

Strong play in Road OMT segment!!

MEP is one of the few established players in the road tolling and operations and maintenance (OMT) segment. The asset light business model has allowed MEP to achieve consistent growth over the years despite industry slowdown. MEP has increased its focus on long-term projects with an aim to create a stable revenue stream. MEP has increased the share of long-term projects significantly to 67% of FY16 revenues (36% in FY12). MEP bid for Mumbai entry point OMT project in 2010, for which, it paid Rs.21 bn upfront. While this dented its balance sheet, the project is likely to be a strong revenue generator for MEP in the coming years. MEP has always been focused on toll collection and OMT projects. However, it has now ventured into the newly introduced Hybrid annuity (HAM) projects. MEP has won six HAM projects in JV during the past nine months and sits on an order book of a whopping Rs.38 bn (including JV share). Backed by its HAM portfolio, the company's business model is likely to see a sea change. MEP expects HAM project execution to drive future revenue growth. Although MEP established itself in tolling and OMT over the years, it remains to be seen how well MEP executes the HAM projects. Further, MEP would require capital for executing relatively asset heavy HAM projects. MEP has started to assess funding options; however, it is crucial to have funding in place at the earliest to ensure timely execution.

Well placed post recent order inflows; fund raising remains crucial
With the recently bagged HAM projects and existing toll and OMT projects, MEP is comfortably placed. However, the company's balance sheet appears stretched, owing to debt pileup pertaining to upfront payment made for the Mumbai Entry point OMT project. To execute future projects, especially HAM projects, the company aims to raise funds through the infrastructure investment trust (InvIT). In this context, MEP has already secured an approval from SEBI. While the order book remains strong, timely raising of funds would be crucial toward achieving successful project execution and future order inflows.

Analyst: Alok Deora

CMP (Rs) 43

Not rated

Stock data

Sensex:	27,278
52 Week h/l (Rs):	67 / 34
Market cap (Rs mn) :	6,990
Enterprise value (Rs mn):	34,568
6m Avg t/o (Rs mn):	16.9

Prices as on July 4, 2016

Company rating grid

	Low ← → High				
	1	2	3	4	5
Earnings Growth			■		
Cash Flow			■		
B/S Strength		■			
Valuation appeal			■		
Risk					■

Shareholding pattern (%)

Promoter	69.3
FII+DII	14.9
Others	15.8

Financial summary

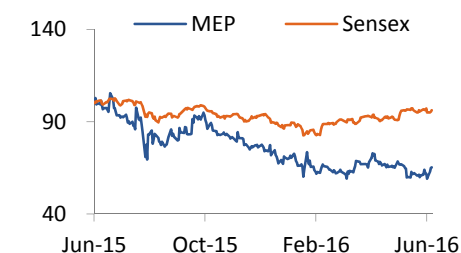
Y/e 31 Mar (Rs mn)	FY12	FY13	FY14	FY15	FY16
Revenues	10,801	12,800	11,979	19,843	20,068
yoy growth (%)	-	18.5	(6.4)	65.6	1.1
Operating profit	3,490	3,649	3,115	4,201	5,548
OPM (%)	32	29	26.0	21.2	27.6
Adjusted PAT	(551)	(625)	(1,282)	(1,143)	263
EPS (Rs)	(5.5)	(6.2)	(12.9)	(10.3)	1.6
P/E (x)	NA	NA	NA	NA	26.6
EV/EBITDA (x)	9.6	8.8	10.4	8.2	6.1
Debt/Equity (x)	33.3	103.4	(34.2)	(14.0)	28.7
RoE (%)	(60.5)	(218.9)	NA	NA	NA
RoCE (%)	10.0	9.8	7.6	10.0	14.4

Source: Company, IIFL Wealth Research

Sector: Infrastructure

Bloomberg code:	MIDL IN
BSE code:	539126
NSE code:	MEP
FV (Rs):	10
Div yield (%):	-

Stock performance



	1M	3M	1Y
Absolute return (%)	(1)	10	(35)

Strong tolling and OMT experience; currently operating a robust portfolio that provides decent revenue visibility

MEP is engaged in tolling and OMT projects since its inception and has developed strong expertise in the space. The execution track record of the company is strong. Besides, some current projects in its kitty are long-term in nature, which provides strong revenue visibility.

