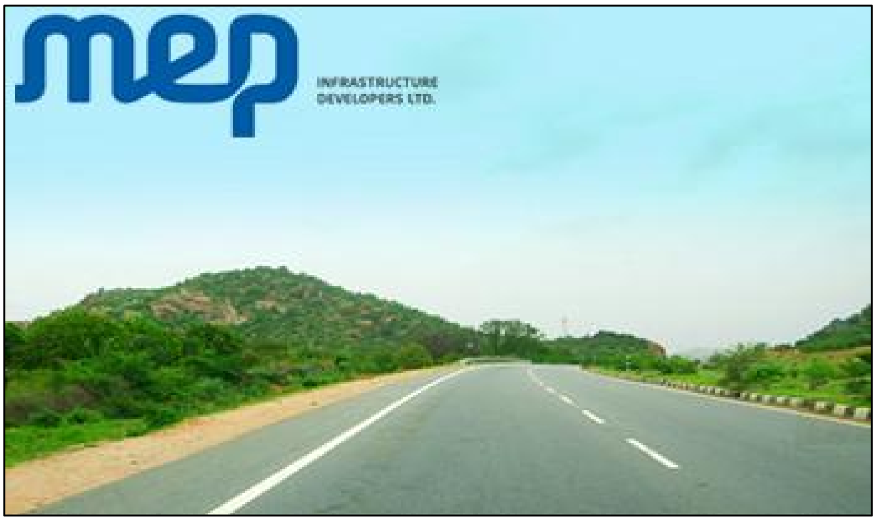
19.05.2017

MEP Infrastructure Developers Ltd.



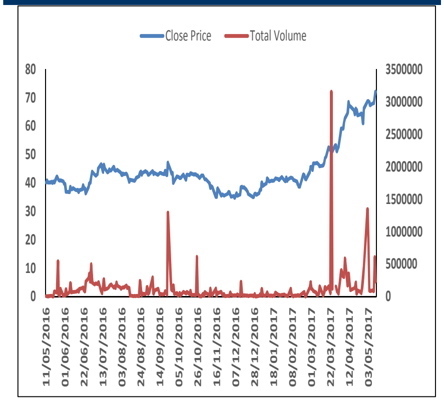
WALLFORT
Financial Services Ltd.

Sector: Infrastructure	Recommendation: BUY
CMP: Rs. 65	Target:Rs. 105

MARKET DATA	
CMP(Rs.)	65.00
EPS (TTM) (Rs.)	1.28
P/E(TTM)	50.78
52 Week High	75.80
52 Week Low	34.00
Equity (Rs. Mn.)	162.56
Mkt. Cap (Rs. Mn.)	11721.20

CODES	
BSE	539126
NSE	MEP
Bloomberg	MEP@IN

PRICE VOLUME GRAPH



Share holding pattern %

	Sep-16	Dec-16	Mar-17
Promoter	69.48	69.48	69.52
FII	8.11	8.13	5.73
DII	9.04	9.39	8.9
Others	13.37	13.00	15.85

Early mover advantage: MEP benefits from an early mover advantage being one of the first few companies focusing on pure toll collection, having started business in December 2002 by collecting toll at the five Mumbai Entry Points. The experience and expertise in toll management gives MEP an advantage while bidding for new toll collection contracts, in capitalising on new opportunities available in the market and evolving with new formats of toll collection contracts. For instance the Company has expanded business in the last few years to include long term toll collection and OMT projects.

Diversification of Business Mix to catalyse growth: MEP's current portfolio of ongoing projects includes 9 Short Term projects (34% of total revenue of FY16). The company intends to reduce dependence on short term contracts in the future and focus on long term projects. This was visible with the bids won for HAM projects in Gujarat and Maharashtra. Long term contracts provide with a steady and predictable revenue stream as compared to short term contracts. We expect the share of Long Term Revenue to increase to ~40% in FY19E from 20% in FY16.

Traction in TOT model to build order book: New Toll-Operate-Transfer (TOT) Model to be introduced for efficient monetization of existing toll roads & around 75 operational projects have been identified; Projected TOT market of INR 80,000 crore to emerge. The company's leadership position in the tolling market will help it capitalize the TOT opportunity.

Value Unlocking from Infrastructure Investment Trust: The option of an InvIT has emerged as an alternate source of funding to address the infrastructure financing gap in India. A company may be having 7, 8, 10 or 12 SPVs where individually it is very difficult to unlock value but clubbed together under InvIT, it provides investors a very good source of annuity based income. The proposal is expected to provide a boost to refinancing of stressed and delayed projects in the country as well as providing exit to developers/lenders of existing completed projects thereby freeing up developer capital/bank loan exposure for financing and developing new projects.

Government Initiatives to boost growth: In Union Budget 2017-18, the government has announced increased road allocation from INR 57,000 crore to INR 64,000 crore. Other measures include introduction of ordinance to amend the New Land Acquisition Act, an Exit Policy Framework that now permits concessionaires /developers to divest 100% equity, two years after completion of construction. This will help revive private participation.

Valuation: A growing country like India needs infrastructure to sustain the development and MEP is well positioned to capture the opportunity through optimum business mix, introduction of investment trust and entering into new advanced technology models. **We thus initiate coverage with a 'Buy' rating, with a target price of Rs.105 (Upside 61%) for FY19E based on DCF calculations taking the discount rate at 18%.**

Analyst:

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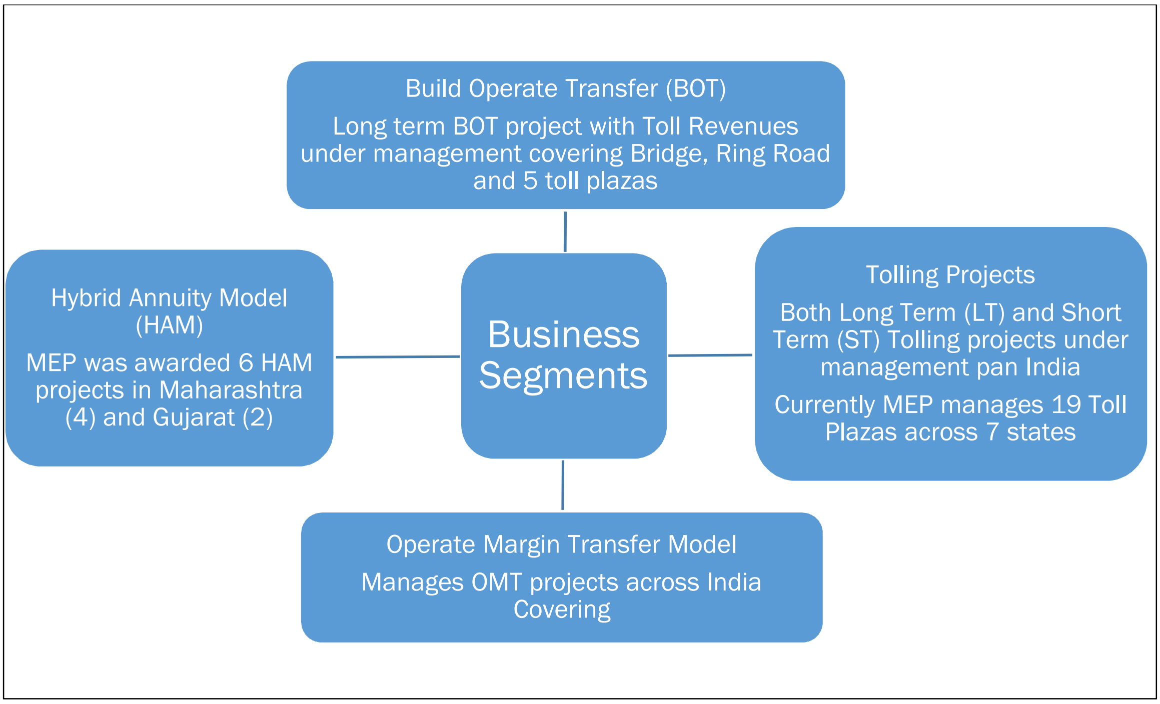
Snapshot of Financials:

