"MEP Infrastructure Developers Limited Q2 FY-17 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to MEP Infrastructure Developers' Q2 FY17 Earnings Conference Call hosted by IDFC Securities Limited. As a reminder, all participants' lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Ashish Shah from IDFC Securities. Thank you and over to you, sir.

Ashish Shah: Very good afternoon to everyone. On behalf of IDFC Securities, I welcome you all to the Q2 FY17 Earnings conference call for MEP Infrastructure Developers Limited. Today we have from the management with us Mr. Jayant Mhaiskar who is the Vice Chairman and Managing Director of the company. We have Mr. Murzash Manekshana who is the Executive Director; Mr. M. Sankaranarayanan who is the Chief Finance Officer and Ms. Manisha Bihani, Investor Relations.

Sir, may I request you to start the call with some initial comments and probably then we can go to the question-and-answer session. Thank you, sir.

Jayant Mhaiskar: Thank you, Ashish. Good afternoon everyone and a warm welcome to all of you on behalf of the company. We thank you for participating in our earnings conference call for the second quarter for the financial year 2016-17. I would like to bring across certain key financial highlights of the second quarter where despite I would say heavy monsoons than the usual and completion of some of our long-term projects the company has been able to close the current quarter with revenues on consolidated basis at Rs. 447 odd crores which remain I would say stable vis-à-vis Rs. 448 crores in the same period for 2016.

We reported a PAT of around Rs. 62 crores which is a significant jump from last year due to a one-off adjustments on account of the new accounting guidelines. The company currently is operating 12 long term and short term toll collection projects, three long term OMT contracts, one long term BOT project across several states in India. In addition to the tolling projects the company has also added to its portfolio a list of around six hybrid annuity projects which has further strengthen our long-term revenue visibility while maintaining our core philosophy of remaining asset light.

Details of the projects added and completed till date, have been included in the earnings presentation provided to all of you. With the inclusion of the new six hybrid annuity projects we have one of the largest share of hybrid annuity projects today with an order book of around Rs. 3,837 odd crores which roughly translates into a market share of 14.35%. We are confident of achieving our predefined milestones for the hybrid annuity portfolio and I am glad to share that we have already achieved financial closure for the first two projects while the balance four are in pipeline and we should be able to close them I would say to before the end of this calendar year and two in the month of January which is the new year first month.

We do not foresee any specific difficulty in doing the financial closure. The recent demonetization of high currency notes has also impacted the company's operations in Q3 predominantly on account of suspension of toll plazas across the country from a period beginning 9 November to December 2 midnight. We have already intimated the authorities largely NHAI and MSRDC an account of the compensation to be given by the government on account of the loss in toll collection.

The conditions of the contract which are more or less on lines of the MCR pretty robust wherein the concessioner will not be put at large in terms of any loss going forward. While the trend has now shifted largely towards avoiding of hybrid annuity projects as opposed to BOT and EPC earlier the authority namely NHAI and Ministry of Road Transport so far have awarded 31 projects under the new hybrid annuity model since November 2015,valued to close to Rs. 26,000 crores and 6,155 lane kilometers to be constructed over the next three years. For the current year FY17 Ministry and NHAI has lined up total of 40% of the total project length to be awarded under the hybrid annuity model requiring an investment of close to Rs. 60,000 odd crores. The Ministry and NHAI had set a target of around 25,000 kilometers for the national highways to be completed. Our understanding is by end of the current financial year they should be able to award close to 15,000 odd kilometers.

Recently the cabinet has also approved a proposal to monetize the existing road assets around 75 numbers which have preliminary been identified which would be potentially monetized under the new concept of toll operate transfer model with a concession period of close to 30 years. Bundling of the projects would be done considering geographical proximities and while ensuring a minimum investment size.

The Government of Maharashtra and Ministry of Road Transport has recently also identified quite a large investment in the road sector on the state level with mode of EPC contracts close to 34 projects which are already been announced valued in excess of Rs. 10,000 crores to be completed over the next three years.

This is the broad availability of I would say the business lined up over the next two, three quarters in terms of bidding and also the projects what the company has already bagged they would be definitely focused in terms of timely completion particularly on the construction side.

Over to you, Ashish. Thank you.

Sankaranarayanan: I will briefly provide the guidelines about the financial highlights of quarter 2. The company's revenues remained flat at Rs. 447 crores for this quarter as compared to same quarter of last financial year. That is because of completion of few projects like Kini Tasawade, RVPL projects to name a few and we have handed over the Chennai bypass project and the MK project to the authority. And there has been some enhanced contribution from the short-term tolling project and also from Hyderabad-Bangalore OMT project and also from Mumbai entry points projects.

The EBIT margin has declined by 570 bps due to the higher contribution by the short-term tolling projects. The PAT was higher by Rs. 62.3 crores as against a loss of Rs. 11.3 crores in the last comparative quarter. This is because of a one-off adjustment on account of IND-AS. And last time I explained about the financial implication on taking the IND-AS accounting standards. So one of the particular requirement is in case of any maintenance obligation which will be done over a period of time, the provision has to be provided in the books of accounts every quarter over quarter on a financial year. So the total amount which has been debited to the profit and loss account for this quarter is around Rs. 8.39 crores.

