3 December 2015

BUY

TP: INR 70.00
▲ 35.1%

MEP Infrastructure Developers

MIDL IN

A play on India's growing road tolling market

MEP, India's leading road toll booth operator, is a play on traffic growth at its existing projects and likely growth in tolling project awards by NHAI and its affiliates. We are positive on MEP given its strong business model (TOT/OMT/tolling projects; pricing in of risks) and an improving financial profile. Based on its current project profile, we find ROEs (FY17/FY18: 57%/42%) impressive, with gains likely flowing in from soft interest rates going ahead. Initiate with BUY/Mar 17 TP of Rs 70.

- **Mumbai Entry Points project – a key value driver:** The Mumbai Entry Points project has been profitable for the company, given the low, initial equity commitment, and successful pricing of traffic risk. The project contributed 30%/26%/28%/19% of MIDL's total FY12/FY13/FY14/FY15 revenues, and we estimate the project to be PAT positive by FY17 as interest payments come off and revenues continue to grow.
- **Long-term outlook upbeat:** MEP's long-term growth profile remains strong given (1) its toll collection models like Toll, Operate, and Transfer (TOT) wherein MORTH and NHAI seek to securitize future toll revenues and (2) NHAI EPC awards (1,214/ 2,551km in FY14/FY15) as well as introduction of hybrid-annuity model for road projects. Also, MEP with a ~20-25% share in India's road tolling market (estimated at ~Rs 8bn- Rs10bn), would benefit from (1) higher project awards by NHAI/ State Highway authorities in 2017-18 (OMT-based projects 30-32/55-60; tolling projects 145-150/140-145) and (2) lower funding costs amid benign interest rates.
- **Operations to turn around in FY16:** Improving profitability on account of operating leverage coupled with lower debt servicing costs should make MEP FCFE-positive in FY17/FY18 (Rs 1.4bn/Rs 1.9bn), even as FY16E-end cash stands healthy at Rs 4.3bn.
- **Attractively priced:** We value the stock on a SOTP basis, 1) FCFE for MIPL at Rs 40, 2) FCFE for ST and LT projects at Rs 19, 3) Other projects at Rs 11/ share. BUY.

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PRICE CLOSE (02 Dec 15)
INR 51.80

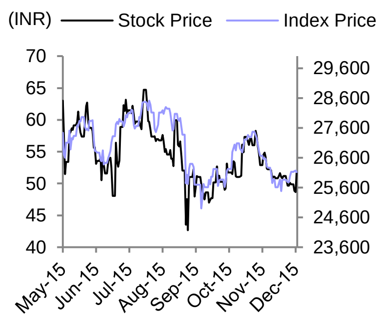
MARKET CAP
INR 8.4 bln
USD 126.6 mln

SHARES O/S
162.6 mln

FREE FLOAT
31.0%

3M AVG DAILY VOLUME/VALUE
1.5 mln / USD 1.2 mln

52 WK HIGH	52 WK LOW
INR 67.20	INR 41.20



Financial Highlights

Y/E 31 Mar	FY14A	FY15A	FY16E	FY17E	FY18E
Revenue (INR mln)	11,979	19,843	21,469	22,412	21,615
EBITDA (INR mln)	3,105	4,191	5,749	6,324	6,629
Adjusted net profit (INR mln)	(1,335)	(1,153)	295	872	1,031
Adjusted EPS (INR)	(12.1)	(10.5)	2.2	5.4	6.3
Adjusted EPS growth (%)	30.7	(13.4)	(120.5)	148.8	18.3
DPS (INR)	0.0	0.0	0.0	0.0	0.0
ROIC (%)	6.3	8.2	7.9	12.1	13.2
Adjusted ROAE (%)	450.3	73.4	(50.0)	57.3	41.7
Adjusted P/E (x)	(4.3)	(4.9)	24.0	9.7	8.2
EV/EBITDA (x)	11.7	8.8	6.7	5.1	4.7
P/BV (x)	(5.9)	(2.6)	7.8	4.3	2.8

Source: Company, Bloomberg, RCML Research

Investment rationale

Mumbai Entry Points project – A key value driver

MEP is a play on traffic growth, particularly around the Mumbai region, and a benign interest rate scenario. The key value driver for the company is its ability to successfully price traffic risk. The Mumbai Entry Points project housed in the SPV MIPL has been profitable for the company given the low, initial equity commitment. We estimate that this project would generate Rs 20.6bn in cash flows over the 10-yr period starting FY17 and we have valued the project at Rs 6.5bn or Rs 40 per share, using FCFE method and 14% cost of equity. The sensitivity of the project's value per share to interest rates and traffic growth assumptions is outlined in Fig. 1.

Mumbai Entry Points project valued at at Rs 6.5bn or Rs 40 per share

For FY12/FY13/FY14/FY15, the Mumbai Entry Points Project contributed 30%/26%/28%/ 19% of MIDL's total revenues, which indicates decreasing revenue concentration risk.

Fig 1 - Sensitivity of Mumbai Entry Point's value per share to traffic growth/interest rates

		Chg in traffic growth				
		(50 bps)	(25 bps)	0 bps	25 bps	50 bps
Chg in interest rate	100 bps	31	33	35	37	39
	50 bps	34	35	37	39	41
	0 bps	36	38	40	42	44
	(50 bps)	39	41	43	45	47
	(100 bps)	41	43	45	47	49

Source: Company, RCML Research

Fig 2 - Mumbai Entry Points, P&L

(Rs mn)	FY11	FY12	FY13	FY14	FY15	FY16E	FY17E	FY18E
Toll Revenue	943	3,191	3,213	3,345	3,798	4,185	4,394	4,798
growth					13.5%	10.2%	5.0%	9.2%
Total Operating Expenses	458	426	504	516	809	814	417	400
as % of toll revenue	15.5%	15.5%	15.5%	15.4%	21.3%	19.5%	9.5%	8.3%
EBITDA	485	2,765	2,709	2,829	2,989	3,371	3,977	4,398
Depreciation	191	648	655	700	810	959	1,007	1,100
Interest	1,013	3,059	3,307	3,244	3,244	2,979	2,742	2,561
Other income	40	158	191	184	167	143	143	143
PBT	(679)	(784)	(1,061)	(931)	(906)	(424)	372	880
Tax	(49)	(249)	(26)	(285)	(131)	(89)	78	185
PAT	(630)	(535)	(1,036)	(646)	(775)	(335)	294	696