Year end	FY15	FY16	FY17 E	FY18 E	FY19 E
Net Sales (Rs. mn)	20088	20068	18504	23535	26194
Operating Profit (Rs. mn)	2647	3842	5144	6016	6653
Margin (%)	13.18	19.15	27.80	25.56	25.40
Net Profit (Rs. mn)	-1153	263	1058	1761	2375
Margin (%)	-5.74	1.31	5.72	7.48	9.07
Adj EPS	-10.34	1.62	6.51	10.83	14.61

About the Company-

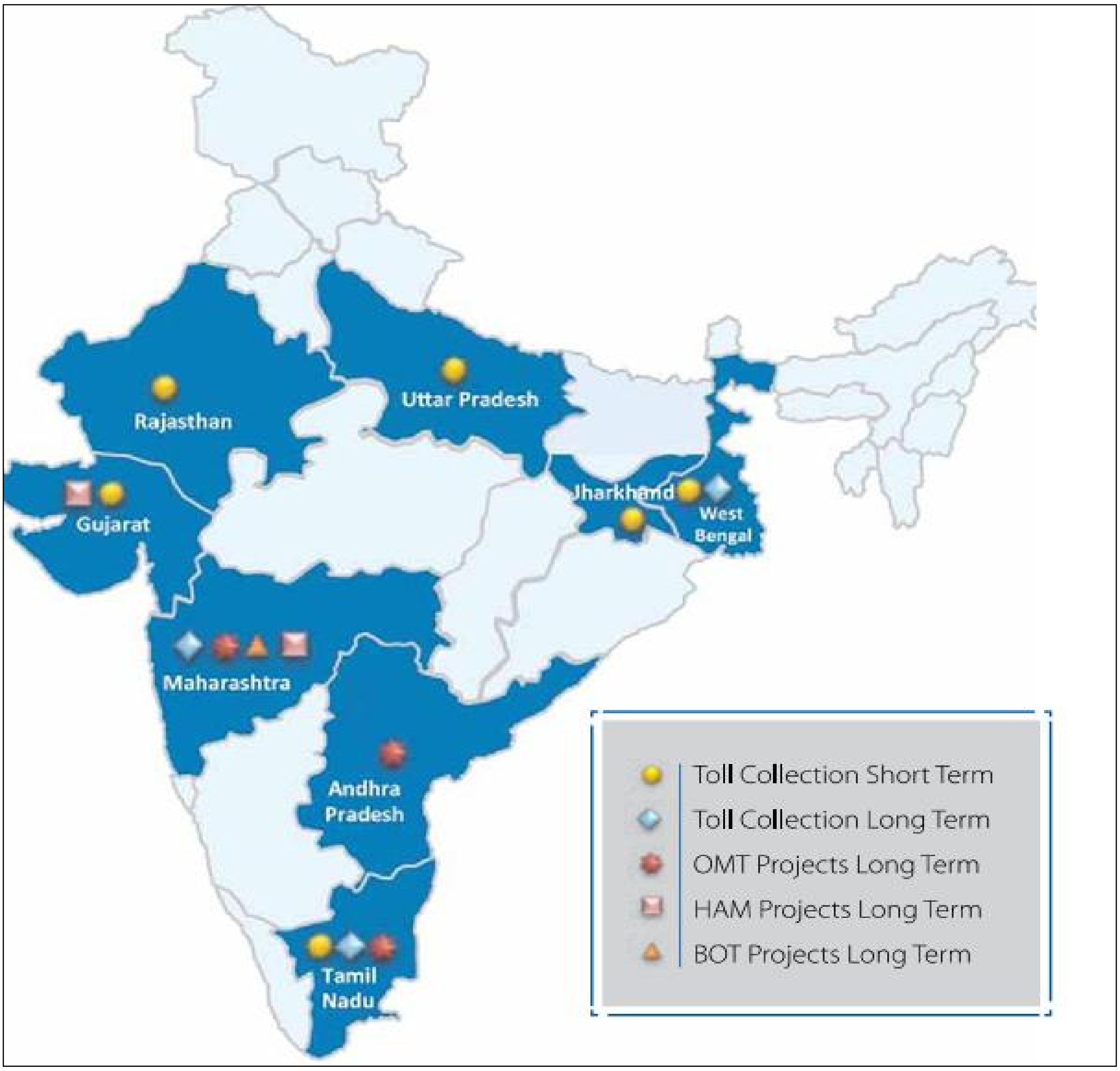
MEP Infrastructure Developers Ltd (MEP), is one of the leading players for OMT and Toll Collection projects in India. Founded in 2002 by current promoters Mr. Dattatray Mhaiskar and Jayant Mhaiskar, MEP commenced operations with toll collection at five entry points to Mumbai for 6 years. MEP further added a portfolio of Toll collection projects over Short and Long term, together with OMT projects, and has recently forayed into road development/construction by participating in Hybrid Annuity Model road projects.MEP has a successful track record of over 14 years of operational excellence pan India having operated in 12 states in India. The company has executed more than 120 projects over the years and has completed 108 projects including 202 toll plazas and 1,246 lanes.

- 2002 — Starts Toll collection at Mumbai's Entry Points
- 2009 — Starts Toll Collection at Rajiv Gandhi Sea Link
- 2012 — Launched Electronic Toll Collection at Rajiv Gandhi Sea Link
- 2015 — Launches IPO of Rs.3240mn.
- 2016 — Awarded 6 HAM projects for Rs.38369mn.
- 2017 — DRHP filed with SEBI for launch of Infrastructure Investment Fund

