

IRB Infrastructure Developers
Q1 FY16 Earnings Conference Call
August 13, 2015; 4 P.M.

Moderator: Good Evening Ladies and Gentlemen, welcome to the IRB Infrastructure Developers Conference Call hosted by the Company for the un-audited financial results for Q1 FY16. We have with us today Mr. Virendra Mhaiskar, Mr. Sudhir Hoshing, Mr. Anil Yadav, Mr. Dhananjay Joshi, Mr. Madhav Kale and Mr. Mehul Patel. After the opening remarks by the management there will be a question and answer session. I would now request Mr. Mhaiskar to give an overview of the significant development during the quarter. Thank you and over to you Sir.

Virendra Mhaiskar: A very warm good afternoon to all of you. I have my colleague and Board Member Mr. Sudhir Hoshing with me here today and I would now request him to take the participants through the salient features of the result for this quarter and the major happenings in the company this quarter.

Sudhir Hoshing: Good afternoon. This is Sudhir Hoshing. First of all let me thank all our Investors Analysts who have taken time to be present with us in this call. I hope all of you have our detail number as presentation in hand by now. Overall quarter one has been a good quarter in terms of progress on the project construction as well as operations. Construction of roads has always been our main forte. We have been trying to optimize our cost using latest technology which keeps us competitive and enable us to deliver quality product on time. On project construction front we had four projects under implementation during the quarter. Construction on Ahmedabad-Vadodara project is completed to the extent of 96% and we have approached NHAI for COD. We shall be achieving this feat before scheduled time of completion. Construction of Goa-Kundapur project is in advanced age and this project has largely contributed to the construction of revenue in last quarter. Other projects like Solapur-Yedeshi have also contributed to the construction of revenue.

We have received appointed date for Yedeshi-Aurangabad and Kaithal-Rajasthan border projects. These projects will also contribute in construction revenue in coming quarters. Construction segment operating EBITDA margin is at 29% during the quarter. Construction order book now stands at Rs.10,270 crores to be executed in next 3 to 4 years.

On operational front traffic growth for Q1 has improved over Q115. Total revenue has increased by around 22% in comparison to the corresponding quarter last year largely due to commencement of toll collection on Amritsar-Pathankot and also very healthy traffic growth during the quarter. We hope additional revenue adding up to the kitty with Ahmedabad-Vadodara project likely achieving COD in the coming quarter. We have handed over Mohol Mandrup Kamtee BOT project and Nagar Karmala Tembnurni BOT project to Government of Maharashtra and stopped collecting toll from Cars and MSRTC buses on Thane Ghodbunder BOT project. These projects though contributing less than 2% revenue but the company has lodged claims from the government of Maharashtra for compensation against these projects.

Recently we have achieved financial closure for Kaithal project by tying a project finance of Rs. 1,400 crores from financial institution and banks. Average cost of debt during the quarter remains at close to 11.25% and net debt to equity stands at 2.57:1.

We have formed SPV for Agra Etawah project and will be executing Concession Agreement soon. The project cost will be approximately Rs. 2,650 crores with a concession period of 24 years.

We stand prequalified to bid for approximately 30,000 crores worth of projects as and when the projects will come for bidding we will evaluate them and bid for them.

SEBI has now facilitated formation of Infrastructure Investment Trust under SEBI, Investment Trust (INVT). We are working on it closely and intend to sell or transfer our shareholding in some of our SPVs as may be permitted under SEBI regulations and the concessioning authority's guidelines to the Infrastructure Investment Trust to be formed by the company so as to enable generation of funds, commensurate with valuation of holdings in the SPV. This will help the company to unlock the value of growth of its business.

Now I request Mr. Anil Yadav to give an overview of financial performance. Over to you Anil.

