹3.6bn has a longer repayment schedule, while the three-year RGSL project debt ~₹2.8bn will be wound down in the next two years. Of the Mumbai Entry Point project debt, ~₹1.8bn is scheduled for repayment in FY19.

Guidance

- The company has guided to ₹34bn-35bn revenue for FY19: over ₹20bn from the tolling business and ~₹14bn-15bn in construction revenue.
- It envisages the current rate of construction revenue to persist, especially with work yet to begin on four hybrid annuities. It envisages the construction business margin at ~15-17%.
- It expects further inflows of ~₹20bn, toward end-FY19 for the construction business.
- It does not see FY19 debt rising substantially.
- It plans capex for FY19 mostly on account of the newly acquired hybrid annuities; however, it plans to quantify this at end-Q2.

Other highlights

- **Stake divestment.** The company entered into a non-binding term-sheet with Indian Highways Developers (a subsidiary of Cube Highways) to sell its stake in the first six hybrid annuities across Maharashtra and Gujarat, on completion of construction subject to satisfactory due diligence and regulatory approvals.

- The EPC portion of these hybrids will be executed by MEP. This deal is in line with the company's strategy of monetizing these hybrids to further improve its bargaining power in bidding for projects.
- Consideration for the six hybrid annuities amounts to more than ₹4.5bn and is expected to finally go through by Mar'20.

Valuation

Accounting for a temporary toll-suspension at Delhi Entry Points and as we adjust pace depreciation charge in accordance with Q1FY19 figures, we lower our FY19e earnings ~8% and raise ~10% for FY20e. Our sum-of-parts-based TP works out to ₹93, which implies an exit PBV of 3.5x.

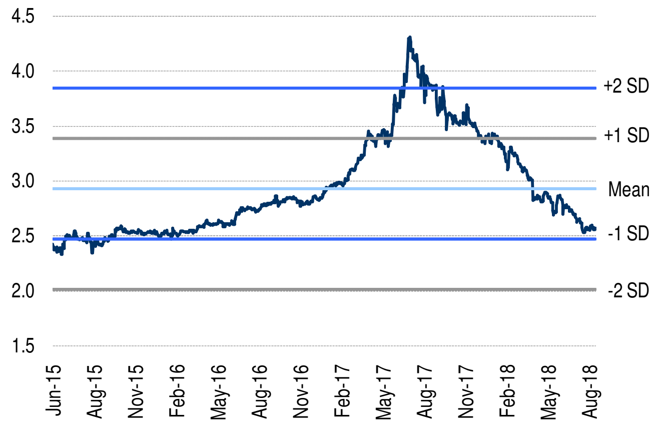
Fig 10 – Revision in estimates

₹ m	Original Estimates		Revised Estimates		Change (%)	
	FY19e	FY20e	FY19e	FY20e	FY19e	FY20e
Revenue	38,776	39,944	34,898	38,779	-10.0	-2.9
EBITDA	12,925	13,407	10,223	11,002	-20.9	-17.9
Adj. PAT	1,368	1,450	1,255	1,620	-8.3	10.5

Source: Anand Rathi Research

We value the toll contracts, the only BOT-toll project and the 15 years of operations of the six hybrid annuity projects using the DCF methodology. The value for the construction business is based on the relative valuation (PE). Consequently, toll operations/hybrid annuity translate to ₹43 a share, with construction valued at ₹50. Thus, our sum-of-parts-based target works out to ₹93 a share. On a PBV basis, the stock is available at 2.1x FY20e and our target implies an exit PBV multiple of 3.5x FY20e.

Fig 11 – EV EBIDTA band



Source: Bloomberg, Anand Rathi Research

Risks

- Failure to exercise financial prudence.
- Any significantly slower-than-expected execution.

Appendix

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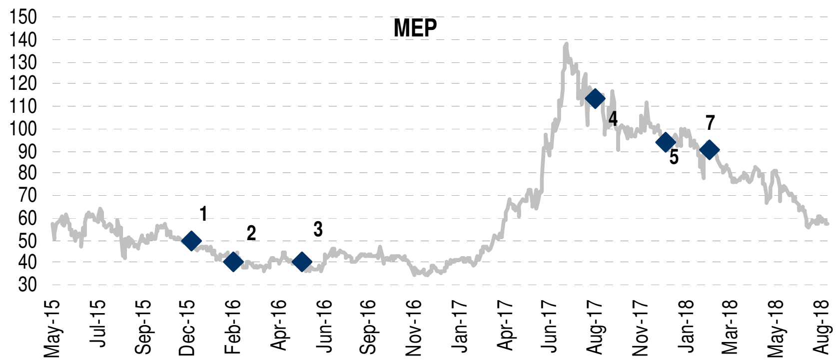
Rating and Target Price History (as of 18 August 2018)



	Date	Rating	TP (₹)	Share Price (₹)
1	07-Dec-15	Buy	60	49
2	10-Feb-16	Buy	58	40
3	26-May-16	Buy	55	41
4	22-Aug-17	Hold	123	115
5	11-Dec-17	Hold	108	94
6	16-Feb-18	Hold	106	92

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