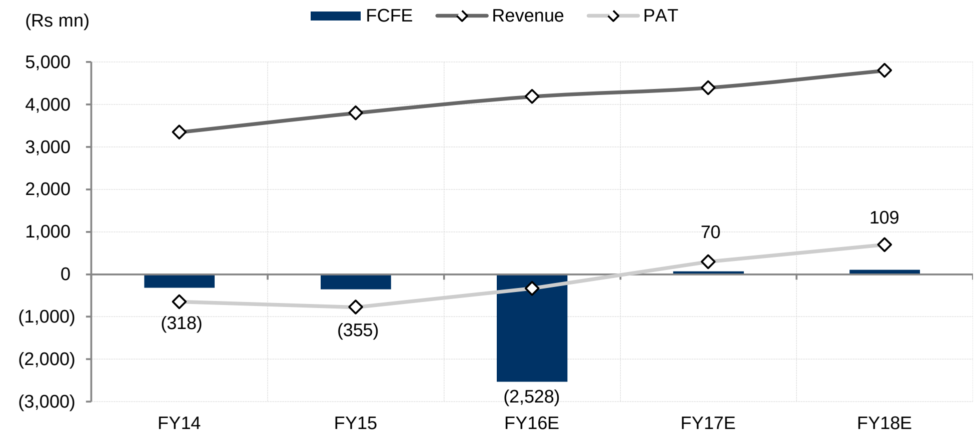
Source: Company, RCML Research

Fig 3 - Mumbai Entry Points, Cash flows

(Rs mn)	FY11	FY12	FY13	FY14	FY15	FY16E	FY17E	FY18E
EBITDA	485	2,765	2,709	2,829	2,989	3,371	3,977	4,398
Taxes							(78)	(185)
WC changes	(4,522)	(1,754)	946	292	459	(287)	(58)	(34)
CFO	(4,037)	1,011	3,655	3,121	3,448	3,084	3,841	4,180
Capex	(21,213)	(22)	(23)	(15)	(15)	(10)	(10)	(10)
FCFF	(25,250)	989	3,632	3,105	3,433	3,074	3,831	4,170
Debt service	25,222	(2,095)	(3,116)	(3,423)	(3,788)	(5,603)	(3,762)	(4,061)
FCFE	(28)	(1,106)	516	(318)	(355)	(2,528)	70	109
Cash from equity issue	111	1,000	-	-	99	2,623	-	-
Net cash generation	84	(105)	516	(318)	(256)	95	70	109

Source: Company, RCML Research

Fig 4 - Mumbai Entry Points: Cash flows turning positive



Source: Company, RCML Research

Short-term toll collection: High ROE business

MEP had revenues of Rs 8.3bn from short-term toll collection projects in FY15. The duration of such projects is typically less than or equal to 12 months, and bidding is based on fees paid to the awarding authority. The equity requirements for such projects are almost zero. However, the authorities do require the concessionaire to provide guarantees which increase the financing costs. The representative model of short-term toll collection projects is depicted in Fig. 5.

While investors may have concerns on the short-term nature of this business, growth is driven by an increase in EPC project awards by NHAI and other road contract awarding agencies. Also, through the life cycle of project, they are first bid out for short-term toll collection, followed for long-term toll collection, and finally for operate-maintain-transfer (OMT) works. Hence, short-term toll collection plays a critical role in assessing the traffic pattern of a particular road corridor.

Equity requirement for short-term toll projects almost nil

Fig 5 - Representative model

Short term toll collection	**(%)**
Revenue	100.0
Payment to authority	86.0
Opex	5.5
Finance cost	
fund based	1.0
non-fund	0.1
PBT	7.4
Tax	2.4
PAT	**5.0**

Source: Company, RCML Research

Fig 6 - MEP: Short-term toll collection projects

Sr. No.	Toll Plaza	State	Client	Term	Payment to Authority
1	Surajbari	Gujarat	NHAI	September 30, 2015 to September 29, 2016	Rs 740.7mn to be paid in weekly Instalment of Rs 14.2mn
2	Bankapur	Karnataka	NHAI	January 3, 2015 to January 2, 2016	Rs 441.0mn to be paid in weekly instalments of Rs 8.46mn
3	Manohrabad	Telangana	NHAI	February 17, 2015 to February 16, 2016	Rs 491.4mn to be paid in weekly instalments of Rs 9.42mn
4	Athur	Tamil Nadu	NHAI	March 26,2015 to March 25,2016	Rs 628.0mn to be paid in weekly instalments of Rs 12.01mn
5	Palsit	West Bengal	NHAI	March 26,2015 to March 25,2016	Rs 950.4mn to be paid in weekly instalments of Rs 18.17mn
6	Paduna	Rajasthan	NHAI	May 12,2015 to May 11,2016	Rs 1,000.8mn to be paid in weekly instalments of Rs 19.14mn
7	Gurav	Uttar Pradesh	NHAI	July 22,2015 to July 22,2016	Rs 594.0mn to be paid in weekly instalments of Rs 11.36mn
8	Semri	Gujarat	NHAI	October 28, 2015 to October 27, 2016	Rs 400.0mn to be paid in weekly instalments of Rs 7.70mn
9	Phalodi-Ramji	Rajasthan	RIDCOR	September 17, 2015 to September 16, 2016	Rs 437.9mn to be paid in weekly instalments of Rs 8.42mn
10	Surjapur	West Bengal	NHAI	November, 2015 to November, 2016	Rs 420.3mn to be paid in weekly instalments of Rs 8.10mn
11	Dasna	Uttar Pradesh	NHAI	November, 2015 to November, 2016	Rs 280.8mn to be paid in weekly instalments of Rs 5.40mn
12	Dastan Village *	Maharashtra	Mumbai-JNPT	November, 2015 to November, 2016	Rs 216.0mn to be paid in weekly instalments of Rs 4.15mn