Anil Yadav:

Thank you Sir. Good afternoon to all. Now I will present analysis of Q1 of FY 16 versus Q1 of FY 15. Total consolidated income for Q1 of FY 16 has gone up to Rs.1,137 crores from Rs.1,037 crores registering a growth of 10%. Total consolidated toll revenue for Q1 of FY 16 has gone up to Rs. 519 crores from Rs. 427 crores registering a growth of 22%. The consolidated construction revenue for Q1 of FY 16 has gone up Rs. 590 crores from Rs. 583 crores over Q1 of FY 15 registering a growth of 1%. EBITDA for Q1 of FY 16 has gone up to Rs. 656 crores from Rs. 589 crores registering a growth of 11% over Q1 of FY 15. Interest costs have increased by 8% to Rs.234 crores in Q1 of FY 16 from Rs. 217 crores in Q1 of FY 15. This has mainly increased due to capitalization of interest in Amritsar-Pathankot project in Q1 of FY 15. Now since this project has become operational from November 27, 2014 now interest is charged to the P&L account. Depreciation has also gone up by 14% to Rs. 202 crores in Q1 of FY 16 from Rs. 177 crores in Q1 of FY 15. Depreciation and amortization increased mainly because of increase in revenue. PBT has increased by Rs. 221 crores in Q1 of FY 16 from Rs. 196 crores a growth of 13% over Q1 of FY 15. PAT post minority interest for Q1 of FY 16 is Rs. 166 crores increased by 11% from Rs. 150 crores in Q1 of FY 15.

I have finished my analysis now I will request the moderator to open the session for question and answer.

Moderator:

Thank you very much Sir. Ladies and gentleman, we will now begin the question and answer session. The first question is from the line of Devang Patel from IIFL Broking. Please go ahead.

Devang Patel:

I had a question on the EPC revenue for this year what kind of growth is expected and should we expect any margin increase given that bitumen prices have come off?

Management:

As we have already told earlier that basically we have already received appointed date for Yedeshi-Aurangabad and Kaithal Rajasthan border project. In coming quarters those revenues will also reflect and as far as margin improvement if bitumen prices will remain low and if there will be a benefit passed on to the consumers also like industrial consumers then definitely there can be margin improvement.

Devang Patel:

Any guidance you would like to give on the kind of growth in this respect?

Management:

Basically as far as guidance is concerned we do not provide any kind of guidance.

Devang Patel:

On the compensation formula for the projects where we handed over is there any clarity or whether the tolling for cars and buses stopped. Has there any clarity on the formula and when we have to receive the amount?

Management:

Yes there is some clarity now. The way the calculations are leading to is they are looking at the balance concession period which could not be used and the NPV of the revenue loss is what the government is looking at compensating.

Devang Patel:

The depreciation that has gone back is purely because of the revenue higher there is no change in traffic estimate from this quarter.

Management: There is no change in the traffic estimate. Amritsar-Pathankot project has become operational, marginally increase due to that project and secondly due to overall increase expected in this year that has resulted in increase in depreciation.

Moderator: The next question is from the line of Amit Sinha from Macquarie. Please go ahead.

Amit Sinha: What was the tariff hike which you got in April for the projects where tariff hike was expected?

Management: The project hike, the tariff hike has been almost either negative or flat in some of the projects and three projects we had flat and negative tariff. The rest of the places 3% plus WPI difference was negative so total 3% tariff hike. Project wise basically Talegaon-Amravati, Jaipur-Deoli, Amritsar-Pathankot, Tumkur-Chitradurga, Ahmedabad-Vadodara we have got 3% hike and on Bharuch-Surat rate was due from 1 July and that was not given in the last quarter.

Amit Sinha: So floor of tariff hike is 3%. There is no negative impact in the WPI.

Management: I mean because it is less it will not add anything to the overall tariff hike.

Amit Sinha: Particularly in Talegaon-Amravati revenue growth was in negative territory. So any particular reason behind this?

Management: We have seen some diversion of traffic, because what has happened is as a result of the State Government abolishing toll on 53 places on cars and 12 places on entire revenue stream. There were several toll plazas which are kind of parallel to this road between Nagpur to Aurangabad which is a state highway and as a result of abolishing tolls on these corridors we have seen a dramatic shift of traffic onto this corridor. Now these are two-lane roads and we do not believe that they can withstand that kind of pressure traffic for long so this has led to some kind of diversion which we had experienced this quarter. Our sense is that now as monsoon has started and as these roads are only two-lane roads which can't take this kind of traffic over the period of time the traffic will come back to us, these the existing Nagpur-Amravati corridor being a four lane one.

