

26 May 2016

MEP Infrastructure

*Earnings supported by tax reversal; maintaining a Buy*Rating: **Buy**

Target Price: ₹55

Share Price: ₹41

Long-term revenue assurance is set to improve for MEP Infrastructure (an established toll collection/OMT operator) with its recently-added five Hybrid Annuity projects. However, before projects reach that stage, MEP would have to ensure two key deliverables: funding and project execution. In-place approval for financial closure for two suggests funding will be in place sooner than later. Smooth execution is possible because of an experienced construction partner and the intent to outsource part of the work. For ample growth potential, we maintain a Buy.

Margins dip... tax reversal support earnings: A 16% yoy dip in standalone revenue (largely short-term toll collection) led to consolidated revenue coming flat (indicating 15% growth in long-term+OMT revenue). Operating profitability was lower (~17% yoy) owing to weak margins for short-term contracts (~2.6%, vs. 8.6% a year ago) and lower claims booking. A large part of the margin pressure was contained by a net tax reversal.

Foray into hybrid annuity: In the last three months, the company, with its Spanish partner, has emerged as a successful bidder for five hybrid annuity projects, of ~₹32.3bn. In-principle approval for financial closure is already in place for two, and is shortly expected for another two. Construction margins, expected at 10-12% on an estimated EPC of ~₹28bn (MEP's share ~₹20bn), would help partly fund the equity required.

Terminates Chennai-bypass: As part of an amicable settlement, the Chennai-bypass project has been taken over by the NHAI, wef 9th Apr'16. MEP has net recoverable of ~₹1.7bn owing to the revenue shortfall.

Valuation: Incorporating the termination of the Chennai-bypass project and building in lower other income, we slash our FY17 earnings ~35% and ~13% for FY18. On these revised estimates, the stock trades at PBV of 3.8x FY18.

Risk. Failure to exercise financial prudence, since it is now eyeing capital-intensive opportunities.

Key data	MIDL IN / MIPN.BO
52-week high / low	₹67 / ₹34
Sensex / Nifty	26367 / 8070
3-m average volume	\$0.2m
Market cap	₹6.7bn / \$99m
Shares outstanding	162.6m

Shareholding pattern (%)	Mar'16	Dec'15	Sep'15
Promoters	69.4	67.4	67.2
- of which, Pledged	14.6	12.5	12.5
Free Float	32.7	32.7	32.8
- Foreign institutions	5.8	5.8	8.7
- Domestic institutions	8.9	9.5	5.4
- Public	17.4	17.4	18.7

Estimates revision (%)	FY17e	FY18e
Sales	-4.1	-3.7
EBITDA	-2.7	-1.4
EPS	-35.0	-12.7

Financials (YE Mar)	FY17e	FY18e
Sales (₹ m)	17,540	17,660
Net profit (₹ m)	318	492
EPS (₹)	2.0	3.0
Growth (%)	21.0	54.5
PE (x)	20.9	13.6
PBV (x)	5.2	3.8
RoE (%)	27.6	32.4
RoCE (%)	13.1	13.8
Dividend yield (%)	0.5	0.5
Net debt / equity (x)	21.5	15.1

Source: Anand Rathi Research

Quarterly results (YE Mar)	Q4 FY15	Q4 FY16	% yoy	FY15	FY16	% yoy
Sales (₹ m)	5,216	5,229	0.2	20,088	20,068	-0.1
EBITDA (₹ m)	1,634	1,351	-17.3	4,436	5,548	25.1
EBITDA margin (%)	31.3	25.8	-549.8bps	22.1	27.6	556.7bps
Interest (₹ m)	1,023	964	-5.7	4,036	3,832	-5.0
Depreciation (₹ m)	421	414	-1.8	1,799	1,706	-5.2
Other income (₹ m)	92	125	35.6	325	407	25.2
PBT (₹ m)	282	97	-65.4	-1,075	417	-
Tax (₹ m)	162	-3	-101.9	79	154	95.3
PAT (₹ m)	120	101	-16.3	-1,153	263	-
Consol PAT (₹ m)	111	101	-9.7	-1,153	263	-

Source: Company

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Quick Glance – Financials and Valuations

Fig 1 – Income statement (₹ m)