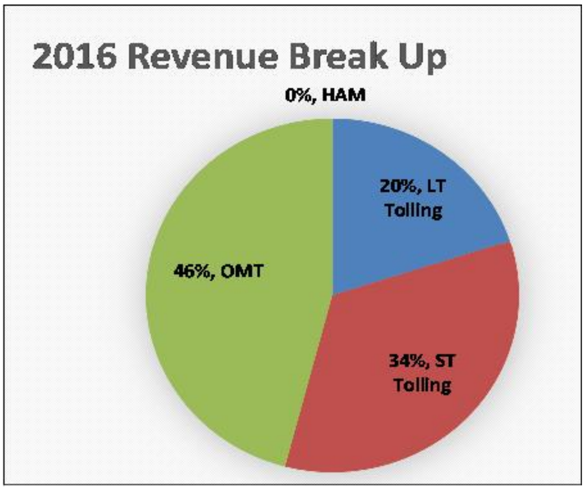


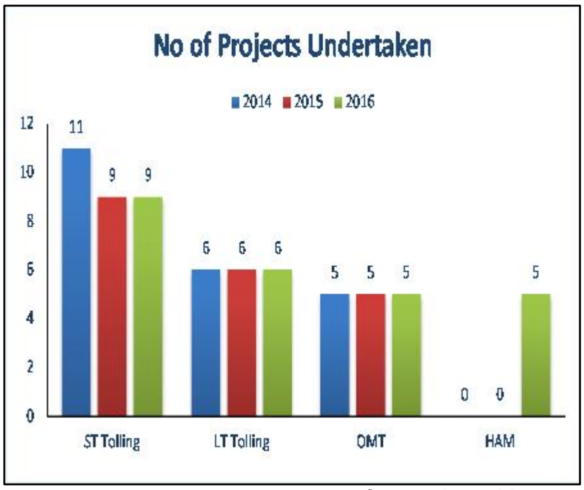
Source; Company

Presence across India-

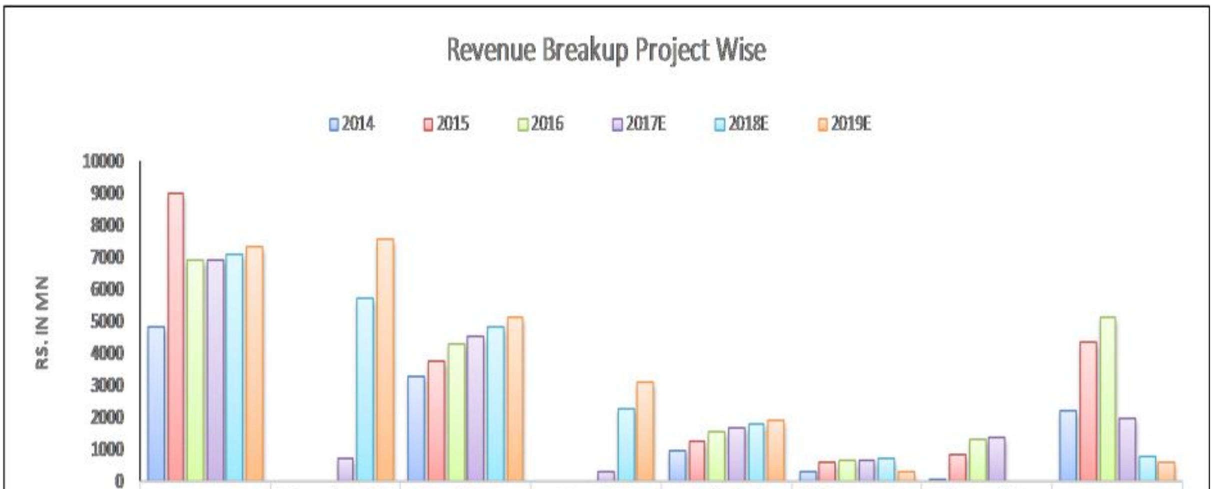


Source: Annual Report





Source: Annual Report



	ST Projects	Maharashtra HAM Projects	Mumbai Entry Points-OMT	Gujarat HAM Projects	Hyderabad Bangalore-OMT	Vidhyasagar Setu (RTBPL)-LT	RajivGandhi Sea Link-OMT	Other Projects
2014	4857		3345		1018	366	132	2262
2015	9072		3798		1297	647	897	4376
2016	6953		4328		1625	678	1337	5147
2017E	6959	750	4592	350	1723	719	1391	2020
2018E	7149	5773	4871	2340	1828	763		810
2019E	7364	7622	5168	3120	1940	333		648

Source: Company, Wallfort Research

Details of Subsidiary/Joint Venture:

Sr. No	Name of SPV	% of Holding	Category of Work	Projects Undertaken	Date of Completion
1	Rideema Toll Bridge Pvt Ltd (RTBL)	100%	Long Term Tolling	VidyasagarSetu Project	September, 2018
2	MEP Infrastructure Pvt Ltd (MIPL)	99.99%	OMT	Mumbai Entry Points	November, 2026
3	MEP Hyderabad Bangalore Toll Road Pvt Ltd (MEP HB)	100%	OMT	Hyderabad-Bangalore Project	May, 2022
4	MEP RGSL Toll Bridge Pvt Ltd (MEP RGSL)	100%	OMT	Rajiv Gandhi Sea Link	May, 2017
5	MEPIDL – Sanjose India JV	74%	HAM	ArawaliKante	Construction to complete on September, 2018 Concession Period of 15 Years
6	MEPIDL – Sanjose India JV	74%	HAM	KanteWakad	
7	MEPIDL – Sanjose India JV	74%	HAM	Nagpur Package I	
8	MEPIDL – Sanjose India JV	74%	HAM	Nagpur Package II	
9	MEPIDL – Sanjose India JV	60%	HAM	TalajaMahuva	
10	MEPIDL – Sanjose India JV	60%	HAM	MahuvaKagavadar	
11	BaramatiTollways Pvt Ltd (BTPL)	99.99%	BOT	Baramati Bridge	
12	MEP Highway Solutions Pvt Ltd (MEP HS)	100%	Others	EPC work of Design of Roads, Highways	
13	MEP Nagzari Toll Road Pvt Ltd (MEP Nagzari)	100%	Toll Collection	Nagzari Toll Plaza	

Investment Rationale -

1. **Early mover advantage:** MEP benefits from an early mover advantage being one of the first few companies focusing on pure toll collection, having started business in December 2002 by collecting toll at the five Mumbai Entry Points.

Some of the first achieved by the company-

Sr. No	Project Name	Project Duration	Current Status
1	Toll collection at Mumbai Entry Points	2002-2010	Project was awarded on OMT basis for further 16 years.
2	Toll collection on Rajiv Gandhi Sea Link	2009-2014	Project was awarded on OMT basis for further 3 years.

The company was the first to introduce the **Smart cards as well as RFID technology** based tags that are mounted on the windshield. These enable faster traffic clearance at the toll plazas. The RFID technology 58 based ETC system senses the tag mounted on the windshield of the user's vehicle and deducts the toll fee from the prepaid amount as per the toll fee notification of the project. MEP has implemented an RFID technology based ETC system at the Rajiv Gandhi Sea Link toll plaza in Mumbai, the Vidyasagar Setu Project and at four toll plazas forming part of the Mumbai Entry Points Project.

Manual Tolling Plaza on the Rajiv Gandhi Sea Link.

With more than 125000 vehicles crossing every day, in 2012 MEP started Electronic Toll collection for traffic decongestion.

Electronic Tolling Collection Lane on the Rajiv Gandhi Sea Link.

The information related to the vehicle is captured in the system and the amount of money tendered is registered against this particular Tag ID which is a unique identifier in the RFID terminology.

NHAI has recently promoted Indian Highways Management Company Limited ("IHMCL") which proposes to establish nationwide RFID based ETC system together with central clearing house services, under which all toll plazas in India that are under NHAI's jurisdiction will have dedicated RFID based ETC lanes under a centralised toll collection system. Pursuant to this project, we are required to establish RFID based ETC system at the toll plazas forming part of our OMT projects with NHAI. Since MEP is an established player in the segment, it help to gain traction for the company.

2. Diversification of Business Mix to catalyse growth:

MEP's current portfolio of ongoing projects is well balanced. Having started from being a pure toll collecting authority in 2002, today MEP's mix includes 6 Short Term projects, 3 Long Term Projects, 3 OMT projects and 6 HAM projects. The company intends to reduce dependence on Short Term contracts in the future and focus on Long Term Projects. This was visible with the bids won for HAM projects in Gujarat and Maharashtra.

Current Project Mix

Location	OMT	Long Term Toll	Short Term Toll	HAM	BOT	Total
Maharashtra	2	1	-	4	1	**8**
Tamil Nadu	-	-	1	-	-	**1**
Rajasthan	-	-	2	-	-	**2**
Gujarat	-	-	-	2	-	**2**
Uttar Pradesh	-	-	1	-	-	**1**
West Bengal	-	1	-	-	-	**1**
Andhra Pradesh	1	-	-	-	-	**1**
Jharkhand	-	-	2	-		**2**
Total	**3**	**2**	**6**	**6***	**1**	**18#**

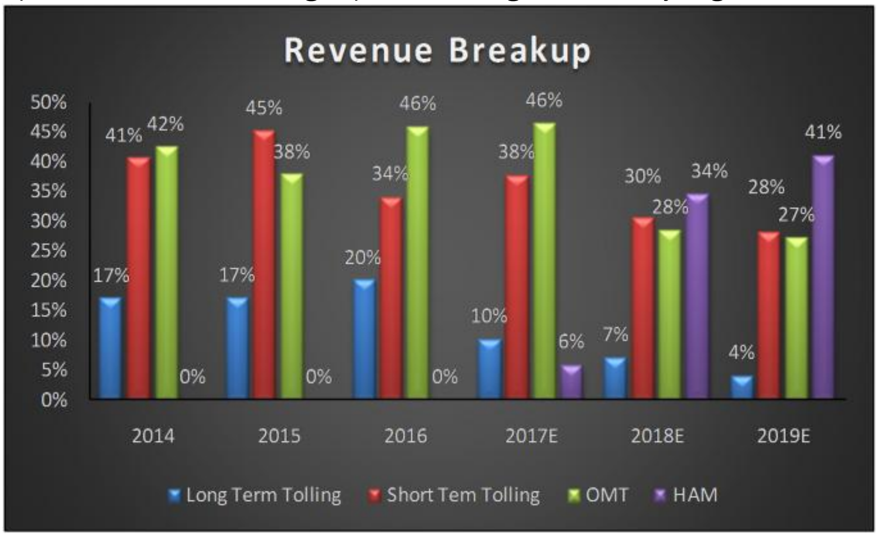
Source: Company

The company has constantly started to take projects on a pan India basis, this diversification in the company's project mix will help increase its market share and order book at a swift pace.