Amit Sinha: On Mumbai-Pune extension project based on a media articles we understand that there were some committee which was formed and the committee had to decide by July end, has anything come out on that front?

Management: The committee has only given an extension of another three months.

Amit Sinha: On the infrastructure basically the inbuilt structure which you have applied for approvals, what kind of tax advantages you are looking out or you think the current tax benefits which the government has approved is enough for you to list kind of structure in the market you're expecting further concessions from the government?

Management: Yes the current tax regulations are quite suitable enough to market this product through the Infrastructure Investment Trust and for it to be a success we do not expect any further tax benefits to be declared by the government.

Moderator: The next question is from the line of Akshay Soni from Morgan Stanley. Please go ahead.

Akshay Soni: Now that you are looking at listing the INVIT should one assume that fund raising is through equity issuance off the cards and secondly more importantly what is the size of issuance that you could look at based-on on your appraisal of which roads could be included in that?

Management: There are two parts to it, one you're right that raising any fresh capital at the parent level would be off the table now because the way we are looking at the role of IRB going forward we coin it as best which we would mean like to elaborate as IRB's role going forward would

be to bid, execute, stabilize and transfer the project to the trust and thereafter the new set of investors come into the trust and then it becomes an yield play capital comes back to IRB with the valuation and we continue to grow the business. So that is how we would like to take the journey forward and as you rightly said therefore not have any requirement left to raise capital in IRB per se. As regards how much we would like to transfer as I said we are looking at anywhere between 12 to 15 projects which we feel we can transfer to the trust they being operational and generating significant cash flows and commensurate to that we have taken a resolution to raise the capacity from Rs.20,000 to Rs.36,000 crores. So some maths can be derived from that.

- Moderator:** The next is from the line of Nitin Arora from Emkay Global. Please go ahead.
- Nitin Arora:** In the Tumkur-Chitradurga can you say what is the tariff hike in this April-June quarter?
- Management:** 3%.
- Nitin Arora:** In the call it was mentioned that there were some three projects where there was a negative hike?
- Management:** No all these projects which had that this is a 3% fixed and 40% correlation with the WPI there WPI being negative that tariff hike could not come in, resulting in overall tariff hike of only 3%.
- Nitin Arora:** If my WPI is negative it is 3% plus the 40% negative WPI will that become....
- Management:** But you have to round it off to the nearest five rupees so it has to be meaningfully negative for actually to bring in any negative tariff growth.
- Nitin Arora:** In the Tumkur Chitradurga specifically just wanted to ask, the traffic has been surprising every quarter so anything is changed with respect to the mining there, if anything you can share on that perspective?
- Management:** It is very difficult to separately find out the movement of the traffic, the commercial traffic growth has been good. Actually segregating how much of that would be coal traffic would be very difficult or iron ore traffic is very difficult.
- Nitin Arora:** Can you tell us the equity requirement now project wise?
- Management:** Equity requirement is approximately, Rs.195 crores incase of Ahmedabad Vadodara, Rs.265 crores incase of Westcoast, Rs.195 crores incase of Solapur Yedeshi , Rs.430 crores incase of Yedeshi Aurangabad & Rs. 450 crores incase of Kaithal Rajasthan.
- Nitin Arora:** You can give the breakup of other income in constructions and BOT.
- Management:** Other income for this quarter under construction was Rs.23 crores and for BOT it was Rs.5 crores.
- Nitin Arora:** Can I get the stand alone debt numbers and MRM and the consolidate?
- Management:** Consol gross debt is roughly Rs.13,000 crores and cash and bank balance is Rs.1,380 crores, net debt is roughly Rs.11,620 crores and a standalone plus MRM debt will be roughly Rs. 3,000 crores including overdraft.
- Moderator:** The next is from the line of Vibhor Singhal from Phillip Capital. Please go ahead.
- Vibhor Singhal:** Just dwelling bit more on the Investment Trust structure that you mentioned, just want to understand the kind of milestones that we would need to accomplish this. So I think first

prime facie we would need a shareholder approval for the transfer of whichever SPVs we are targeting to be transferred to these investment Trust. So just wanted to understand is there going to be in one envelop approval for these SPVs or there have to be individually listed and what are the kind of things that we need to do for this entire transaction to take place?