For the Mumbai entry OMT project, the company paid an upfront cost to government authorities, owing to the contract clause. Although this significantly affected its balance sheet, the company is eyeing strong returns from the project.

Table 1: OMT Portfolio

Particulars	Madurai - Kanyakumari	Hyderabad - Bangalore	Rajiv Gandhi Sea link	Mumbai Entry Points
Description	Four lane carriage way located on NH-7, which is a major highway running through U.P, M.P, Maharashtra, Andhra Pradesh, Karnataka & Tamil Nadu	Four lane carriage way located on NH-7, passes through industrial districts such as Kurnool and Anantapur in Andhra Pradesh	Links Bandra in the Western Suburbs of Mumbai with Worli in South Mumbai	Five entry points located at Sion–Panvel Highway, Western Express Highway, Eastern Express Highway, LBS Marg and Airoli Bridge corridor in Mumbai
Authority	NHAI	NHAI	MSRDC	MSRDC
Stake	100%	100%	100%	100%
State	TN	AP	Maharashtra	Maharashtra
Concession Commencement	22-Sep-13	16-May-13	6-Feb-14	20-Nov-10
Tenure	9 years	9 years	156 weeks	16 years
No of plazas	4	3	1	5
Amount paid to Authority	Rs.1,108.7 mn for the first year of the concession period with 10% escalation every year to be paid in 12 equal monthly instalments	Rs.1,059.3 mn for the first year of the concession period with 10% escalation every year to be paid in 12 equal monthly instalments	Rs.690 mn for first year of concession period along with an additional onetime payment of Rs.5 mn. The annual payment is subject to 10% escalation for second year & 20% for third year, to be paid in 12 equal monthly instalments	Upfront Payment of Rs.21,000 mn

Source: Company, IIFL Wealth Research

MEP constantly looking to increase the share of long-term projects to improve revenue visibility

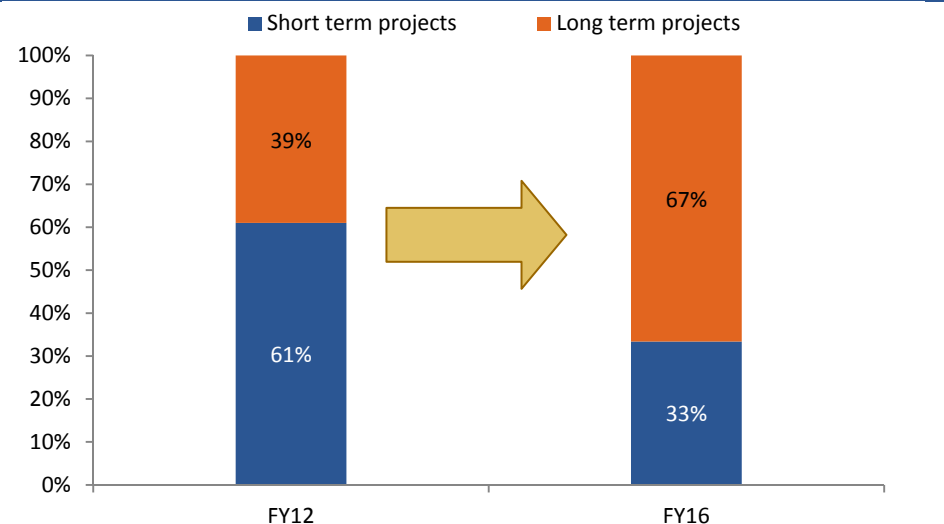
MEP operates a large portfolio of short and long-term projects and is focused on increasing the mix of long-term projects, which increased the share of revenues from such projects to 67% in FY16 (39% in FY12).

With higher share of long-term projects, MEP is aiming

- ✧ Stable and consistent revenues, which is difficult to achieve with short-term projects.
- ✧ Creation of internal efficiencies and to be in a position to generate higher margins.

While MEP will be bidding for short-term projects, it is clearly eyeing a larger pie among the long-term ones in the coming years.