Source: Company, RCML Research * Includes construction of new six lane bridge on Panvel Creek

Fig 7 - MEP: Short-term toll collection projects, P&L

(Rs mn)	FY15	FY16E	FY17E	FY18E
Revenue	8,342	7,841	8,037	7,234
growth, %		(6.0%)	2.50%	(10.0%)
Payment to authority	7,132	6,744	6,912	6,149
as % of sales, %	85.5%	86.0%	86.0%	85.0%
Opex	459	392	442	416
as % of sales, %	5.5%	5.0%	5.5%	5.8%
EBITDA	751	706	683	669
Finance cost				
fund based	71	70	67	64
non fund based	12	11	11	10
PBT	668	625	605	595
Taxes (@ 33%)	220	206	200	196
PAT	448	419	405	398
as % of sales, %	5.4%	5.3%	5.0%	5.5%

Source: Company, RCML Research

Even if we assume for a zero percent perpetual growth rate, the value of MEP's short-term toll collection business can be determined as given in Fig. 8.

Fig 8 - DCF valuation of short term toll collection business

(Rs mn)	FY15	FY16E	FY17E	FY18E	FY19E	FY20E	FY21E	FY22E	FY23E
Discount rate	14.00%								
Cash flows	530	499	484	473	398	395	378	379	368
Terminal Value (0% growth)									2,631
PV of cash flows			424	364	268	234	196	173	147
PV of terminal value									1,051
Enterprise value	2,858								
Less: borrowing	576								
Equity Value	**2,283**								
per MEP share	**14.0**								

Source: Company, RCML Research

Fig 9 - Sensitivity of short-term toll collection projects (per share value) to traffic growth/interest rates

		Chg in traffic growth				
		(100 bps)	(50 bps)	0 bps	50 bps	100 bps
Chg in interest rate	100 bps	13.18	13.64	14.12	14.61	15.12
	50 bps	13.14	13.61	14.08	14.57	15.07
	0 bps	13.11	13.57	14.04	14.53	15.03
	(50 bps)	13.07	13.53	14.00	14.49	14.99
	(100 bps)	13.03	13.49	13.96	14.45	14.95

Source: Company, RCML Research

As per our sensitivity analysis, a 50bps change in traffic growth leads to 4% change in value of short-term toll projects

Long-term toll collection: Higher margins

While long-term toll collection projects are similar to short-term ones, the duration in longer, between 3- 5 years. Further, payments to the awarding authority are lower (as % of revenues) than short-term projects, in turn leading to higher margins. While equity requirement is typically also low for long-term projects, the requirement could increase if upfront payments are made to the awarding authority.

Fig 10 - MEP: Key long-term toll collection projects

Sr. No.	Project	Stake	Authority	State	COD	Tenor	No. of Toll plazas	Amount paid to Authority
1	Delhi Entry Points	25%	SDMC	New Delhi	16-May-15	3 years	124 Entry Points	Rs.105.99mn to be paid on weekly basis
2	Kini Tasawade	100%	MSRDC	Maharashtra	29-May-14	2 years	2	Rs 2,270.7mn to be paid in upfront monthly instalments
3	Rajiv Gandhi Salai	100%	ITEL	Tamil Nadu	08-Mar-14	3 years	5	Rs 14.62mn for the first year with escalation of 5% per annum during each subsequent year for a period of two years
4	Kalyan Shilphata	100%	MSRDC	Maharashtra	27-Sep-13	3 years	2	Rs 633.6mn to be paid in upfront monthly instalments
5	Vidyasagar Setu	100%	HRBC	West Bengal	01-Sep-13	5 years	1	Rs 2,610mn to be paid in five equal annual instalments consisting of upfront payment of Rs 522mn and payment of remaining amount in four equal instalments in advance
6	IRDP Solapur	100%	MSRDC	Maharashtra	02-Jan-13	3 years	4	Rs 208mn to be paid in three equal annual instalments

Source: Company, RCML Research

Fig 11 - Long-term toll collection projects, P&L

(Rs mn)	FY15	FY16E	FY17E	FY18E
Revenue	**3,030**	**4,251**	**4,400**	**4,554**
growth, %	140%	2.5%	3.5%	3.5%
Total Payment to authority	1,233	2,617	2,816	2,914
as % of sales, %	40.7%	61.6%	64.0%	64.0%
Opex	182	234	242	250
as % of sales, %	6.0%	5.5%	5.5%	5.5%
EBITDA	**1,616**	**1,400**	**1,342**	**1,389**
Amortization	912	727	616	640
EBIT	704	673	726	749
Finance cost				
Fund based	252	260	269	278
Non fund based	3	3	3	3
PBT	449	410	454	468
Taxes	148	135	150	154
PAT	**301**	**275**	**304**	**313**
as % of sales, %	9.9%	6.5%	6.9%	6.9%
Cash PAT	**1,213**	**1,002**	**921**	**954**

Source: Company, RCML Research

Cash flows likely to remain robust for long-term toll collection business

Fig 12 - Sensitivity of long-term toll collection projects (per share value) to traffic growth/interest rates

		Chg in traffic growth				
		(100 bps)	(50 bps)	0 bps	50 bps	100 bps
Chg in interest rate	100 bps	11.33	11.80	12.28	12.78	13.29
	50 bps	11.69	12.17	12.66	13.17	13.70
	0 bps	12.05	12.54	13.04	13.56	14.10
	(50 bps)	12.41	12.91	13.42	13.95	14.50
	(100 bps)	12.76	13.28	13.80	14.34	14.90

Source: Company, RCML Research

Long-term outlook upbeat

In our view, the long-term growth profile of MEP's business model remains strong driven by:

1. Toll collection models like Toll, Operate, and Transfer (TOT) wherein MORTH and NHAI seek to securitize the future toll revenues of road stretches to support the funding requirement of Rs 1,500bn for investing into the road sector. The government expects to raise ~ Rs 500bn-600bn through this monetisation process.