HAM projects-

Types	Description	Revenue Stream	Concession Period	Award Criteria
Hybrid (Annuity)	Private party builds roads, undertakes O&M and collects annuity, Construction Support 40% from Authority	Annuity payment + interest, O&M payment	15 years post construction	Lowest bid project cost and O&M cost

Since HAM involves funding from the government, (40% of project cost in HAM), there will be improvement in the working capital financing hence catalysing the execution of project.



The company's share from HAM is expected to increase to ~41% by FY2019 after the receiving the orders of projects.

The increase in share of HAM will result into steady levels of operating cash flows.

Source: Company, Wallfort Research

3. Traction in TOT model to build order book: Ministry of Roads, Transport and Highways (MORTH) along with NHAI is proposing to introduce the Toll Operate Transfer (TOT). In the model, the existing toll roads will be awarded to a private entity for efficient operations and maintenance over a fixed long-term period. One time concession fee payable upfront (lump sum) in the operations and tolling phase.
Features of the TOT model are-

Types	Description	Revenue Stream	Concession Period	Award Criteria
TOT (Proposed)	Private party pays the estimated toll upfront to the authority, undertakes O&M and collects the toll during concession period	Toll	Long term (typically more than 25 years as observed globally)	Model is under consideration by NHAI

Source: Company

Key Benefits of the model-
- Efficient operations and maintenance.
- Reduction in toll pilferage.
- Capital inflow to the Government which can re-invested in new road projects.
- Opportunity for the private sector to invest in low risk assets.

Source: Company

The Government of India has received financing from the World Bank towards the cost of the NHAI Technical Assistance (TA) Project and intends to apply part of the proceeds for undertaking a Transaction Advisory assignment for 'Projects under the Toll Operate and Transfer Model (TOT)'. There are currently ~104 existing toll roads across India funded by Government.Projected TOT market of INR 80,000 crore is to emerge. The company's leadership position in the tolling market will help it capitalize the TOT opportunity.

4. Value Unlocking from Infrastructure Investment Trust:

The option of an InvIT has emerged as an alternate source of funding to address the infrastructure financing gap in India. InvIT is a very sustainable value because InvITs have many safeguards built into it. For example, it is only for projects that have demonstrated commercial traction. Across infrastructure, the investor is not stuck with the ups and downs of a particular project. Infrastructure Trusts are a great vehicle for where Companies can keep on putting assets in perpetuity.

After the construction period is over, the construction risk is taken and once the projects enter into the revenue period, it does not make sense to construction companies to continue in those SPVs on a long term basis. It makes a lot of sense for them to find investors and see that they unlock the investments that they are making. It is a step in the right direction because infrastructure development has suffered in the country for want of long term funds and that gap is going to be bridged by these investment trusts.

Highlights of the Compliance requirements-

- Earlier the Sponsor was required to hold a minimum of 25% stake in the InvIT. SEBI has proposed to relax the minimum Sponsor holding to 10%.
- Sponsor is required to have net worth of at least INR 1 bn and minimum experience of at least 5 years with at least two completed projects.
- The overall borrowings of the InvIT net of cash and cash equivalents shall never exceed 49% of the value of the InvIT assets.
- Revenue generating projects for a period of more than a year are eligible for forming an InvIT.
- 90% of distributable cash flow of InvIT / SPVs needs to be distributed in form of dividends to unit holders.
- The Union Budget 2016-17 has proposed to exempt the SPVs from the levy of dividend distribution tax.

How beneficial to MEP?

Unlocking Value of Equity in SPV	• MEP will benefit from the value unlocked of equity held in the SPV's managed under it. The projects handled under individual SPV's will be consolidated under a trust and the consideration for the same will be received to MEP.
Reduction in Consolidated Debt leading to better ratios	• With the projects being consolidated in SPV, the debt of the Company will reduce significantly leading to healtier debt to equity ratio. Low debt will also boost profitability due to lower cost of financing.
Steady Cash Flows	• Since infrastructure trusts will have to distribute 90% of the profits to shareholders, this will result into steady cash flows for MEP since it will be a large shareholder in the trust. This will help to bring steady returns to the company.

5. **Government Initiatives to boost growth:** The Government has set a medium-term target to achieve 2.0% of the GDP from Transport and Port sector.The total investment in roads during FY17 is expected to be INR 970 billion.

a. **Measures to boost operational projects:**

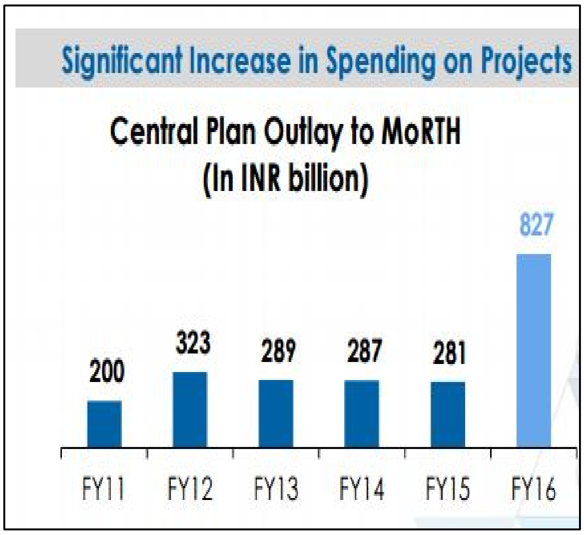
- Ordinance to amend the New Land Acquisition Act- NHAI will not award any road project unless it possesses 80% of land for the BOT projects and 90% of land for the EPC projects.
- Committee on easing environmental clearance norms and introduction of an online portal for environment and forest clearance.
- Faster dispute resolution, including setting up of the Society for Affordable Redressal of Disputes by NHAI.
- Signing of memorandum of understanding (MoU) between the MoRTH and the Ministry of Railways.
- Rescheduling of premium payment for 11 national highway projects.

c. **Measures to revive private participation:**

- Golden handshake with developers for 34 projects worth ~ USD 5.5 billion.
- CCEA has approved a comprehensive Exit Policy Framework that now permits concessionaires /developers to divest 100% equity, two years after completion of construction. This will help revive private participation.
- Plans to allow international arbitration for dispute resolution.

b. **Financial Support Measures:**

- The Government has allocated INR 550 billion under the Union Budget 2016-17 for road sector.
- Market borrowings by NHAI: In 2015, bonds worth INR 39 billion were issues by NHAI. Further, an issue worth INR 10-100 billion was floated for subscription in December 2015. This issue was subscribed by over two times with INR 210 billion being raised.
- Multilateral funding: The World Bank and ADB's total commitment to state roads currently stands at $4.5 billion involving 14 projects and $3.5 billion involving 15 projects respectively. As on date, multilateral organisations have been involved in financing 76 national highway projects with total award cost of INR 182 billion.
- Partial funding to road sector through increase in cess on petrol and diesel from INR 2 per litre (INR 250 billion annually) to INR 6 per litre (INR 850 billion annually).
- Refinancing of loans: 5/25 scheme for easing financial pressure on the developers of new infrastructure projects with long gestation projects. The scheme allows banks to extend long-term loans of 20-25 years to match the cash flows of projects, while refinancing them every five or seven years.