Chart 1: Share of long term projects on the rise



Source: Company, IIFL Wealth Research

Table 2: Long-term toll portfolio

Particulars	IRDPSolapur	Vidyasagar Setu	Kini Tasawade	Rajiv Gandhi Salai (1)	Kalyan Shilphata (1)
Description	Located in Solapur district	18 lane toll plaza at Vidyasagar Setu, links Howrah to Kolkata	Located on Satara – Kolhapur section of NH-4	Previously known as the IT corridor	Connecting Mumbai Pune Highway (NH-4) at Shilphata & Mumbai - Nashik Highway (NH-3) at Bhiwandi
Authority	MEP Solapur	RTBPL	RTIPL	NA	NA
Stake	100%	100%	100%	NA (1)	NA (1)
State	Maharashtra	WB	Maharashtra	TN	Maharashtra
Concession Commencement	2-Jan-13	1-Sep-13	29-May-14	8-Mar-14	27-Sep-13
Tenure	156 weeks	5 years	104 weeks	3 years	156 weeks
No of plazas	4	1	2	5	2
Amount paid to Authority	Rs 208 mn, to be paid in three equal annual instalments	Rs 2,610 mn to be paid in five equal annual instalments consisting of upfront payment of Rs 522 mn and payment of remaining amount in four equal instalments in advance	Rs 2,270.70 mn, to be paid in upfront monthly instalments	Rs 14.62 mn for the first year with escalation of 5% per annum during each subsequent year for a period of two years	Rs 633.60 mn, to be paid in upfront monthly instalments

Source: Company, IIFL Wealth Research

(1) MEPIDL is the concession operator for the project and MEP is paid by the authorities for providing manpower services.

Massive HAM order inflows during the past few quarters; with no construction experience, MEP needs to focus on execution

MEP Infra has grabbed the newly introduced HAM Road projects by the Government with both the hands. The company with no construction experience has won six projects with a combined size of a whopping Rs.38 bn in a JV with Sanjose India. The projects are located in Maharashtra and Gujarat. The company expects to generate operating margins in the range of 10-12%, at a discount to peers as it's a new segment for MEP. While the aggression is visible, the execution remains a key monitorable. The company is confident of executing these projects without any issues. While the order book is in place, the company would require significant funding compared with pure tolling and OMT projects. Arranging this funding in time would hold the key to execution of the project as per the set timelines.

Table 3: HAM project Portfolio

Particulars	Arawali Kante	Kante Wakad	Nagpur Package I	Nagpur Package II	Talaja Mahuva	Mahuva Kagavadar
Description	Four-laning of NH66 (km 241.3 – 281.3) under NHDP Phase-IV	Four- laning of NH66 (km 281- 332) under NHDP Phase IV	Four-laning standalone Ring Road / Bypass (km 0.5- 34.0) for Nagpur city package	Four-laning standalone Ring Road / Bypass (km 34.5- 62.035) for Nagpur city package	Four laning of the TalajaMahuva section of NH- 8E (Km 53.6- 100.1)	Four laning of the Mahuva Kagavadar section of NH- 8E (Km 100.1-140.47)
Authority	MorTH	MorTH	NHAI	NHAI	NHAI	NHAI
Stake	74%	74%	74%	74%	60%	NA
State	Maharashtra	Maharashtra	Maharashtra	Maharashtra	Gujarat	Gujarat
Project Cost	Rs.5,930 mn	Rs.8,263 mn	Rs.5,310 mn	Rs.6,390 mn	Rs.6,431 mn	Rs.6,047 mn
Construction Period	2 years	2 years	2.5 years	2.5 years	2.5 years	2.5 years
Concession Period	15 years	15 years	15 years	15 years	15 years	15 years

Source: Company, IIFL Wealth Research

MEP has won these projects in JV with Sanjose India Infrastructure & Construction Pvt. Ltd where MEPs stake in each project is as mentioned in the table

NA – Not available

Hybrid Annuity Model – Opportunity with risk

HAM is a new business model recently introduced by the Government to improve private participation. As per the tender pipeline, significant number of HAM projects are likely to be awarded in the future. This model is considered a win-win situation for BOT players and authorities. The authorities can now award the project by investing 40% (100% outlay by authorities in case of EPC); BOT players can take up projects at almost half the investment. Additionally, toll risks are completely eliminated, leaving no scope for uncertainties to creep in. The Government will be responsible for collecting toll under this model and pay the contractor annuity payments for more than 15 years, including interest as 30 semi-annual annuities. The developer will also be receiving semi-annual O&M payouts. MEP has grabbed this opportunity and has taken up large HAM projects. Although it looks like a developer friendly business model, it involves certain risks according to industry participants.