2. EPC awards by NHAI in the recent past (1,214km/2,551km in FY14/FY15) as well as introduction of hybrid-annuity model for road construction projects.

TOT model and NHAI EPC project awards to drive long-term growth

The pipeline for OMT/toll collection projects emanates from three sources:

1. **NHAI:** 15,000km of projects under NHDP are expected to be awarded over the next three years, ~80% of which would be EPC or hybrid-annuity contracts creating a significant opportunity for OMT and tolling projects.

2. **States:** The length of state highway road stretches to be bid for tolling/OMT projects is expected to be 8,000km/5,200km by 2017-18. Karnataka and Rajasthan are expected to post higher growth rates than other states.

    a. Karnataka: Karnataka Road Development Corporation (KRDCL) has identified 8 OMT contracts worth Rs 6bn to cover 840km.

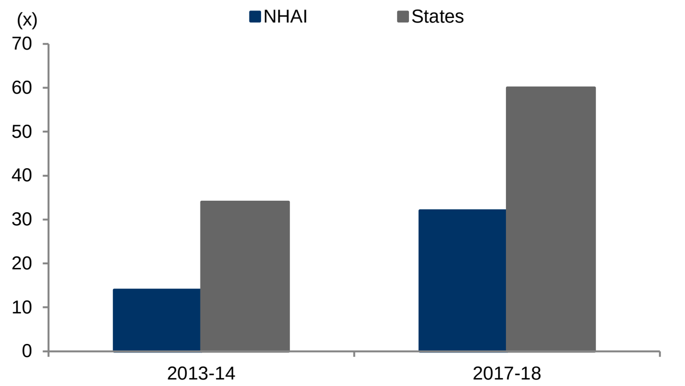
    b. Bihar: Bihar State Road Development Corporation (BSRDC) has identified OMT contracts to cover 1,800km of state highways, 4,000km of major district roads and 675km of state roads under Bihar State Highways Project.

    c. Madhya Pradesh: The MPRDC has identified 12 projects worth Rs 450mn to be undertaken on an OMT basis.

3. BOT concessionaires: While very few BOT players contract out their assets for tolling or OMT, there are a couple of BOT players who are expected to exit from projects due to adverse liquidity conditions and new owners (most likely financial investors) can be expected to award these projects to toll operators for O&M. We estimate that ~3500km of projects could be contracted out by BOT players on OMT basis over the next 2-3 years.

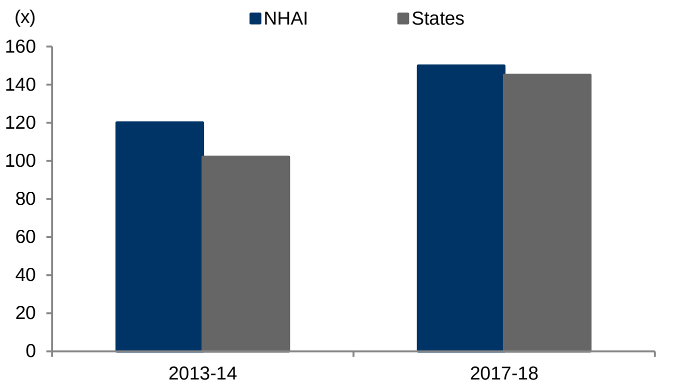
The number of projects bid out by NHAI/State Highway authorities on an OMT basis is expected to increase from the 14/34 projects in 2013-14 to 30-32/55-60 projects in 2017-18. Similarly, the number of projects bid out by NHAI/State Highway authorities on tolling basis is expected to increase from the 120/102 projects in 2013-14 to 145-150/ 140-145 projects in 2017-18.

Fig 13 - Number of OMT projects to be bid out



Source: Company, RCML Research

Fig 14 - Number of tolling projects to be bid out



Source: Company, RCML Research

TOT model

Under the TOT model, the government expects to securitize future toll revenues of the commissioned road projects to raise capital for funding new construction. The government expects to raise ~ Rs 500bn-600bn (towards a total requirement of Rs 1.5tn) through this monetisation process.

The government has identified 104 toll road projects where toll is being collected and which can be securitised to the private sector for operations and maintenance for 25-30 years for an upfront value. About 44 (or 42% of total) of these projects have an annual toll collection that is higher than 10% of the project completion cost. The government feels optimistic about the toll operators'/investors' interest in these projects since these are located in dense traffic belts and driven by mining and economically sensitive industries.

Key risks:

1. Regulation on toll in Maharashtra
2. High-leverage business model
3. Increase in inflation and resultant impact on interest rates
4. Lower economic growth impacting traffic growth

Sound business model

MEP is a leading tolling operations firm with a presence across 10 states in India. The company focuses on pure toll collection projects as well as OMT projects which are carried out on operational roads and highways constructed by third parties. The company has completed 85 projects, with an aggregate of 147 toll plazas and 943 lanes, and has an overall experience of over 13 years in this business. Unlike other road infrastructure players, the company does not assume any construction risk or any risk related thereof. Traffic risk and financial risk have to be assumed by the company as it has to make upfront and/or continuous payments to the authorities. The company engages in three different types of projects, each of which has different operating model:

1. **Pure toll collection projects:** Under this model, the private player has negligible to minimal involvement in construction and maintenance of the road. These are short-term projects, typically of 12 months. The authority invites bids from private players for collection of toll on roads constructed under EPC and BOT (annuity). The user fee is pre-determined by the contracting authority. MEP operates 18 toll collection (12 short-term and 6 long-term) projects.

2. **OMT projects:** Under this model, apart from collecting toll, the concessionaire is also awarded the maintenance of road assets and properties attached. The concession period is typically nine years for NHAI projects. Key drivers of the OMT market are:

    a) Acquisitions of road assets from BOT players resulting in buyers to contract the toll collection agencies on OMT basis

    b) Penetration of OMT stretches in state highways

MEP operates five OMT projects, which are detailed in Fig. 15.