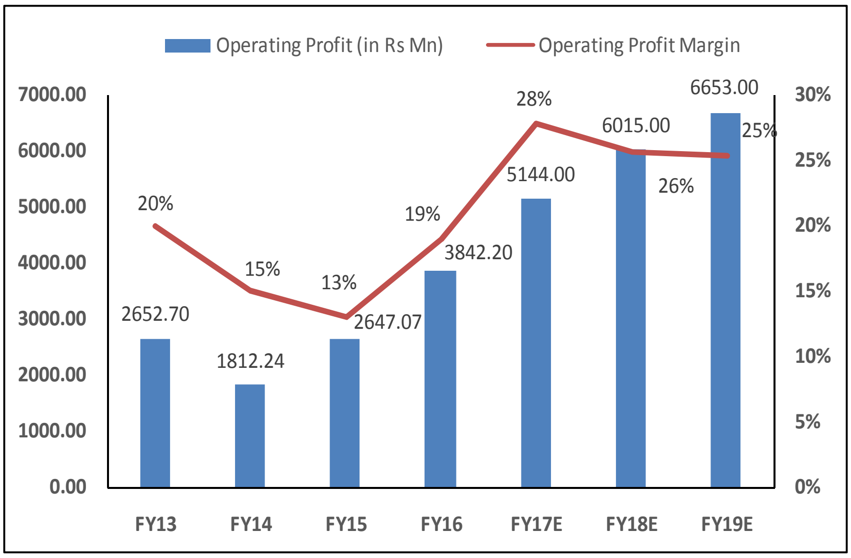
Source: MORTH

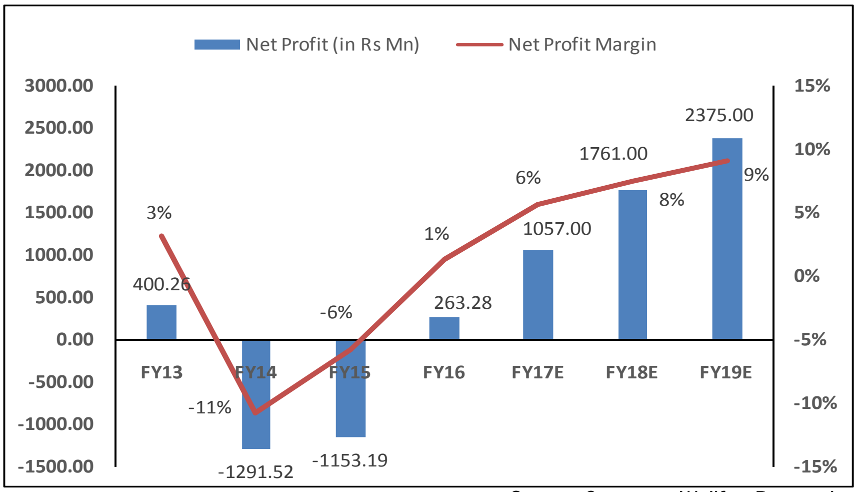
Financial Performance of the Company-

1. Revenue grows at a CAGR of ~12% from FY13 to FY16.

   The company's diversified business mix resulted in a growth of 12% in revenues from Rs.12801 mn to Rs.20067mn in FY16. With the focus increasing on the EPC (Long term) projects the revenue is estimated to further grow by 12% CAGR from FY17E-FY19E.

2. Operating/Net Profit margins see CAGR growth of 8% from FY14 to FY16.





Source: Company, Wallfort Research

The company's policy is to bid projects which are in close proximity of existing project whichhelps to reduce freight & other expenses.

Faster execution of projects, doingan Infrastructure Trust will help to reduce finance cost considerably leading to healthy growth in Net profit margins.

Focus towards EPC projects will further stabilize cash flows and margins due to predictable income.

3. Steady cash flows and reduction in debt to improve ratios

   With the objective to shift business mix from short term projects, the company aims to achieve stable cash flows due to certainty of projects and healthy order book. Debt is projected to reduce considerably with introduction of Infrastructure Trust and change of business mix. Debt Equity is expected to reduce from 28 times in FY16 to 5 times in FY19. This factors will help to improve cash flow from operations.

Risks & Concerns:

- **Business is substantially dependent on ability to accurately forecast traffic volumes for projects:**If in some instances, the traffic volume is less than forecasted traffic volume, the revenue from such toll collection or OMT project may be lesser than expected and may lead to losses or lower than expected profits on such contract.

- **Business is substantially dependent on road projects in India undertaken or awarded by governmental authorities & other entities funded by the Government of India or State Governments:** The company currently derive almost all of its revenues from contracts with a limited number of government entities. These include NHAI, MSRDC, RIDCOR, RSRDC, MJPRCL and HRBC. There can be no assurance that the Government of India or the State Governments will continue to place emphasis on the road infrastructure sector. In the event of any adverse change in budgetary allocations for infrastructure development or a downturn in available work in the road infrastructure sector or de-notification of toll collection resulting from any change in government policies or priorities, business prospects & financial performance, may be adversely affected.

- **Local opposition and political risks:**MEP has in the past faced political problems such as protests against collection of toll plazas. Three of MEP's toll plazas have been included in the list of 53, wherein cars/SUVs have been exempted. Apart from this, the government has also set up a committee to evaluate if exemptions can be given for Mumbai Entry Point. The committee, which was set up to give its recommendations on future tolling options at the five entry points of Mumbai (MIPL), has submitted its final recommendations to the government and its decision on the same is awaited

Peer Comparison:

(in Rs. mn)	Mcap	Mkt Price	Net Sales				EBIT Margin				Net Income Margin			
		(in Rs.)	FY16	FY17E	FY18E	FY19E	FY16	FY17E	FY18E	FY19E	FY16	FY17E	FY18E	FY19E
Dilip Buildcon	64486.9	472.0	40280.0	49290.0	58700.0	68210.0	15.3%	14.5%	14.3%	14.5%	5.4%	5.5%	5.3%	6.0%
Ashoka Buildcon	38449.0	205.0	25970.0	28350.0	33270.0	38160.0	19.6%	20.4%	19.1%	17.9%	2.3%	4.0%	3.9%	4.3%
IRB Infrastructure Developers	91060.0	259.0	51300.0	57840.0	66910.0	74810.0	35.2%	38.0%	37.4%	39.2%	12.4%	11.7%	11.2%	11.6%
Gayatri Projects	28883.2	163.0	18070.0	20160.0	27140.0	39730.0	9.2%	12.7%	15.8%	13.8%	3.2%	3.1%	3.8%	4.8%
PNC Infratech	41174.0	160.0	23460.0	23800.0	28400.0	35010.0	12.7%	15.9%	14.7%	13.8%	9.2%	7.6%	7.0%	6.9%
MEP Infrastructure Developers	11071.0	72.0	20067.9	18503.7	23535.3	26193.7	19.1%	27.8%	25.6%	25.4%	1.3%	5.7%	7.5%	9.1%

(in Rs. mn)	EPS				P/E				ROE				EV/EBIDTA			
	FY16	FY17E	FY18E	FY19E	FY16	FY17E	FY18E	FY19E	FY16	FY17E	FY18E	FY19E	FY16	FY17E	FY18E	FY19E
Dilip Buildcon	18.77	19.73	22.78	30.02	25.1	23.9	20.7	15.7	22.4%	17.7%	15.9%	17.4%	11.2	9.6	8.3	7.2
Ashoka Buildcon	3.15	6.08	7.10	8.52	65.1	33.7	28.9	24.1	3.6%	5.6%	6.1%	7.2%	0.0	4.9	4.4	4.0
IRB Infrastructure Developers	18.09	19.44	21.50	24.7	14.3	13.3	12.0	10.5	13.8%	13.1%	13.2%	13.3	7.9	7.4	6.3	5.4
Gayatri Projects	3.30	3.47	5.83	12.60	49.4	47.0	28.0	12.9	7.7%	7.3%	13.2%	18.8%	0.0	15.0	11.3	8.0
PNC Infratech	8.42	6.68	7.30	9.18	19.0	24.0	21.9	17.4	19.8%	12.9%	12.3%	13.4%	0.0	8.9	8.0	7.3
MEP Infrastructure Developers	1.62	6.51	10.83	14.61	44.5	11.1	6.6	4.9	26.0%	55.2%	51.9%	44.1%	10.1	6.7	5.5	4.4

Valuation:

Change of business mix, introduction of new technology, effective government policies, increase in market presence PAN India and launch of Infrastructure Trust make MEP well positioned to achieve healthy revenue and PAT margins in the coming years. With the government keen to increase private participation there are ample of opportunities for growth for the company. **We Initiate Coverage with a BUY rating, with a price target of Rs.105 based on its DCF basis valuation applying a discount rate of 18% on future cash flows with an upside of 61%.**

Valuation				
	FY17E	FY18E	FY19E	Terminal Value
FCFE (In Rs. Mn)	1409	2101	3121	20531
Time Period	1	2	3	3
Discount Factor	1.17	1.37	1.60	1.65
Discounted cash flows	1204	1535	1948	12433
Total Cash Flow				17120
Shares Outstanding				163
Target Price (Rs)				105
Current Stock Price (Rs.)				65
Upside/(Downside)				62%