Key concerns and risks

❖ **Banks not lending easily as business model is new**

Unlike BOT, the authorities in the HAM project would fund 40% of the project cost. However, the 40% would be paid to EPC contractor based on completion of milestones. This means the EPC players need to invest on their own initially in order to complete first phase of the project. The banks are not lending easily to fund this phase of the project, as it's a new business model.

❖ **No HAM projects commenced operations yet; most related parties in wait and watch mode**

HAM was launched in October 2015. No construction has begun for these projects. Most of the related parties include bankers; moreover, even some of the big road developers are not bidding for HAM at the moment, as they want to wait and see the outcomes before playing their card. Granted, that this is indeed an opportunity, but it could be a big risk if things do not happen as planned.

While the model is relatively new, it could be a good way to increase private participation and allow developers to keep the balance sheet light

compared with BOT. The outcome of awarded projects would set the path that determines the future of this business model. However, the Government is keen to award projects with this business model, as it forms majority of the current project pipeline of NHAI.

Fund raising need of the hour for MEP to execute recently-won HAM projects

MEP sits on an order book of ~Rs.38 bn (including JV partner share). This means that MEP would be required to pump in ~Rs.4-5 bn towards equity contribution. MEP already has a huge pileup of debt, owing to the onetime payment made to the authority for bagging the Mumbai entry point project. Therefore, it might not be able to take significant additions to the existing debt. Thus, the company might explore alternative routes to raise the necessary funds.

To execute these HAM projects, MEP is looking to raise funds through InvIT. The company has received an approval from SEBI for the same. InvIT by itself is a new concept in India, but is fast gaining traction with the Government focusing increasingly on quickly implementing the same.

The timely raising of funds would be crucial for successful project implementation and securing better order inflows. The company is confident of raising the required funds through alternate sources and it does not see fund availability as a challenge to its business.

About the Company

MEP has been primarily engaged in toll collection and OMT in the road sector. It has a well-diversified portfolio with presence across India. It currently has the following portfolio.

Table 4: Key Projects under execution

21 Project portfolio plus HAM projects

16 long term and short term toll collection projects (28 toll plazas) in 8 states.

4 long term OMT projects (covering 2,334 lane km and 13 toll plazas).

1 long term BOT project (covering 42 lane km and 5 toll plazas).

6 HAM projects totaling Rs.38 bn

Source: Company, IIFL Wealth Research

Among the OMT portfolio, one of the largest contracts is Mumbai Entry Point project. The project includes toll collection at the five Mumbai Entry Points and maintenance of 27 flyovers and certain allied structures in Mumbai for a period of 16 years until 2026. To venture into the construction segment, MEP (in JV with Sanjose India Infrastructure & Construction Pvt. Ltd.) actively participated in Hybrid Annuity Model road projects. HAM model which was introduced post October 2015 forms a significant portion of MEPs portfolio. It has managed to win six projects with total order size of Rs.38 bn. It has grabbed a major share of the HAM projects awarded till date by the Government. The Company is geographically well spread and has experience in executing different projects across locations. The Company is therefore well-placed to capitalize on future opportunity in the tolling and OMT space.