- Management:** First of all the shareholders will have to approve the resolution under section 180 which is Board today recommended for approval by the shareholders then the Board also has recommended formation of Infrastructure Investment Trust which work will also start soon now. After that all the parties to the trust need to be appointed and one has to go through the entire listing process which is more or less akin to filing an offer document as in an IPO and that is how the process will go on.
- Vibhor Singhal:** Once when we decide upon the listing of 10 or 12 SPVs that you mentioned or 15 SPVs that you decide these are the ones which you want to transfer into the Investment Trust we would be appointing independent evaluators to calculate the valuation and hence then there would be transferring the entire valuation in the listing valuation into the trust?
- Management:** Yes that is how it will happen as is provided in the SEBI's regulations.
- Vibhor Singhal:** Any specific timeline that you are looking at this entire process milestone wise when you intend to kickstart the process?
- Management:** We would like to reach a logical end towards this fiscal end.
- Vibhor Singhal:** If I can just ask a bit on the overall basically the Agra-Etawah project and also on the Vadodara-Ahmedabad projects, you mentioned that 96% of work is already completed on that project. Do we expect 100% highway to be started tolling from the third quarter itself?
- Management:** We believe that in the next couple of months it would be able to get the COD for the project.
- Vibhor Singhal:** Then we would start tolling the NH8 as well.
- Management:** That is correct.
- Vibhor Singhal:** Regarding the Agra-Etawah project you said that you have already signed the LOA when do we expect to start commissioning. I believe it's a six laning project so we start tolling from day one.
- Management:** Yes, we will be signing concession agreement soon after that there is a period of six months for financial process and after that will start.
- Vibhor Singhal:** So you probably will start toll connection only in the first quarter of next fiscal.
- Management:** Next fiscal.
- Moderator:** The next question is from the line of Ashutosh Narkar from HSBC Securities. Please go ahead.
- Ashutosh Narkar:** I have two questions one is on Ahmedabad-Vadodara, since it is getting operationalize very soon what is the kind of offtake in revenues we would anticipate given the kind of current traffic trends there?
- Management:** Ashutosh, NH8 is now predominantly completed and there are no restrictions on plying on NH8. The logic of traffic getting diverted to the expressway are no longer holding good so the growth what we have seen in Ahmedabad-Baroda is very encouraging. That number is available with you.

Ashutosh Narkar: The second one is, what would be the equity requirement during the current year and the the overall equity requirement if you can give that?

Management: Ashutosh total equity requirement will be roughly Rs. 2700 crores out of that in FY 16 we will require roughly Rs. 890 crores, FY 17 roughly Rs. 1300+ crores and FY 18 it will be Rs. 500 crores.

Ashutosh Narkar: If I may squeeze in just one last question on your Investment Trust. What are the timelines you're looking at getting this on the ground?

Management: As Mr. Kale just explained we would like to take it to a logical end before the end of this fiscal.

Moderator: The next question is from the line of Aditya Mongia from Kotak Securities. Please go ahead.

Aditya Mongia: My first question is related to Agra-Etawah project. You had said that there will be a steady increase in revenues until about 2020 and then there will be diversion. What is that diversion that you have factored in which will happen from this project?

Management: We will not share that today because we have a couple of projects coming up on the same corridor once when that bidding is over we will disclose you the diversion that we have assumed. But we can assure you that we have taken considerable diversion already into effect.

Aditya Mongia: You were expecting 15 to 18% on this project.

Management: That is correct. Two data points I want to share on this. In 2011 when this project was initially bid, Ramky offered premium of 128 crores on the traffic that existed in 2011. We are talking about starting the execution in 16-17 where we are discussing about 81 crores premium and the traffic of 16-17.

Aditya Mongia: And 140 crores is the revenue expected revenue for the project?

Management: That's broadly the expected revenue.

Aditya Mongia: The second question is on interest cost, it appears that on QoQ basis it has come down. So any specific reason for it to come down?

Management: I think some repayment as a short-term loans keep getting repaid naturally the interests has come down to some extent and the base rate effect also has sunk into some extent.

Aditya Mongia: There have been no refinancing which has happened in reduction of interest cost which has happened?