Income Statement					(Rs. Mn.)
Date End	FY15	FY16	FY17E	FY18E	FY19E
Revenue from operations	**20088**	**20068**	**18504**	**23535**	**26194**
Expenditure	15641	14520	4293	5752	6444
Depreciation & amortisation	1799	1706	9067	11768	13097
Operating Profit (EBIT)	**2647**	**3842**	**5144**	**6016**	**6653**
Other Income	325	407	278	235	262
Interest	4036	3832	3911	3735	3522
PBT before Excep. Item	**-1064**	**417**	**1511**	**2516**	**3393**
Exceptional Items	11	0	0	0	0
PBT after Excep. Item	**-1075**	**417**	**1511**	**2516**	**3393**
Tax	79	154	453	755	1018
Profit After Tax	**-1153**	**263**	**1058**	**1761**	**2375**
Minority Interest	0	0	0	0	0
Consolidated PAT	**-1153**	**263**	**1058**	**1761**	**2375**
No of Equity Shares (in mn.)	111.49	162.56	162.56	162.56	162.56
Adj. EPS excld exceptional item	-10.34	1.62	6.51	10.83	14.61

Balance Sheet

as at 31st March	FY15	FY16	FY17E	FY18E	FY19E
Share Capital	1115	1626	1626	1626	1626
Preference Share Capital	0	0	0	0	0
Application money	0	0	0	0	0
Reserves	-3379	-613	292	1766	3759
Networth	**-2264**	**1013**	**1917**	**3391**	**5384**
Minority Interest	0	0	0	0	0
Total Loan	**31639**	**29076**	**29139**	**27439**	**24924**
Deferred Tax Liability	1	0	0	0	0
Long Term Liabilities	1044	522	278	353	655
Long Term Provisions	23	31	19	24	26
Total Liab.	**30442**	**30642**	**31353**	**31207**	**30990**
Gross Block	26616	27053	29664	32536	35696
Depreciation	5321	7025	14047	17067	17387
Net Block	21294	20028	15618	15470	18309
Capital work-in-progress	163	67	0	0	0
Total Fixed Assets	**21457**	**20095**	**15618**	**15470**	**18309**
Goodwill on Consolidation	265	265	265	265	265
Non current Investment	216	217	217	217	217
Deferred Tax Asset	943	1070	1070	1070	1070
Long Tem Loans & Advances	8934	8983	9252	11297	9168
Other Non Current Assets	387	412	555	471	524
Current Investments	106	0	0	0	0
Inventory	0	0	0	0	0
Sundry Debtors	258	2	51	64	72
Cash & Bank Bal	1348	1498	5902	5768	6732
Other Current assets	630	1046	1110	1177	786
Short Term Loan & Advances	1812	3280	3146	2824	2619
Total Current Assets	**4154**	**5825**	**10209**	**9833**	**10209**
Current Liability	5910	6199	5817	7399	8759
Provision	5	26	15	16	13
Total Current Liabilities	5914	6225	5832	7416	8772
Net Current Assets	**-1760**	**-399**	**4377**	**2418**	**1437**
Total Net Assets	**30442**	**30642**	**31353**	**31207**	**30990**

Ratio Analysis					
Category	FY 15	FY 16	FY17E	FY18E	FY19E
Margin Ratio					
Operating Margin (EBIT)	13.18%	19.15%	27.80%	25.56%	25.40%
Net Profit Margin	-5.74%	1.31%	5.72%	7.48%	9.07%
Profitability Ratios					
ROACE	8.65%	12.58%	16.59%	19.23%	21.39%
ROANW excl Excl Item	NM	NM	72.20%	66.34%	54.13%
ROAA	-3.77%	0.86%	3.41%	5.63%	7.64%
DuPont Analysis					
PAT / PBT	1.07	0.63	0.70	0.70	0.70
PBT / EBIT	-0.41	0.11	0.29	0.42	0.51
EBIT / Net Sales	0.13	0.19	0.28	0.26	0.25
Net Sales / Total Assets	0.66	0.65	0.59	0.75	0.85
Total Assets / Equity	-13.44	30.26	16.35	9.20	5.76
ROE	50.93%	26.00%	55.17%	51.92%	44.12%
Valuation Ratios					
EV/EBIDTA	14.35	10.10	6.70	5.47	4.42
EV/ Net Sales	1.89	1.93	1.86	1.40	1.12
Leverage Ratios					
Debt-Equity Ratio	-13.97	28.71	15.20	8.09	4.63
Debt-Assets Ratio	1.04	0.95	0.93	0.88	0.80
Turnover Ratios					
Fixed Assts	0.94	1.00	1.18	1.52	1.43
Working Capital	-6.46	-10.58	-12.13	-7.03	-4.95
Inventory	0.00	0.00	0.00	0.00	0.00
Total Assets	0.66	0.65	0.59	0.75	0.85
Liquidity Ratios					
Current Ratio	0.70	0.94	1.75	1.33	1.16
Quick Ratio	0.70	0.94	1.75	1.33	1.16
Interest Coverage	0.66	1.00	1.32	1.61	1.89
Other Ratios					
EPS	-10.34	1.62	6.51	10.83	14.61
DPS	0.00	0.20	0.80	1.50	2.00
Book Value per share	-22.64	9.08	11.79	20.86	33.12
P/E Ratio	-6.67	42.60	10.60	6.37	4.72
P/BV	-3.0472	7.60	5.85	3.31	2.08

Cash Flow Statement	FY 15	FY 16	FY17E	FY18E	FY19E
PBT	-1075	417	1511	2516	3393
Add: Depreciation	1799	1706	2067	1768	2597
Add: Interest expense	4036	3832	3911	3735	3522
Less: Other income	-323	-391	-278	-235	-262
Change in working capital	-1285	-1025	-361	1823	1948
Less: Income Tax Paid	-398	-271	-453	-755	-1018
CF from operations	2755	4269	6396	8851	10180
Change in fixed assets	-269	-643	-2544	-2872	-3159
Change in L.T Advances	-487.1	-112.1	0	0	0
Change in investments	-432	13	0	0	0
Other income	316	243	278	235	262
CF from investing	-872	-500	-2267	-2637	-2897
Change in debt	1708	-2602	63	-1701	-2515
Dividend & dividend tax	0	-20	-153	-287	-382
Change in equity	250	3113	0	0	0
Interest paid	-4114	-4189	-3911	-3735	-3522
Other Adjustments	0	2	4208	-676	50
CF from financing	-2156	-3696	208	-6399	-6369
Change in cash & cash eq	-273	74	4337	-184	914
Opening cash and cash eq	764	491	565	4902	4718
Closing cash and cash equivalents	491	565	4902	4718	5632

Industry Overview:

The Ministry of Road Transport and Highways formulates and administers policies for road transport, national highways, and transport research. It seeks to increase mobility and efficiency of the road transport system in the country.

The Ministry of Road Transport and Highways

- The Roads wing deals with the planning, implementation and maintenance of National Highways. It also evolves standard specifications for roads and bridges in the country.
- The Transport wing deals with matters relating to road transport such as implementation of the primary central legislation, the Motor Vehicles Act, 1988. It also looks at the taxation and insurance of motor vehicles.

India Road Network – Size and Growth

- National highways account for ~ 1.91% of the network. State highways account for ~ 2.93%, and Major District Roads (MDRs) and other roads together account for the remaining 95%.
- About 65% of freight and 80% of passenger traffic is supported by the road network.
- National highways constitute only ~ 1.91% of the road network but carry about 40% of the total road traffic.

Allocations in Union Budget 2017-18:

Expenditure: The total expenditure on the Ministry of Road Transport and Highways for 2017-18 is estimated at Rs.64900 crore. This is 24% higher than the revised estimates for 2016-17. In 2017-18, of the total expenditure, the highest allocation is towards roads and bridges at 63%.

Allocation of funds by Ministry of Roads and Highways (In Rs. Crores)

Sr.No	Particulars	Actual 2015-16		Revised 2016-17		Budget 2017-18	
		Expenditure in Rs.	Ratio	Expenditure in Rs.	Ratio	Expenditure in Rs.	Ratio
1	Revenue Expenditure	19,380	41%	11,344	21%	10,723	17%
2	Capital Expenditure	27,533	59%	41,103	79%	54,177	83%
	Total	**46,913**	**100%**	**52,447**	**100%**	**64,900**	**100%**

Source: MORTH

This suggests an increasing focus on capital expenditure by the Ministry in the last few years.