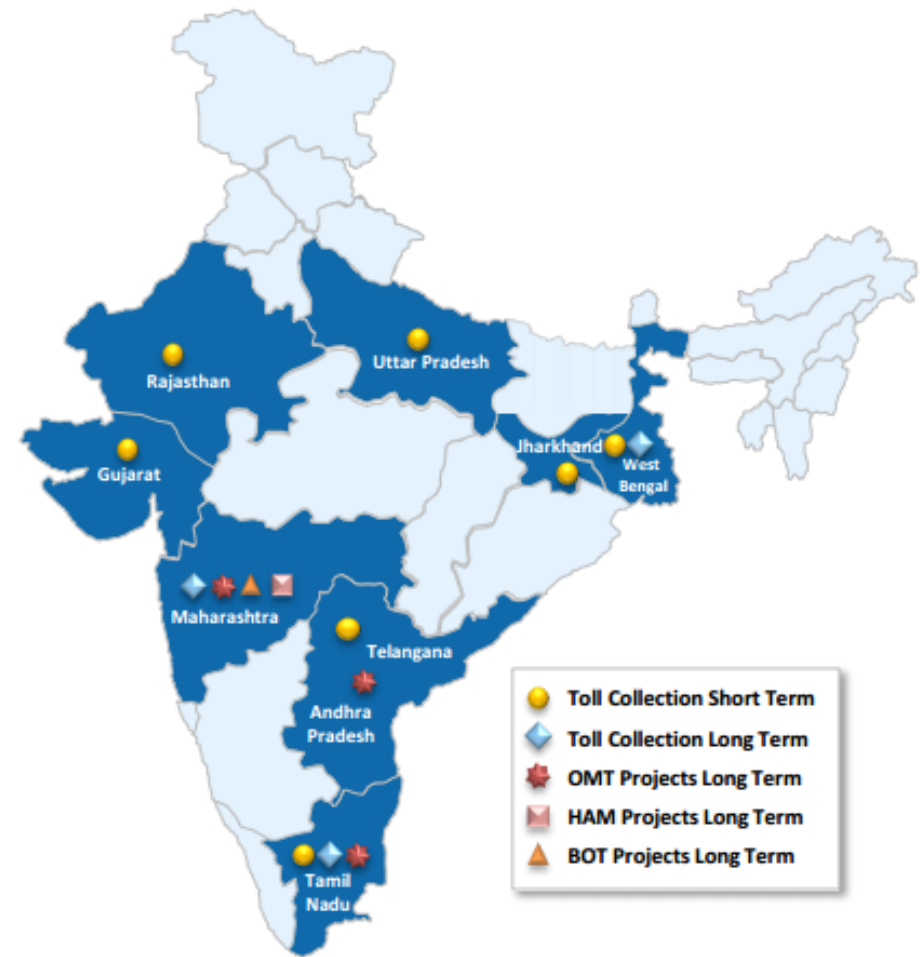
Integrated business model with strong in-house capabilities

MEP has integrated business model where it executes most work in-house. This approach has helped the Company to improve efficiency, and consistently generate strong operating margins. Sub-contractors are selectively used that too majorly for OMT projects.