Year-end: Mar	FY14	FY15	FY16	FY17e	FY18e
Net revenues	11,979	20,088	20,068	17,540	17,660
Revenue growth (%)	-6.4	67.7	-0.1	-12.6	0.7
- Oper. expenses	8,864	15,641	14,520	12,245	12,122
EBIDTA	3,115	4,446	5,548	5,295	5,539
EBITDA margins (%)	26.0	22.1	27.6	30.2	31.4
- Interest	3,797	4,036	3,832	3,458	3,303
- Depreciation	1,303	1,799	1,706	1,690	1,833
+ Other income	433	325	407	333	337
- Tax	-236	79	154	162	248
Effective tax rate (%)	15.2	-7.4	36.9	33.7	33.5
+ Associates / (minorities)	-9	-	-	-	-
Adjusted PAT	-1,325	-1,143	263	318	492
+ Extraordinary items	33	-11	-	-	-
Reported PAT	-1,292	-1,153	263	318	492
Adj. FDEPS (₹ / sh)	-13.2	-10.2	1.6	2.0	3.0
Adj. FDEPS growth (%)	-	-	-	21.0	54.5

Source: Company, Anand Rathi Research

Fig 2 – Balance sheet (₹ m)

Year-end: Mar	FY14	FY15	FY16	FY17e	FY18e
Share capital	1,000	1,115	1,626	1,626	1,626
Reserves & surplus	-1,878	-3,379	-613	-334	119
Net worth	-878	-2,264	1,013	1,292	1,745
Total debt	31,679	33,358	30,700	29,439	27,996
Minority interest	9	-	-	-	-
Def. tax liab. (net)	-756	-942	-1,070	-1,044	-1,044
Capital employed	30,054	30,152	30,643	29,687	28,697
Net fixed assets	310	446	546	511	502
Intangible assets	23,384	21,276	19,814	18,290	16,596
Investments	6	322	217	217	217
- of which, Liquid	0	106	-	-	-
Working capital	4,730	6,759	8,568	9,069	9,774
Cash	1,623	1,348	1,498	1,600	1,608
Capital deployed	30,054	30,152	30,643	29,687	28,697
Working capital (days)	144	123	156	189	202
Book value (₹ / sh)	-8.8	-20.3	6.2	7.9	10.7

Source: Company, Anand Rathi Research

Fig 3 – Cash-flow statement (₹ m)

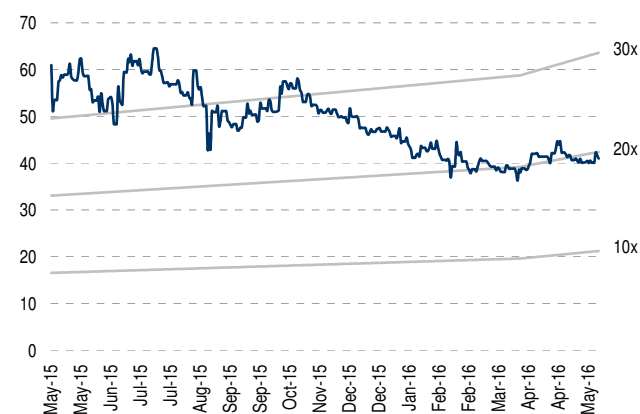
Year-end: Mar	FY14	FY15	FY16	FY17e	FY18e
Adjusted PAT	-1,325	-1,143	263	318	492
+ Non-cash items	1,303	1,799	1,706	1,690	1,833
Cash profit	-22	657	1,969	2,008	2,325
- Incr. / (decr.) in WC	-2,874	2,029	1,809	502	705
Operating cash-flow	2,852	-1,373	161	1,506	1,620
- Capex	3,485	-173	344	131	131
Free cash-flow	-633	-1,199	-183	1,376	1,489
- Dividend	-	-	39	39	39
+ Equity raised	277	-242	3,053	-0	0
+ Debt raised	382	1,493	-2,786	-1,235	-1,443
- Investments	-24	316	-106	-	-
- Misc. items	33	-11	-	-	-
Net cash-flow	84	-274	150	102	8
+ Op. cash & bank bal.	1,539	1,623	1,348	1,498	1,600
Cl. Cash & bank bal.	1,623	1,348	1,498	1,600	1,608