1. Central Road Fund (CRF): Transfers to the CRF form the biggest component of the expenditure by the Ministry. A portion of the cess collected on motor spirit and high speed diesel is earmarked for the development of NHs and SHs, and the amount is transferred to the non-lapsable CRF. This amount is eventually released to National Highways Authority of India, and to the state/UT governments for development of road infrastructure in the country.

2. National Highways Authority of India (NHAI): The central government is primarily responsible for the development and maintenance of NHs, and it carries out these functions through the NHAI. One of the primary projects implemented by the NHAI is the National Highways Development Project (NHDP). The Ministry started the NHDP in 1998 for the construction and improvement of the NH network to international standards.

   Key projects under the NHDP include:
   (i) Golden Quadrilateral (GQ-5,846 kms of 4 lane highways)
   (ii) North-South and East-West Corridors (NSEW-7,142 kms of 4 lane highways)
   (iii) Four-laning of 12,109 kms under NHDP III.

   NHDP projects are financed primarily from the following sources:
   (i) Cess levied on petrol and high speed diesel (inflow from the Central Road Fund)
   (ii) Funds received for externally aided projects
   (iii) Additional budgetary support
   (iv) Market borrowings
   (v) Plough back of revenue.

3. Permanent Bridge Fees Fund (PBFF): Funds transferred to the PBFF relate to the revenue collected by the government by way of:
   (i) Fees levied for the use of certain permanent bridges on NHs by motor vehicles
   (ii) Toll on NHs
   (iii) Revenue share and negative grants received on some PPP projects.

   The fund is utilized for development of NHs being undertaken by the government and those entrusted to NHAI.

Summary of budget allocation to various funds and authorities (in Rs crore)

Particulars	Actual 2015-16	Revised 2016-17	Budget 2017-18
CRF	33,014	38,209	46,907
NHAI	23,018	14,976	23,892
PBFF	6,549	7,644	8,600

Source: MORTH

NHAI: Budget estimates vs Actual expenditure from 2010 to 2017

Year	Budget (in Rs crore)	Actual (in Rs crore)	Difference
2010-11	24,079	24,385	1%
2011-12	26,438	26,073	-1%
2012-13	30,798	22,537	-27%
2013-14	31,302	28,400	-9%
2014-15	35,435	33,049	-4%
2015-16	45,572	46,913	3%
2016-17	57,976	52,447	-10%

Source: MORTH

Slow pace of road construction: For 2016-17, the road construction target was set at 15,000 km. Of this, the NHAI was to construct 8,000 km (approximately 22 km/day) and the remaining 7,000 km was to be constructed by the National Highways and Infrastructure Development Corporation Limited. But there has been slow pace of road construction.

Future Outlook on Road Projects -

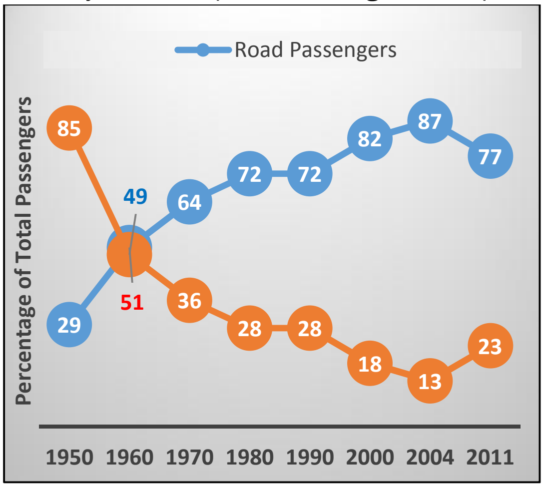
- 2,000 km of coastal connectivity roads have been identified for construction and development. This will facilitate better connectivity with ports and remote villages. A specific programme for development of multi-modal logistics parks, together with multi modal transport facilities, will be prepared and implemented.

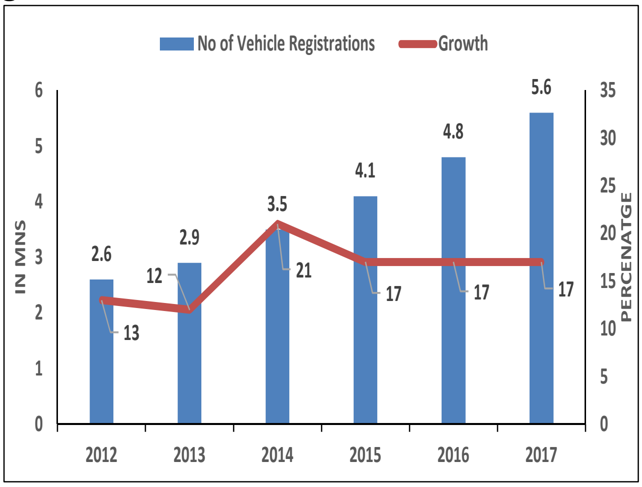
- Significant opportunity exists in the State highway segment. States like Bihar, Gujarat, Madhya Pradesh, Maharashtra, Karnataka and Rajasthan are keen to roll out projects.

Vehicular Traffic and Toll Data in India:

According to the NHAI, the number of vehicles on Indian roads has grown at an average rate of approximately 10% per annum over the last five years.According to the Union Budget 2016-17, the Government expects amendments to be made in the Motor Vehicles Act to open up the road transport sector in the passenger segment.

Since independence, both passenger and freight traffic have grown immensely. However, the poor quality of roads does not match with the mounting traffic. There is a need to bridge the gap. There is a 15%-a-year, anticipated traffic growth in passengers over FY12-32





Source: Crisil Research

Thus both steep rise in passenger's traffic through road and growth in vehicle registration are indicative of a positive outlook for tolling industry in the coming years.

Private financing and contracts: The road sector in India has seen investment from the private sector in the form on public private partnerships (PPPs). Key models include:

Types	Description	Revenue Stream	Development Risk	Financing Risk	Traffic Risk	Concession Period (NHAI)	Award Criteria
BOT (Toll)	Private party builds roads, undertakes O&M and collects toll	Toll	Concessionaire	Concessionaire	Concessionaire	~20-25 years	Highest revenue sharing bid
BOT (Annuity)	Private party builds roads, undertakes O&M and collects annuity	Annuity payment	Concessionaire	Concessionaire	Authority	~20-25 years	Lowest annuity
Hybrid (Annuity)	Private party builds roads, undertakes O&M and collects annuity , Construction Support 40% from Authority	Annuity payment	Concessionaire	Concessionaire (60%) Authority (40%)	Authority	15 years post construction	Lowest bid project cost and O&M cost
EPC	Private party builds roads (money spent by government)	Contract amount	Concessionaire	Authority	Authority	Not required	Lowest tariff requested
OMT	Private party collects toll and undertakes O&M	Toll	No development	Concessionaire	Concessionaire	~9 years	Highest % of toll revenues or highest premium per year
Tolling	Private party collects toll during the concession period and pays the estimated toll to the authority	Toll	No development	Concessionaire	Concessionaire	~1 years	Highest revenue sharing bid

The NHAI is keen to roll out the soon the proposed TOT model.

1. Tolling Model-

Toll Collection: Toll collection concept as a separate business model evolved in 2009. Under this model, authority invites bid from private players for collection of roads constructed under EPC and BOT (Annuity). It is a short duration project, typically of 12 months. Along with NHAI, state authorities and municipal bodies, developers are also outsourcing toll collection to private players in order to recognise revenues upfront. Toll management companies recover its investments and make profits from toll receipts.

The **typical bidding process** adopted by NHAI and State Authorities is a two-stage process for the selection of the bidder and for the award of work. The Technical Bid consists of the bid documents along with the company profile indicating its capability experience and the Financial Bid contains the amount quoted by the bidder.