MEP has a well-diversified portfolio spread across eight major states

Chart 2: Pan India presence

Current Portfolio Across Eight States In India

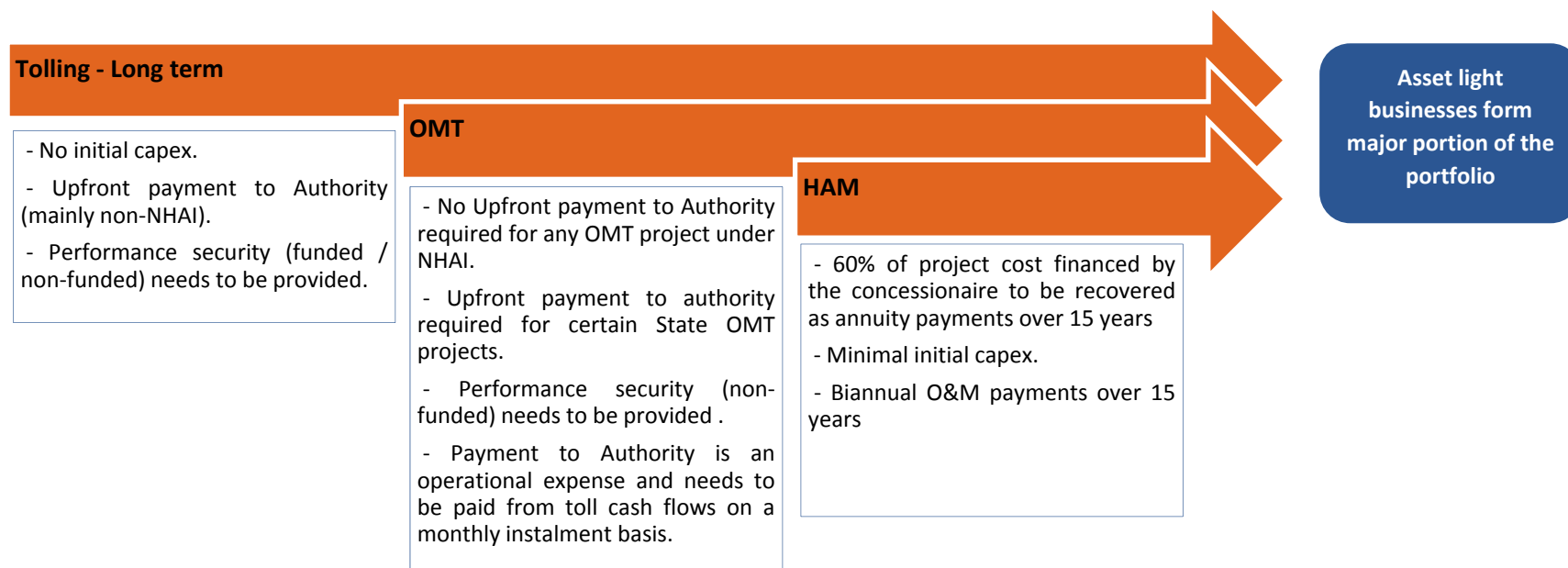


Source: Company, IIFL Wealth Research

Low asset intensive business model to continue

MEP has always been engaged in asset light business model which has allowed it to maintain strong growth in topline and operating performance. The HAM portfolio which is relatively asset heavy than tolling and OMT now forms a major chunk of the overall business. However the HAM model is still considered to be low asset intensive as compared to BOT model. Also the Company would continue to bid for OMT and tolling projects wherever it sees the opportunity. The Company therefore continues to operate with an asset light business model which is likely to be beneficial over long term perspective.

Chart 3: Asset Light Business Model



Source: Company, IIFL Wealth Research

Financials

Balance sheet

Y/e 31 Mar (Rs m)	FY12	FY13	FY14	FY15	FY16
Equity capital	1,000	1,000	1,000	1,115	1,626
Reserves	(90)	(715)	(1,878)	(3,379)	(613)
Net worth	910	285	(878)	(2,264)	1,013
Other LT Liabilities	-	2	1,566	1,044	522
LT provision.	9	12	15	23	31
Minority interest	0	0	9	-	-
Borrowing	30,312	29,516	30,049	31,639	29,076
Deferred tax liab (net)	(123)	(491)	(756)	(942)	(1,070)
Total liabilities	31,109	29,324	30,004	29,500	29,572
Fixed assets	22,074	21,512	22,998	21,457	20,095
Investments	-	-	6	216	217
Other Non-current Asset	3,413	7,291	7,738	9,322	9,395
Net working capital	4,770	(1,048)	(3,058)	(3,215)	(1,898)
Current Assets					
Inventories	-	-	-	-	-
Sundry debtors	45	384	287	258	2
Other current assets	124	57	322	630	1,046
ST. Loans & advances	6,519	1,579	915	1,812	3,280
Cash	852	1,539	1,623	1,455	1,498
Current Liabilities					
Sundry creditors	(241)	(222)	(1,464)	(2,663)	(3,344)
Other current liabilities	(1,675)	(2,843)	(3,115)	(3,247)	(2,855)
Provision	(2)	(3)	(3)	(5)	(26)
Total assets	31,109	29,324	30,004	29,500	29,572