Management: That is what I'm saying, the base rate getting reduced at some places the interest cost benefit has started trickling in.

Aditya Mongia: Last question was on tendering pipeline of NHAI. If one goes through it obviously it is now dominated more and more by EPC projects and even within BOT the geography which have been talked about are more say on the eastern side of the country, not as much on the western side. Would then we be opened to bidding for these projects, let us say, on the eastern side of the country or what is there in the general strategy?

Management: We have already entered into UP for that matter and we can go to places like Orissa but the project should be viable, based on its viability we will decide whether we are going for it or not.

Aditya Mongia: So our strategy of going for only BOT project remains?

Management: Yes.

Moderator: Thank you. The next question is from the line of Ashish Shah from IDFC Securities. Please go ahead.

Ashish Shah: Could you give me the breakdown of the EPC revenues by projects?

Management: Ahmedabad-Vadodara was close to Rs.200 crores. Solapur-Yedeshi close to Rs. 50 crores and Karwar-Kundapur close to Rs. 260 crores and balance close to 80-90 crores was the utility shifting, changing scope of couple of projects.

Ashish Shah: On the Bombay-Pune traffic obviously the traffic growth has been good over the last 3 or 4 quarters but anything particular you will want to attribute why? It seems like an 18% growth in traffic again, so is it more driven by commercial vehicles or more by passenger and any such qualitative observation?

Management: I think it would be a mixed growth and the re-rating happened somewhere in the second quarter last year and then it has been growing steadily. Because of that you see a substantial growth this particular quarter so that's about it. If you look at it on a quarter on quarter basis I think it has remained steady what it was last quarter and this quarter.

Moderator: Thank you. The next question is from the line of Parvez Akhtar from Edelweiss Capital. Please go ahead.

Parvez Akhtar: While you have already said that traffic on NH8 or the Ahmedabad-Vadodara project has been increasing but looking at the current trends where does it stack up versus, let's say, what we had assumed when we had bid for the project?

Management: I think that we will only come to know when we start tolling it.

Parvez Akhtar: If you could help us with the toll hike that we have got in this Surat-Bharuch project.

Management: Toll hike in Surat-Bharuch project was from 1st of July. It was not there in this quarter.

Management: There was no hike in Bharuch-Surat because being WPI being negative.

Moderator: Thank you. The next question is from the line of Vibhor Singhal from Phillip Capital. Please go ahead.

Vibhor Singhal: My question is again on the pipeline that we have. Right now we have around five projects exclude Vadodara-Ahmedabad we have five projects which are under construction. So what is our strategy in terms of what is kind of more projects where we are looking to acquire over the next, let's say, 12 months or so? And how much of addition in our gross block in terms of EPC capabilities we will need to do in order to execute the order book that we have today or as and when it grows further.

Management: Part one of your question we look at somewhere around 200 to 300 kms.

Management: As far as equipment are concerned we will not require more than Rs. 25 or Rs.30 crores just to basically renew the equipment which are getting older, apart from that we don't foresee that we will require any major CAPEX.

Vibhor Singhal: Till what size of order book do you think we can do with the current CAPEX or with just a minimal investment of around Rs.25-30 crores that you mentioned?

Management: So long as we can continue to do 300-400 kms a year I think this can keep working well.

Vibhor Singhal: Till then we would not do any incremental CAPEX?

Management: We would not need any substantial revamping of the CAPEX.

Moderator: Thank you. The next question is from the line of Aditya Mongia from Kotak Securities. Please go ahead.

Aditya Mongia: Two questions from my side, the first one was on NHA having a limit on how many projects you can bid if you are not financially closure projects. Will this limit act individually on this plus that you are making and the company or how does it play out?

Management: At max we could have three projects which is financially not closed. On trust it doesn't have any impact.

Management: See basically the trust the project which will be transferred those will be a completed project maximum 50% completed project you can transfer. You can't transfer a project which is just awarded. So there the question of the trust also coming in limit of three will not arise. Anyway trust will not be bidding for the future projects. It's IRB which will bid the project and as explained earlier we will stabilize the project and then transfer to the trust. One more thing I would like to add we are not intending to transfer any under construction project to the trust. We are only looking at transferring the operational and good cash flows, strong projects to the trust.

