

## MEP Infrastructure Developers

View: Positive

Making inroads into upcoming growth opportunities

CMP: Rs73

### Key points

- ♦ **A distinct and seasoned player in Tolling and OMT:** MEP Infrastructure Developers, an early entrant in the pure toll collection business, has over 14 years of experience in operating projects across India. The company commands a leadership position in Toll Collection as well as the Operate, Maintain & Transfer (OMT) space based on the number of projects operated and lane kilometers maintained. With the Toll Collection and OMT space together likely to grow more than 50% from Rs54,700 crore in FY2015 to Rs83,200 crore by FY2019, MEP is likely to be a key beneficiary given its track record of successful bidding, limited competitive intensity and sustained focus on toll collection projects.
- ♦ **Foray into Hybrid Annuity venture - a step towards asset creation boosting construction income:** MEP bagged six Hybrid Annuity Projects (HAM) worth Rs3,837 crore through its joint venture with Sanjose India Infrastructure & Construction (reputed Spanish infrastructure developer). The company is likely to infuse ~Rs400 crore into these projects over the next 2-2.5 years. MEP would develop the projects and generate EPC/construction revenue over the next 2.5 years. We believe that the HAM venture will give MEP the requisite experience in asset creation with limited risk, besides helping it to boost earnings over FY2017-FY2019.
- ♦ **Planned InvIT to significantly deleverage balance sheet - aiding in further capital allocation for new projects:** MEP is looking to raise Rs1,200 crore through a proposed InvIT (the company has received an in-principal approval from SEBI and is in the process of filing DRHP), comprising its flagship project of Mumbai Entry Point. The project had a debt of ~Rs2,400 crore as on December 31, 2016 (MEP's consolidated debt stands at ~Rs3,000 crore), and the InvIT is likely to deleverage its balance sheet significantly. The InvIT is likely to reduce the company's debt and ease its cost of financing, with further legroom to bid for HAM and Toll-Operate-Transfer projects.
- ♦ **Outlook:** The government has been cautiously addressing the issues hampering the Road Development sector through premium rescheduling, loan restructuring, providing exit to concessionaires, improving liquidity through InvIT, faster clearance of projects, etc. Consequently, the road development market size is expected to see a robust growth over the coming years, with more focused players operating in this space. MEP is aptly positioned to grow multifold in this sector. Therefore, we have a 'positive' view on the stock and see a 25% upside potential from the current level.
- ♦ **Key risks:** Delay in execution of HAM projects, inability to bag new projects and adverse macro environment for the Road Development sector could be a key downside risk to the valuation.

Valuation	Rs cr				
Particulars	FY15	FY16	FY17E	FY18E	FY19E
Sales	1,984.3	1,974.7	1,583.7	2,452.2	2,969.2
Growth YoY (%)	65.6	(0.5)	(19.8)	54.8	21.1
EBIT	240.2	352.1	342.2	458.8	510.2
EBIT margin (%)	12.1	17.8	21.6	18.7	17.2
Adjusted net profit	(115.3)	26.3	(4.3)	39.8	101.0
Growth YoY (%)	-	-	-	-	153.7
Shares in issue (cr)	11.1	16.3	16.3	16.3	16.3
EPS (Rs)	(10.3)	1.6	(0.3)	2.4	6.2
Growth YoY (%)	-	-	-	-	153.7
P/E (x)	-	45.0	-	29.8	11.7
Book Value (Rs)	-	16.2	15.7	17.9	23.9
P/B (x)	-	4.5	4.6	4.1	3.1
RoCE (%)	12.4	3.3	13.7	11.1	12.5
RoNW (%)	73.3	-	-	35.9	56.9

## Company overview

Founded in 2002 by Dattatray Mhaiskar and Jayant Mhaiskar, MEP Infrastructure Developers (MEP) is one of the leading players in OMT and Toll Collection projects in India. The company recently forayed into Road Development by garnering six HAM projects through its JV with Sanjose India Infrastructure & Construction, a reputed multinational infrastructure development company. MEP has a successful track record of over 14 years of operational excellence, having operated in 12 states of India. Over the years, the company has executed more than 120 projects and has completed 108 projects, including 202 toll plazas and 1,246 lanes.

### MEP short-term toll projects portfolio

Sr. No	Toll plaza	State	Client	Term	Payment to authority (total to be paid in weekly installments) (Rs cr)
1	Paduna	Rajasthan	NHAI	May 17, 2016 to May 16, 2017	128
2	Brijghat	Uttar Pradesh	NHAI	January 17, 2017 to January 16, 2018	60

### MEP long-term project portfolio

Sr No	Toll project	State	Authority	Term	Payment to authority
1	Vidyasagar Setu	West Bengal	HRBC	Five years starting September 1, 2013	Rs261 crore to be paid in five equal annual Installments
2	Kalyan Shilphata	Maharashtra	MSRDC	LOA received for three years post signing definitive agreement	Rs61.7 crore to be paid in monthly installments

### MEP OMT project portfolio

Sr No	Toll project	State	Authority	Term	Payment to authority
1	Hyderabad Bengaluru	Andhra Pradesh	NHAI	Nine years starting May 16, 2013	Rs106 crore to be paid in first year with 10% escalation to be paid in 12 equal monthly installments
2	Mumbai Entry points	Maharashtra	MSRDC	16 years starting November 20, 2010	Rs2,100 crore paid upfront
3	Rajiv Gandhi Sea Link	Maharashtra	MSRDC		Project undergoing rebidding

### Details of MEP Hybrid Annuity Projects

Particulars	Arawali Kante	Kante Wakad	Nagpur package I	Nagpur package II	Talaja Mahuva	Mahuva Kagavadar
Lane kms	156.9	203.6	134.0	112.1	181.8	160.1
Authority	MoRTH	MoRTH	NHAI	NHAI	NHAI	NHAI
State	Maharashtra	Maharashtra	Maharashtra	Maharashtra	Gujarat	Gujarat
MEP's stake	74%	74%	74%	74%	60%	60%
Bid project cost (Rs cr)	592.98	826.28	531	639	643	604.5
Construction period (years)	2	2	2.5	2.5	2.5	2.5
Concession period (years)	15	15	15	15	15	15

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