Fig 15 - OMT project of MEP Infrastructure

Sr.no	Name of the project	Stake	Description of the Project	Term	Client	Payment to Authority
1	Mumbai Entry Points Project, Maharashtra	99.99%	Maintenance of, and collection of toll at, the five Mumbai Entry Points along with 27 flyovers and certain allied structures on the Sion–Panvel Highway, the Western Express Highway corridor, the Eastern Express Highway corridor, the Lal Bahadur Shashtri Marg corridor and the Airoli Bridge corridor.	16 years (from November 20, 2010 to November 19, 2026)	MSRDC	Upfront payment of INR 21,000 million
2	Madurai-Kanyakumari Project, Tamil Nadu	100.00%	Maintenance of, and collection of toll at, the Madurai-Tirunelveli-Panagudi-Kanyakumari section of the National Highway No. 7	9 years (from September 22, 2013 to September 22, 2022)	NHAI	Rs 1,108.70mn for the first year of concession period to be paid in 12 equal monthly instalments. The annual payment amount will be increased at the rate of 10.00% every year as compared to the preceding year
3	Hyderabad-Bangalore Project, Andhra Pradesh	98.90%	Maintenance of, and collection of toll at, the Hyderabad–Bangalore section of the National Highway No. 7	9 years (from May 16, 2013 to May 15, 2022)	NHAI	Rs 1,059.30mn for the first year of concession period to be paid in 12 equal monthly instalments. The annual payment amount will be increased at the rate of 10.00% each year as compared to the preceding year
4	Chennai Bypass Project, Tamil Nadu	100.00%	Maintenance of, and collection of toll for the Chennai Bypass section.	9 years (from May 14, 2013 to May 14, 2022)	NHAI	Rs 1,530mn for the first year of concession period to be paid in 12 equal monthly instalments. The annual payment amount will be increased at the rate of 10.00% every year as compared to the preceding year.
5	RGSL Project, Maharashtra	100.00%	Maintenance of, and collection of toll for, the Rajiv Gandhi Sea Link	156 weeks (from February 6, 2014 to February 2, 2017)	MSRDC	Rs 690mn for the first year of the RGSL Contract to be paid in 12 equal instalments along with an additional one-time payment of Rs 5mn. The annual payment is subject to escalation by 10.00% for the second year and 20.00% for the third year of the RGSL Project, to be paid in 12 equal monthly instalments for each year.

Source: Company, RCML Research

Key contingencies

1. **Chennai Bypass**

   MEP has been facing toll avoidance issues in this project as there are multiple entries and exits which are unguarded in the absence of a state support agreement between NHAI and Tamil Nadu. Also there were restrictions from collecting toll at particular entries even as collection was allowed as per the concession agreement.

   The company has lodged claims with the authority pertaining to the revenue loss since the date of commission (COD). An amicable settlement has been reached and an independent engineer has assessed the value of loss to be higher than the aggregate claims filed by the concessionaire. This loss will be settled against the premium payable by the company to the authority. As of Sep'15, the company had recorded ~Rs 1.2bn in payables pertaining to the period before Oct'14.

   In future, the company would not have any adverse cash flow impact from this project as the surplus after toll collection and operation expense would be paid to authority while the difference between the fees payable and the actual payment would not be recorded as liability post Oct'14. The company has already written to the authority multiple times and is trying rigorously to foreclose this project. According to management, the foreclosure could be achieved by Dec'15 while the claims settlement could take a little longer at which time the payables held on books would be reversed.

2. **Madurai Kanyakumari:** This project suffers revenue losses on account of lower user fee paid by TNSTC buses. For the six months ended Sep'15, the company has recognized a claim of Rs 29.5mn (Rs 162mn in FY15) receivable from TNSTC as reimbursement.

3. **Related party loans:** Rs 3.6bn as loan to Ideal Toll & Infra for a power plant project

Financial profile

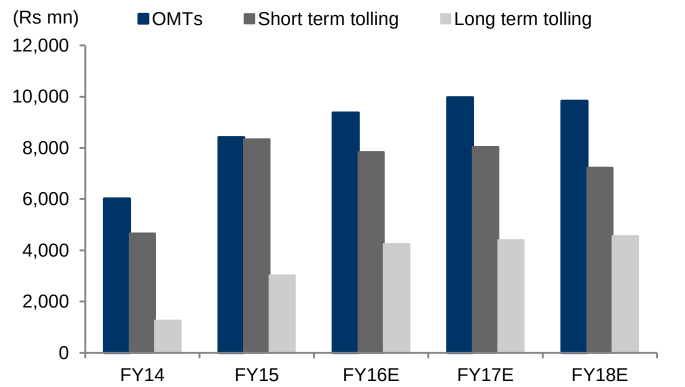
Revenue mix changing for better

Short-term projects accounted for 61%/68%/39%/42% of MIDL's total FY12/FY13/FY14/FY15 revenues. While the company would continue to bid for short-term contracts, future growth is expected to be driven by long-term contracts. In the past, the company has been able to renew or convert some of its short-term contracts into OMT contracts with favorable pricing, thanks to its prior experience on a particular project.

Growth expected to be driven by long-term projects

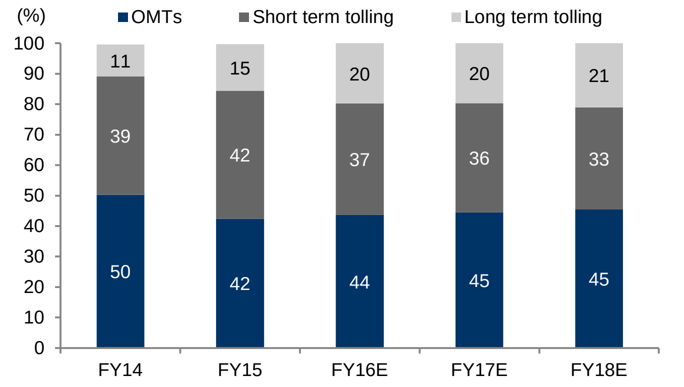
Currently, long-term projects (OMTs plus long-term toll collection projects) account for approximately 60% of total revenues.