Source: Company, Anand Rathi Research

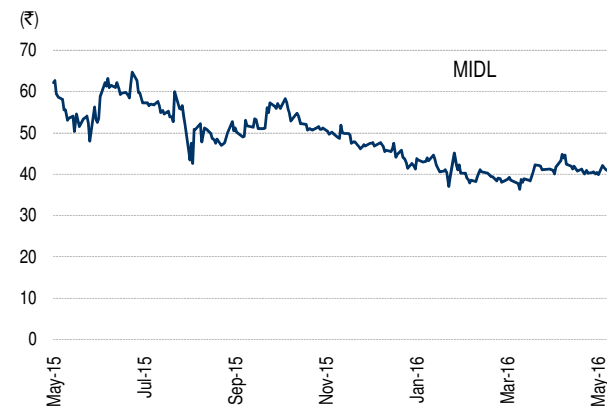
Fig 4 – Ratio analysis @ ₹41

Year-end: Mar	FY14	FY15	FY16	FY17e	FY18e
P/E (x)	-	-	25.3	20.9	13.6
Cash P/E (x)	-	7.0	3.4	3.3	2.9
EV / EBITDA (x)	11.8	8.7	6.5	6.5	6.0
EV / sales (x)	3.1	1.9	1.8	2.0	1.9
P/B (x)	-	-	6.6	5.2	3.8
RoE (%)	-	-	-	27.6	32.4
RoCE (%)	7.4	9.9	14.0	13.1	13.8
Dividend yield (%)	-	-	0.5	0.5	0.5
Dividend payout (%)	-	-	14.8	12.3	7.9
Net debt / equity (x)	-	-	28.8	21.5	15.1
Debtor (days)	9	5	0	4	4
Inventory (days)	-	-	-	-	-
Payables (days)	45	48	61	56	54
Interest cover (x)	0.6	0.7	1.1	1.1	1.2
Fixed asset T/O (x)	0.5	0.9	1.0	0.9	1.0

Source: Company, Anand Rathi Research

Fig 5 – PE band


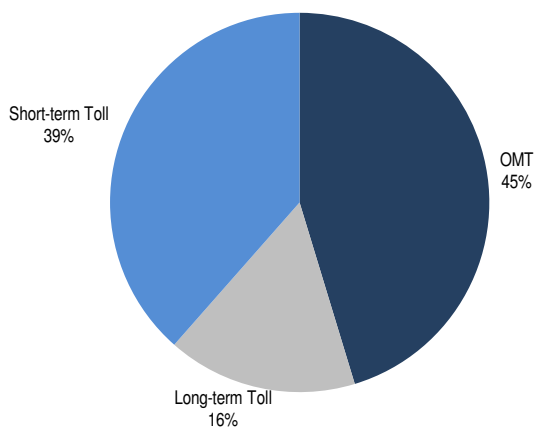
Source: Company

Fig 6 – Price movement


Source: Bloomberg

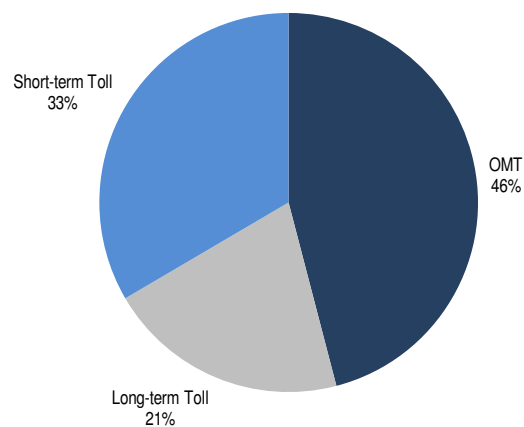
Result Highlights

Fig 7 – Q4 FY16 Revenue break-up



Source: Company

Fig 8 – FY16 Revenue break-up



Source: Company

Fig 9 – Hybrid Annuity – Projects added

	State	Client	MEP's stake (%)	Lane-km	Date of Award	Operations period	Bid cost (₹ bn)
Arawali-Kante	Maharashtra	MORTH	74	157	30-Mar-16	15	5.9
Standalone Ring Road, Nagpur City - I	Maharashtra	NHAI	74	134	31-Mar-16	15	5.3
Standalone Ring Road, Nagpur City - II	Maharashtra	NHAI	74	112	01-Apr-16	15	6.4
Kante-Waked	Maharashtra	MORTH	74	204	12-Apr-16	15	8.3
Talaja-Mahuva	Gujarat	NHAI	60	182	23-May-16	15	6.4
Total				788			32.3