Aditya Mongia: The second question was just to kind of clarify that on Mumbai-Pune are you seeing an increase in say traffic from ports which may be happening right now because at least from what we gather there is lot of congestion for it for such traffic to be kind of evacuated through rail. Is there any positive impact which you are also seeing at traffic on that stretch?

Management: Yeah, JNPT traffic we are seeing good growth.

Aditya Mongia: So that is relevant enough for it to be supporting growth for the project as such, right?

Management: Yeah, that's correct, so I think there would be some quantum of traffic which we definitely get from coming from JNPT. So we expect that this must be also contributing to the growth.

Moderator: Thank you. The next question is from the line of Lokesh Garg from Credit Suisse. Please go ahead.

Lokesh Garg: In Agra-Etawah you shared the 2011 bid. Is it possible for you share L2, L3 bids and who were they in this project this time?

Management: Yeah sure, this time we had only three bids. One was from Oriental, one was from PNC and one was from us and I think people had....we are not very eager on this is what we expect from their bids.

Lokesh Garg: So it was in the order of 20 crores premium, right?

Management: Yeah Rs.20-30 crores.

Lokesh Garg: There are a lot of projects and offer from NHA but bulk of them happens to be EPC so in that case we can discuss BOT projects almost project-wise. What are key projects that you are looking forward to in the next let's say two months or so?

Management: We would not be able to disclose the names of projects.

Lokesh Garg: Not that only you are bidding or not bidding that's a separate decision but irrespective of that decision....

Management: That list is available on NHA website.

Lokesh Garg: Other thing is would you be interested in hybrid projects also which are now starting to come up?

Management: If you look at a waterfall mechanism we have in BOT, then you have annuity and then you had EPC. Now this new hybrid model comes somewhere in between annuity and EPC so it's practically for marginally viable projects where hybrid model will be utilized in some 10-15 projects and I don't think we will be very keen to get into that.

Lokesh Garg: So basically you want to do only the viable BOT based projects and not hybrid because this involves some amount of capital deployment also from the developer's side?

Management: Yeah but the return expectation on that will be not very great. It will be something more dilutive of what one can expect from an annuity project.

Moderator: Thank you. We have the next question from the line of Chokalingam Narayanan from Deutsche Bank. Please go ahead.

Chokalingam Narayanan: On the regulations on this INVIT.....

Management: Yes it can but there are severe restrictions on that and we are not looking to transfer any project under construction to the trust.

Chokalingam Narayanan: But is there a certain percentage that it can form of the overall portfolio.

Management: There is overall limit of 20% within which 10% can be under construction.

Chokalingam Narayanan: Any changes in strategy looking ahead once you do get this up and running, what would IRB as a company look like if you can give a bit of perspective on that in terms of capital structure, in terms of work we will like to do. As of now you maintain that you want to be only in the BOT side, so would there be any changes of strategy at that point in time?

Management: See, as I explained, the role of IRB would in that case be to bid for projects, execute them and stabilize them and transfer to the trust so per se it would be more of a EPC job that would be left and committing capital to make the project a success. So committing a certain amount of capital and doing the EPC will be the major what we can say, activities left to be done in IRB and once the revenue is established the construction risk is over, then after the project is stabilized you can look at transferring it to the trust.

Chokalingam Narayanan: But you will still look at only our own projects to be done or would you be then open to EPC projects in future or how should one look at that aspect? .

Management: See the first priority will be BOT and if we continue to get sufficient amount of projects where we can keep on deploying our own resources, then I don't think we need to get into anything which is non-core. But if there is any dearth of projects where the assets or the equipment and manpower that we have is going to remain idle then we can certainly look at doing EPC as well.

Moderator: Thank you. As there are no further questions from the participants I would now like to hand over the floor back to Mr. Virendra Mhaiskar for his closing comments. Over to you sir.

Virendra Mhaiskar: Thank you so much all of you for being on this call and we look forward to have you on the next result call as well. Thank you.

Moderator: Thank you very much. Ladies and gentlemen, this concludes the conference call for today. We thank you for your participation for using Research Bytes Conferencing Services.