Fig 16 - Revenue trend



Source: Company, RCML Research

Fig 17 - OMT & long term tolling to increase revenue share



Source: Company, RCML Research

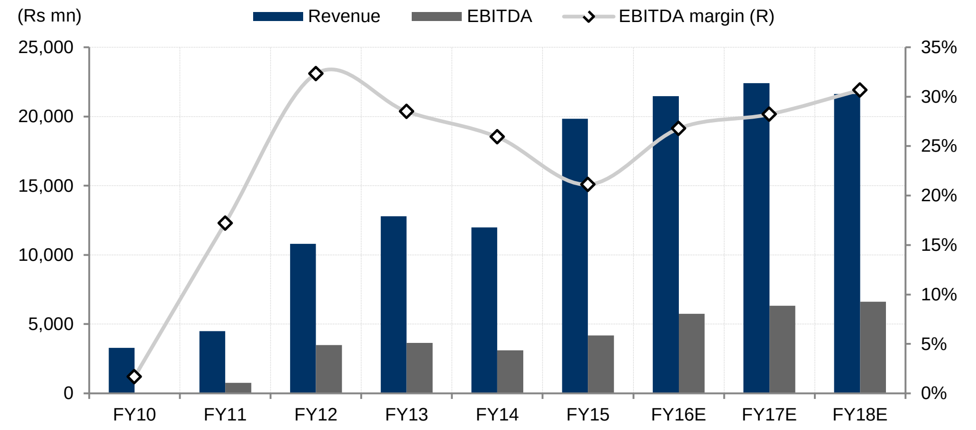
Over FY15-FY18E, we estimate consolidated revenues to grow at a 3% CAGR to Rs 21.6bn in FY18 and EBITDA at a 16.5% CAGR to Rs 6.6bn. We have not factored in any new OMT projects that the company might secure and our numbers reflect growth only in current projects. Revenue growth however is likely to be muted due to completion of Rajiv Gandhi (Worli) Sea Link and Kini-Tasawade projects in FY17.

Profitability profile to improve

Operation & maintenance costs constitute most of MEP's expenses, and formed 62%/65%/67%/73% of revenues in FY12/FY13/FY14/FY15. Major portion of these expenses are towards payments to authorities (58%/61%/62%/69% of revenues in FY12/FY13/FY14/FY15) with respect to toll, OMT or BOT projects. The payments for long-term contracts may increase by a fixed percentage (typically 10%) per annum and thus, expansion of margins would be largely limited to the projects experiencing double-digit revenue growth. However, our estimates reflect improving profitability on account of operating leverage and we project 27%/28%/31% EBITDA margins for FY16/FY17/FY18.

High amortisation and finance costs are a major drag on MIDL's net income, but finance costs are expected to decline due to reduced debt as well as falling interest rates. Consequently MIDL is expected to turn profitable at the PAT level in FY16 while we project 1%/4%/5% PAT margins in FY16/FY17/FY18.

Fig 18 - Profitability to improve on increasing share of long term projects



Source: Company, RCML Research

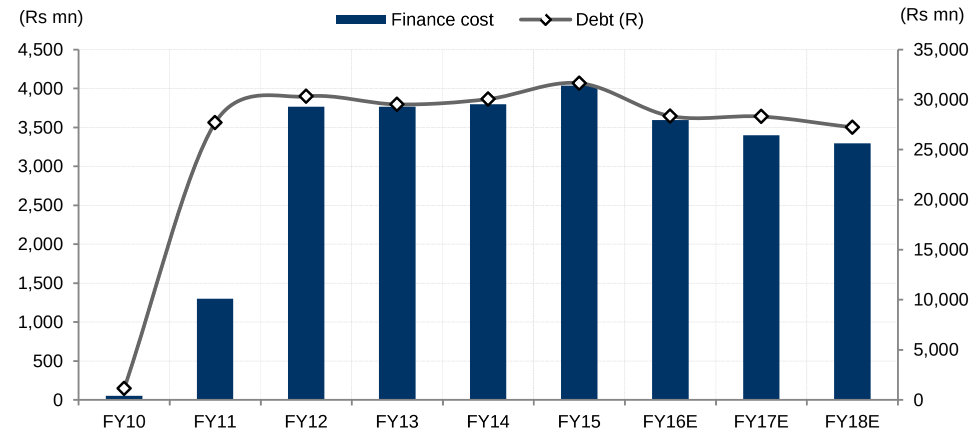
Finance costs to decline on lower debt, benign interest rates

As of FY15-end, the consolidated debt on MEP's books stood at Rs 33.6bn. Of the net IPO proceeds of Rs 3.05bn, the company paid off Rs 2.6bn of MIPL's (Mumbai Entry Points project) debt. As of Sep'15, the consolidated debt stood at Rs 30.9bn which is allocated as follows:

- Approx. Rs 24.6bn is housed in MIPL which is further split as follows:
  - Rs 21bn for upfront payment to MSRDC, and
  - Rs 3.6bn remaining as loan outstanding to the promoter entity for a power plant
- Rs 3.6bn in mobilisation advances (for operations and maintenance), and
- Rest as capital and other advances

We believe the company stands to benefit from a benign interest rate scenario and its refinancing efforts and thus, the finance costs are expected to decline from Rs 4bn in FY15 to Rs 3.6bn/Rs 3.4bn/Rs 3.3bn in FY16/FY17/FY18.