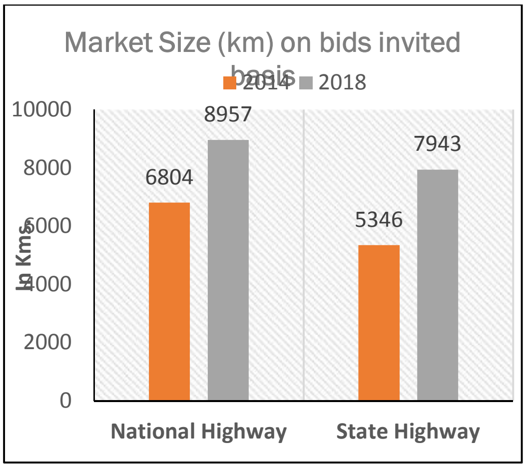
Key drivers of the Toll Collection business model:

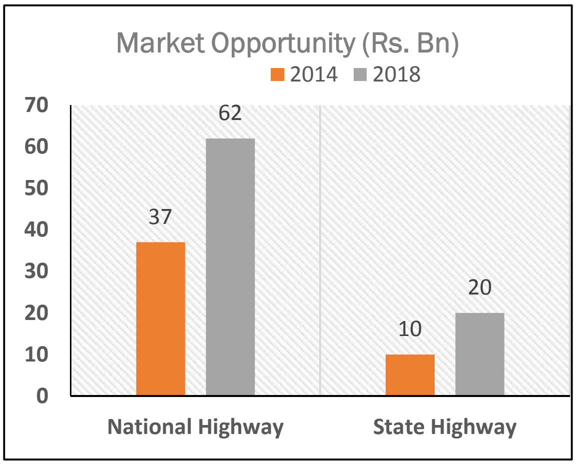
- Revenues collected upfront by the authorities are employed for better execution of other ongoing projects. Also, reported pilferage of around 20 per cent in the earlier model is avoided, thus increasing the revenues for the authorities.

- Specialist toll management companies can leverage on their expertise and systems to maximise the revenues by ensuring better traffic management and reducing waiting time.

- Not a highly capital intensive business model as it involves minimal to negligible work for the stretch (in comparison to OMT, BOT).

Outlook on tolling Market in India:





Source: Crisil Research

2. OMT Model

Repair and maintenance of roads has not received the attention it requires, primarily due to the lack of funds, which has been made available for Operation & Maintenance (O&M) activities. For National Highways, over 2004-05 to 2011-12, the actual allocation of funds for repair and maintenance was less than 50 per cent of the estimated requirement. The new concept - OMT (Operate, Maintain and Transfer) model was introduced by NHAI in 2009 for select existing and near completion four-lane National Highways. Earlier, the tasks of user fee (toll) collection and maintenance of highways were entrusted with tolling agents/operators and sub-contractors, respectively. These tasks were integrated under the OMT concessions.

Prerequisite to an OMT contract

- Under the Model Concession Agreement (MCA) for OMT, it is envisaged that before the start of the concession period of an OMT contract, the project stretch being awarded should be amenable to tolling and all major construction works should have been completed. However, the project stretch may require construction of facilities such as toll plazas, truck by-lanes, truck shelters, weigh scales etc., which typically should not hold up tolling.

Key drivers of the OMT business model

- Under OMT contracts, the efficiency of the private sector in toll collection and O&M is leveraged. This typically leads to a decrease in costs as well as increase in revenues - owing to a reduction in leakage of toll.

- Under an OMT contract, a concessionaire is awarded O&M and tolling of a project stretch, for a typical duration of 9 years. This significantly reduces the administrative efforts of the awarding agency, as earlier the authorities (NHAI, state agencies etc.) used to hire two separate agencies every year, one for tolling and the other for O&M of a project stretch.

- All OMT projects that have been awarded till date have resulted in the premium (concession fee) being shared by the concessionaire with the awarding authority (NHAI / state authority). Revenue generated through premium sharing can be used for development of other road corridors.

Outlook on OMT model-
As per CRISIL research -

Market Opportunity under OMT	Kms.
Already awarded by NHAI	5150
Future Contracts	10000
Total	15150

Source: MORTH

- Increasing number of BOT players exiting their current projects, creating opportunity to contract these projects on an OMT basis.

- Rising penetration of OMT stretches in state highways, especially in Karnataka, Bihar and Madhya Pradesh.
  Karnataka – The KRDCL has identified 8 OMT contracts worth Rs 6 billion to cover 840 km.
  Bihar – The BSRDC has identified OMT contracts to cover 1,800 km of State highways, 4,000 km of major district roads and 675 km of state roads under Bihar State Highways Project.
  Madhya Pradesh – The MPRDC has identified 12 projects worth Rs 450 million to be undertaken on an OMT basis.

- The number of projects bid out by NHAI and State highway authorities on an OMT basis is expected to increase from the 14 and 34 projects respectively in 2013-14 to 30-32 and 55-60 projects respectively in 2017-18.

3. HAM Model:

60% of the total project cost to be contributed by developer and balance 40% to be invested by the Government during construction period in five equal instalments linked to project milestones. Compared to EPC model, HAM model would help in easing the cash flow pressures on NHAI. Therefore, NHAI's own upfront funding requirement will be lower in case of HAM model compared with EPC model. Further, the traffic risk is not passed on to the developer, thus enhancing participation from private players.

Going forward, over 80% of the road projects are proposed to be awarded under EPC and Hybrid Annuity Model (HAM) routes. For FY17, MoRTH and NHAI have lined up 40% of total road projects to be awarded on HAM requiring an investment of ~ INR 600 billion.

4. TOT Model:

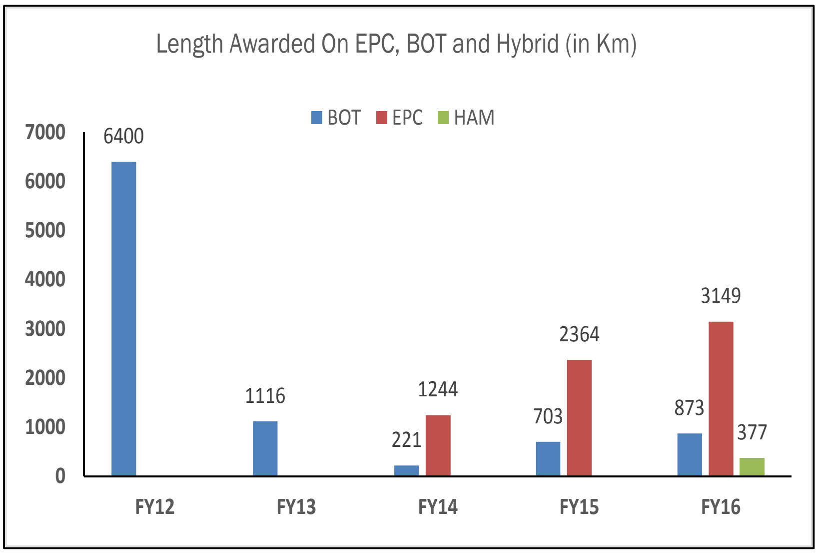
To award existing toll roads to a private entity for efficient operations and maintenance over a fixed long-term period. One time concession fee payable upfront (lump sum) in the operations and tolling phase.
Some successful TOT models acroos the world:

Toll Asset	Country	Investors	Investment Size	Concession Period
Chicago Skyway	USA	Consortium Macquarie, Cintra	USD 1.83 billion	99 years
Puerto Rico Highway PR-22	USA	Consortium Goldman Sachs, Abertis	USD 1.43 billion	40 years
Penang bridge	Malaysia	United Engineers Malaysia Berhad	USD 204 million	25 years extended to 45 years
Indiana Toll Road	USA	Consortium Macquarie, Cintra	USD 3.8 billion	75 years

Source: Company Presentation

The Government of India plans to bring New Toll-Operate-Transfer (TOT) Model for Efficient Monetization of Existing Toll Roads. Around 75 operational projects have been identified; Projected TOT market of INR 80,000 crore to emerge. The first tranche of 10 projects are expected to open up for bidding by April 2017.

Future outlook on Sector:



Source: MORTH

During FY16:

As on 31st March, 2016 NHAI awarded 79 projects through a mix of EPC, BOT and HAM (Hybrid Annuity Model) formats –

- 62 EPC projects with length of 2,559.6 km worth Rs 401.4 billion.
- 7 BOT projects with length of 872.9 km worth Rs 119.3 billion.
- 10 HAM projects with length of 377.1 km worth Rs 74.5 billion.

Thus the rising focus on EPC based projects seems to be positive for sector and companies involved in the business since will there will be predictable cash flows thus resulting into reduction in working capital cycle and debt levels.

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