Income statement

Y/e 31 Mar (Rs m)	FY12	FY13	FY14	FY15	FY16
Revenue	10,801	12,800	11,979	19,843	20,068
Operating profit	3,490	3,649	3,115	4,201	5,548
Depreciation & Amortization	(947)	(990)	(1,303)	(1,799)	(1,706)
PBIT	2,543	2,659	1,812	2,402	3,842
Interest expense	(3,766)	(3,765)	(3,797)	(4,036)	(3,832)
Other income	565	220	433	570	407
Exceptional items	-	0	(10)	(11)	-
Profit before tax	(658)	(886)	(1,562)	(1,075)	417
Taxes	53	261	236	(79)	(154)
Minorities	54	-	34	-	-
Reported profit	(551)	(625)	(1,292)	(1,153)	263
Adj. Net profit	(551)	(625)	(1,282)	(1,143)	263

Cash flow

Y/e 31 Mar (Rs m)	FY12	FY13	FY14	FY15	FY16
Cash flow from operation					
Profit before tax	752	21	(747)	(245)	(210)
Depreciation	460	553	584	592	671
Tax paid	(182)	65	168	120	44
Working capital Δ	(1,286)	(1,420)	1,498	134	2,078
Other operating items					
Operating cashflow	(257)	(781)	1,503	601	2,582
Cash flow from Investing Activities					
Capital expenditure	(2,800)	(1,848)	(936)	(213)	(359)
Change in other non curr assets	(558)	40	(6)	(160)	23
Free cash flow	(3,615)	(2,589)	561	227	2,247
Cash flow from Financing activities					
Equity raised	7,609	(231)	(1,094)	52	771
Investments	-	0	-	0	-
Debt financing/disposal	(5,588)	1,664	(416)	(1,265)	(2,798)
Dividends paid	(45)	(45)	(45)	-	(24)
Other items	968	349	1,023	(539)	(142)
Net Δ in cash	(671)	(851)	28	(1,524)	53

Ratio analysis

Y/e 31 Mar (Rs m)	FY12	FY13	FY14	FY15	FY16
Growth matrix (%)					
Revenue growth	-	18.5	(6.4)	65.6	1.1
Op profit growth	-	4.5	(14.6)	34.9	32.1
EBIT growth	-	(7.4)	(22.0)	32.4	43.0
Profitability ratios (%)					
OPM	32.3	28.5	26.0	21.2	27.6
EBIT margin	28.8	22.5	18.7	15.0	21.2
Net profit margin	(5.1)	(4.9)	(10.8)	(5.8)	1.3
RoCE	10.0	9.8	7.6	10.0	14.4
RoNW	(60.5)	(218.9)	NA	NA	NA
RoA	(1.7)	(1.9)	(3.9)	(3.3)	0.7
Per share ratios (Rs)					
EPS	(5.5)	(6.2)	(12.9)	(10.3)	1.6
Dividend per share	-	-	-	-	-
Cash EPS	4.0	3.6	0.1	5.8	12.1
Book value per share	9.1	2.9	(8.8)	(20.3)	6.2
Payout (%)					
Dividend payout	-	-	-	-	-
Tax payout	8.1	29.5	15.1	(7.3)	36.8
Liquidity ratios					
Debtor days	1.5	11.0	8.8	4.8	0.0
Inventory days	-	-	-	-	-
Creditor days	8.1	6.3	44.6	49.0	60.8
Leverage ratios (x)					
Interest coverage	0.8	0.8	0.6	0.7	1.1
Net debt / equity	32.4	98.0	(32.4)	(13.3)	27.2
Net debt / op. profit	8.7	8.1	9.1	7.2	5.0

Y/e 31 Mar (Rs m)	FY12	FY13	FY14	FY15	FY16
Valuation ratios (x)					
P/E	NA	NA	NA	NA	26.6
P/BV	4.7	15.1	NA	NA	6.9
EV/EBITDA	9.7	8.8	10.5	8.3	6.2
Net Cash Equiv./Mcap (x)	(6.9)	(6.5)	(6.6)	(6.3)	(3.9)
Dividend Yield	-	-	-	-	-
MCAP/Sales (x)	0.4	0.3	0.4	0.2	0.3
Component ratios (%)					
O&M Expenses	61.8	65.1	66.9	73.4	66.4
Staff cost	3.8	4.1	4.2	3.6	3.9
Other operating exp	2.0	2.3	2.9	1.8	2.1

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