Fig 19 - Finance costs to ease on reducing debt



Source: Company, RCML Research

Cash flow position to turn positive

Due to amortization of toll collection rights and benefits of operating leverage with growth in revenue, cash flow from operations is expected to increase from Rs 2.9bn in FY15 to Rs 6.4bn in FY18 (Fig. 20)

Fig 20 - Consolidated cash flows

(Rs mn)	FY11	FY12	FY13	FY14	FY15	FY16E	FY17E	FY18E
EBITDA	774	3,490	3,649	3,105	4,191	5,749	6,324	6,629
Taxes	(242)	(132)	1	(86)	(79)	(246)	(400)	(460)
WC changes	(6,083)	(299)	649	1,398	(1,250)	(497)	(272)	230
CFO	(5,551)	3,059	4,299	4,418	2,862	5,006	5,651	6,399
Capex	(22,846)	(482)	(431)	(727)	-	-	(843)	(158)
FCFF	(28,397)	2,577	3,868	3,690	2,862	5,006	4,809	6,242
Change in debt	31,466	(1,252)	(613)	784	1,590	(3,285)	(47)	(1,087)
Interest	(1,128)	(3,828)	(3,316)	(3,504)	(4,036)	(3,594)	(3,398)	(3,293)
FCFE	1,940	(2,502)	(61)	970	416	(1,872)	1,363	1,861
Proceeds from issue of shares	47	880	0	-	250	3,053	-	-
Net cash generated	1,987	(1,622)	(61)	970	666	1,181	1,363	1,861

Source: Company, RCML Research

As shown in table above, negative FCFE in FY16 depicts the requirement of capital for servicing of debt which has been funded via Rs 3.05bn of IPO proceeds.

With reducing debt servicing costs and improved profitability, we expect the company to generate positive FCFE in FY17/FY18. Our estimates do not factor in any new projects which might require large upfront payments, wherein the company may need to raise capital through the debt or equity route.

MEP to turn FCF positive in FY17/FY8

ROEs to jump on turn around

With the infusion of equity through IPO, MEP's net worth has turned positive, and off a small base (net worth of Rs 1.08bn at FY16E-end), ROEs are expected to improve smartly as the company turns profitable. We expect ROEs of 57%/42% in FY17/FY18.

Fig 21 - DuPont analysis

	FY11	FY12	FY13	FY14	FY15	FY16E	FY17E	FY18E
OPM %	17.22	32.31	28.50	25.92	21.12	26.78	28.22	30.67
EBIT %	8.61	23.54	20.77	15.04	12.05	18.43	20.06	21.42
Asset Turnover	0.25	0.32	0.39	0.35	0.55	0.59	0.60	0.57
ROA before interest%	2.16	7.63	8.05	5.28	6.67	10.81	12.01	12.24
Interest Cost %	9.01	12.99	12.59	12.75	13.09	11.98	12.00	11.86
Debt / Assets	0.81	0.87	0.91	0.87	0.86	0.82	0.76	0.73
Interest Dilution	7.26	11.30	11.40	11.13	11.26	9.81	9.08	8.70
ROA after interest %	(5.09)	(3.67)	(3.35)	(5.85)	(4.59)	0.99	2.93	3.53
Assets / Shareholder Funds	32.73	115.44	N.A.	N.A.	N.A.	N.A.	24.62	15.31
ROE before other inc. %	(166.69)	(423.65)	N.A.	N.A.	N.A.	N.A.	72.24	54.09
Other Inc. & MI / Shareholder Funds	35.61	214.31	152.61	N.A.	N.A.	N.A.	11.43	6.23
ROE after other inc. & MI %	(131.07)	(209.34)	N.A.	N.A.	N.A.	N.A.	83.67	60.32
Tax Rate	N.A.	8.08	29.46	15.10	N.A.	45.45	31.46	30.85
ROE after Tax %	N.A.	(192.42)	N.A.	N.A.	N.A.	N.A.	57.35	41.71

Source: Company, RCML Research

Valuations

We value MIDL on SOTP basis wherein we value individual OMT projects, short-term toll collection projects, and long-term toll collection projects using the discounted cash flow methodology (14% discount).

We ascribe Rs 51/share to all OMT projects (Rs 40/share to Mumbai Entry Points alone) while the short-term and long-term toll collection projects collectively constitute Rs 27 per share of our SOTP valuation for MIDL at Rs 70 per share.

Fig 22 - SOTP Valuation

Project	Equity Value	Stake	Value to MIDL	Value per share	as % of SOTP
Mumbai Entry	6,496	100%	6,496	40	57
Madurai-Kanyakumari	1,188	100%	1,188	7	10
Hyd-Bangalore	207	99%	204	1	2
Chennai Bypass	(4)	100%	(4)	(0)	(0)
Worli Sea-link	339	100%	339	2	3
OMT Projects			**8,223**	**51**	**73**
ST Toll Collection Projects	**2,283**	**100%**	**2,283**	**14**	**20**
LT Toll Collection Projects	**2,120**	**100%**	**2,120**	**13**	**19**
Balance misc. debt		1,300	1,300	8	11
SOTP Valuation				**70**	**100**

Source: Company, RCML Research

Fig 23 - Sensitivity of MIDL's per share value

		Chg in traffic growth				
		(50 bps)	**(25 bps)**	**0 bps**	**25 bps**	**50 bps**
Chg in interest rate	**100 bps**	57	60	64	67	71
	50 bps	60	63	67	70	74
	0 bps	63	67	70	73	77
	(50 bps)	66	70	73	76	80
	(100 bps)	69	73	76	79	83

Source: Company, RCML Research

Per Share Data

Y/E 31 Mar (INR)	FY14A	FY15A	FY16E	FY17E	FY18E
Reported EPS	(12.1)	(10.5)	2.2	5.4	6.3
Adjusted EPS	(12.1)	(10.5)	2.2	5.4	6.3
DPS	0.0	0.0	0.0	0.0	0.0
BVPS	(8.8)	(20.3)	6.7	12.0	18.4

Valuation Ratios

Y/E 31 Mar (x)	FY14A	FY15A	FY16E	FY17E	FY18E
EV/Sales	3.0	1.9	1.8	1.4	1.4
EV/EBITDA	11.7	8.8	6.7	5.1	4.7
Adjusted P/E	(4.3)	(4.9)	24.0	9.7	8.2
P/BV	(5.9)	(2.6)	7.8	4.3	2.8