Source: Company

Fig 10 – Project additions / completions / exits – Toll-collection contracts

₹ m	State	Authority	Type	COD	Tenure	Payment to authority
Project additions						
Brighat	Uttar Pradesh	NHAI	Short-term	04-Jan-16	1	518
Athur	Tamil Nadu	NHAI	Short-term	26-Mar-16	1	724
Pundag	Jharkhand	NHAI	Short-term	29-Mar-16	1	566
Lalsot Kota	Rajasthan	RIDCOR	Short-term	01-Apr-16	1	303
Alwar-Sikandara	Rajasthan	RIDCOR	Short-term	01-Apr-16	1	191
Paduna	Rajasthan	NHAI	Short-term	03-May-16	1	128
Project completions / Exits						
Bankapur Toll Plaza	Karnataka	NHAI	Short-term	03-Jan-15	1	441
Manohrabad Toll Plaza	Telangana	NHAI	Short-term	17-Feb-15	1	491
Palsit	West Bengal	NHAI	Short-term	26-Mar-15	1	950
Delhi Entry Points*	Delhi	SDMC	Long-term	16-May-15	3	1,378
Phalodi Ramji Toll Plaza	Rajasthan	RIDCOR	Short-term	17-Sep-15	1	438
Chennai Bypass*	Tamil Nadu	NHAI	OMT	14-May-13	9	1,530

Source: Company * projects exited

Fig 11 – Project pipeline

Projects	Annual potential toll collection (₹ m)	Estimated project costs (₹ bn)	Tenure (years)	No. of projects
Short-term				
NHAI	1,908	-	<=1	5
RIDCOR	125	-	10 months	2
Hybrid-Annuity				
NHAI	-	118	15	12
MORTH	-	6	15	1

Source: Company

Valuation

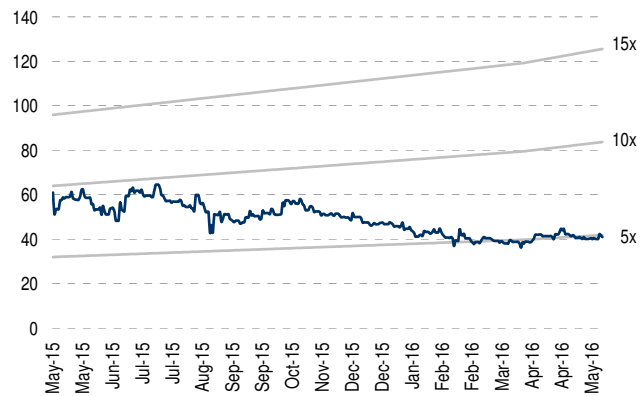
As we incorporate the termination of the Chennai-bypass project and build in lower other income, our FY17 earnings are slashed ~35% and ~13% for FY18. On our revised estimates, the stock trades at PBV of 3.8x FY18.

Fig 12 – Change in estimates

₹ m	Original Estimates		Revised Estimates		Change (%)	
	FY17e	FY18e	FY17e	FY18e	FY17e	FY18e
Revenue	18,289	18,333	17,540	17,660	-4.1	-3.7
EBITDA	5,439	5,618	5,295	5,539	-2.7	-1.4
EPS (₹)	3.0	3.5	2.0	3.0	-35.0	-12.7

Source: Anand Rathi Research

Fig 13 – PBV band



Source: Bloomberg

Risk

- Failure to exercise financial prudence since the company is eyeing opportunities in Toll-Operate-Transfer and hybrid-annuity, which are capital intensive.

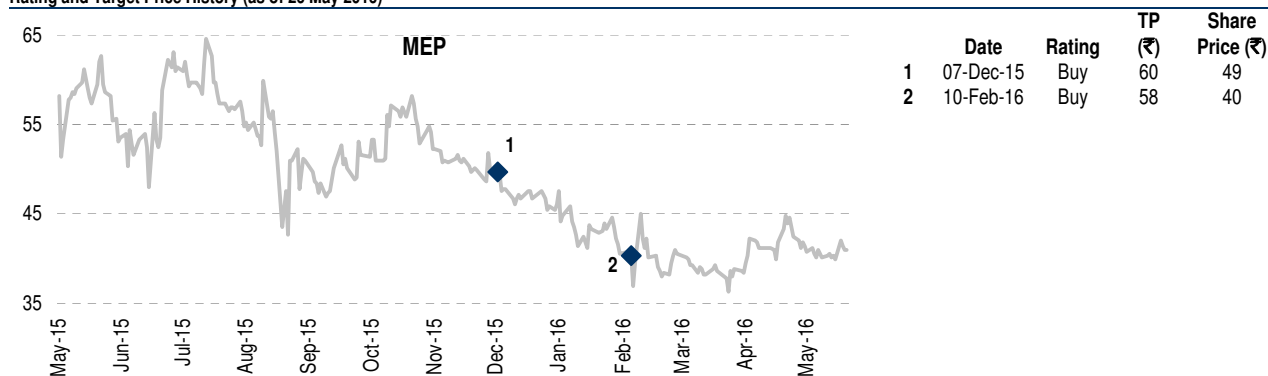
Appendix

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