Financial Ratios

Y/E 31 Mar	FY14A	FY15A	FY16E	FY17E	FY18E
Profitability & Return Ratios (%)					
EBITDA margin	25.9	21.1	26.8	28.2	30.7
EBIT margin	15.0	12.1	18.4	20.1	21.4
Adjusted profit margin	(11.1)	(5.8)	1.4	3.9	4.8
Adjusted ROAE	450.3	73.4	(50.0)	57.3	41.7
ROCE	6.1	8.2	7.3	10.3	10.6
YoY Growth (%)					
Revenue	(6.4)	65.6	8.2	4.4	(3.6)
EBITDA	(14.9)	34.9	37.2	10.0	4.8
Adjusted EPS	30.7	(13.4)	(120.5)	148.8	18.3
Invested capital	3.2	(0.9)	(10.2)	(2.7)	(8.2)
Working Capital & Liquidity Ratios					
Receivables (days)	10	5	5	5	5
Inventory (days)	0	0	0	0	0
Payables (days)	35	48	64	67	72
Current ratio (x)	0.5	0.5	1.1	1.3	1.7
Quick ratio (x)	0.3	0.2	0.7	0.9	1.2
Turnover & Leverage Ratios (x)					
Gross asset turnover	39.8	46.1	38.7	34.2	28.6
Total asset turnover	0.4	0.6	0.6	0.6	0.6
Net interest coverage ratio	0.5	0.6	1.1	1.3	1.4
Adjusted debt/equity	(32.4)	(13.3)	22.1	11.5	6.5

DuPont Analysis

Y/E 31 Mar (%)	FY14A	FY15A	FY16E	FY17E	FY18E
Tax burden (Net income/PBT)	85.5	107.3	54.5	68.5	69.2
Interest burden (PBT/EBIT)	(86.7)	(44.9)	13.7	28.3	32.2
EBIT margin (EBIT/Revenue)	15.0	12.1	18.4	20.1	21.4
Asset turnover (Revenue/Avg TA)	35.1	55.3	58.6	59.9	57.1
Leverage (Avg TA/Avg equities)	(11506.9)	(2281.4)	(6205.1)	2462.3	1530.9
Adjusted ROAE	450.3	73.4	(50.0)	57.3	41.7

Income Statement

Y/E 31 Mar (INR mln)	FY14A	FY15A	FY16E	FY17E	FY18E
Total revenue	**11,979**	**19,843**	**21,469**	**22,412**	**21,615**
EBITDA	3,105	4,191	5,749	6,324	6,629
EBIT	1,802	2,391	3,957	4,496	4,630
Net interest income/(expenses)	(3,797)	(4,036)	(3,594)	(3,398)	(3,293)
Other income/(expenses)	433	570	178	174	154
Exceptional items	0	0	0	0	0
EBT	(1,562)	(1,075)	541	1,272	1,491
Income taxes	236	(79)	(246)	(400)	(460)
Extraordinary items	0	0	0	0	0
Min. int./Inc. from associates	(9)	0	0	0	0
Reported net profit	**(1,335)**	**(1,153)**	**295**	**872**	**1,031**
Adjustments	0	0	0	0	0
Adjusted net profit	**(1,335)**	**(1,153)**	**295**	**872**	**1,031**

Balance Sheet

Y/E 31 Mar (INR mln)	FY14A	FY15A	FY16E	FY17E	FY18E
Accounts payables	1,464	2,663	2,881	3,008	2,901
Other current liabilities	3,115	3,247	3,513	3,668	3,537
Provisions	3	5	0	0	0
Debt funds	30,049	31,639	28,355	28,308	27,221
Other liabilities	1,581	1,067	1,044	1,044	1,044
Equity capital	1,000	1,115	1,626	1,626	1,626
Reserves & surplus	(1,878)	(3,379)	(541)	330	1,361
Shareholders' fund	(878)	(2,264)	1,084	1,956	2,987
Total liabilities and equities	**35,343**	**36,356**	**36,877**	**37,983**	**37,689**
Cash and cash eq.	1,623	1,455	4,343	5,881	7,896
Accounts receivables	287	258	279	292	281
Inventories	0	0	0	0	0
Other current assets	1,237	2,442	2,642	2,758	2,660
Investments	6	216	216	216	216
Net fixed assets	253	283	353	423	493
CWIP	58	163	63	0	0
Intangible assets	23,384	21,276	17,984	16,993	15,081
Deferred tax assets, net	756	942	942	942	942
Other assets	7,738	9,322	10,054	10,479	10,120
Total assets	**35,343**	**36,356**	**36,877**	**37,983**	**37,689**

Cash Flow Statement

Y/E 31 Mar (INR mln)	FY14A	FY15A	FY16E	FY17E	FY18E
Net income + Depreciation	(32)	646	2,087	2,699	3,030
Interest expenses	3,797	4,036	3,594	3,398	3,293
Non-cash adjustments	0	0	0	0	0
Changes in working capital	1,398	(1,250)	(497)	(272)	230
Other operating cash flows	(468)	0	0	0	0
Cash flow from operations	**4,696**	**3,432**	**5,184**	**5,825**	**6,553**
Capital expenditures	(727)	173	0	(843)	(158)
Change in investments	76	(103)	106	0	0
Other investing cash flows	173	0	0	0	0
Cash flow from investing	**(478)**	**70**	**106**	**(843)**	**(158)**
Equities issued	(1,244)	250	3,053	0	0
Debt raised/repaid	784	1,590	(3,285)	(47)	(1,087)
Interest expenses	(3,504)	(4,036)	(3,594)	(3,398)	(3,293)
Dividends paid	0	0	0	0	0
Other financing cash flows	(169)	(1,580)	1,530	0	0
Cash flow from financing	**(4,134)**	**(3,777)**	**(2,295)**	**(3,445)**	**(4,380)**
Changes in cash and cash eq	**84**	**(274)**	**2,995**	**1,537**	**2,015**
Closing cash and cash eq	**1,623**	**1,348**	**4,343**	**5,881**	**7,896**

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