And Mumbai entry point give us better results this time. And the IFCL has already disbursed Rs.269 crores as a part of a takeout financed scheme which reduced our total interest obligation on this particular loan to 10.1%. And also we had a little bit ease in the repayment obligations. And thus service rate that we already achieved the financial closure for two and also availed some drawdown on these particular projects.

Moderator: Thank you very much. Ladies and gentlemen, we will now begin with the question-and-answer session.

We take our first question from the line of Shravan Shah from Dolat Capital. Please go ahead.

Shravan Shah: Firstly, on this HAM projects, just wanted to understand as you have said too we have done the financial closure, 2 will be by December end and two by January. So when can we see the start of the construction revenue, and how do you see in FY18 and FY19 kind of a revenue from all the six projects and also at the same time in terms of what is the total equity required in all the six projects and how we need to fund it maybe in FY17, FY18 and FY19?

Murzash Manekshana: This is Murzash here. To answer your question, we expect the six projects that we have are Nagpur Ring Road 1 and 2, Arawali-Kante-Wakad and at Talaja-Mahuva, Mahuva-Kagavadar in Gujarat. So we have completed the financial closure for Nagpur 1 and 2. As our team already updated we will complete the financial closure for Arawali-Kante-Wakad by next week mostly and hopefully even the fifth Talaja-Mahuva we should complete by this month end if not first week of Jan.

The appointment date or the start date for these projects for Nagpur 1 and 2 is scheduled to be on 15th December and 30th December this year. So the first two projects appointment date will start off the construction period will commence. Having said that we have already initiated on field activity as you would expect over the last few months and significant progress has already been made onsite.

Moderator: Excuse me this is the operator. Yes, you are connected you may go ahead.

Murzash Manekshana: I am sorry, was I not connected till now?

Moderator: No, your voice was not audible just for a few seconds.

Murzash Manekshana: Okay so with respect to the Arawali-Kante, Kante-Wakad the government is in process of completing the required land acquisition and we expect the appointment date to happen sometime in January or February. And likewise, for the Gujarat projects. So to answer your question in these projects all are required to be completed over a period of two to two and a half years.

So the total work to be completed across in aggregate for these six projects is approximately Rs. 3,500 crores, Rs. 3,800 crores is the aggregate BPC cost but the EPC at a value that is around Rs. 3,500 crores and if you break that over a period of the next two and a half years, you will automatically be able to get the potential amount of annualized construction revenue that you know one would be booking during FY17 and FY18 which in our mind will be in the range in the initial year it would be approximately Rs. 1,300 crores to Rs. 1,400 crores and in the subsequent year it will be close to Rs. 1,500 crores to Rs. 1,600 crores.

Shravan Shah: Okay and sir in terms of the equity, what is the total equity required and how maybe in FY17 how much are we putting in FY18 and FY19?

Murzash Manekshana: So these projects are a joint venture between MEP and our Spanish JV partner Sanjose. For four projects they are a 26% joint venture partner for two projects they are 40% JV partner. So equity will be contributed in proportion to shareholding across the life of the projects. To initiate the works initially across the initial four projects the company has already invested close to Rs. 120 crores to Rs. 130 crores into these projects against which we have achieved a financial closure and we intend to complete the initial milestones subsequent to which we will be eligible for NHAI payments and for the bank payments.

In addition to this, we are also looking to infuse an additional Rs. 100 crores to Rs. 120 crores from the promoters and the sponsor company over a period of the next six to twelve months. That should pretty much meet up with our overall equity requirements over the current period over a period of time.

Shravan Shah: Okay, so sir our share total for six projects total equity is required from our side would be how much roughly?

Murzash Manekshana: It is around Rs. 380 crores to Rs. 400 crores and as I said we have already infused Rs. 120 crores to Rs. 130 crores we are in the process of infusing additional Rs. 30 crores to Rs.40 crores. We are in discussions we have already announced our intention to evaluate a potential preferential allotment such rights issue in the next couple of months which will allow us to garner the balance equity requirement which will be for these projects.

Shravan Shah: Okay, and sir as you said you have already put in so is it to achieve the financial closure, is it from the banker's side that we need to put the equity first or?

Murzash Manekshana: No, so there is of course bankers are keen to see that the promoters and the sponsor companies are infusing their equity as much as is required. So bankers have mandated us to infuse approximately 50% of our equity upfront, which for the first two projects we have done. And we will continue to do in the third and progressively as the projects come on live over the next couple of months. So yes, to answer your question. Bankers have requested for 50% of the equity to be infused upfront prior to their disbursement. Having said that all banks in the consortium are not requiring or requesting for this kind of requirement and there are certain banks who we have tied up with are able to also disburse on a prorata basis, which means that it is prorata to our proportionate equity contribution.

Shravan Shah: Okay. And sir on construction front how much EBITDA margin are we expecting from this on the HAM projects and overall six projects how do you see equity IRR?

Murzash Manekshana: So we believe that on a conservative estimate basis, you will have to appreciate that the quality or the portfolio of our HAM projects is a bit unique because we have been lucky to get continuous projects. Nagpur 1 and 2 is a county based project, Aravali-Kante-Waked is country based project and Talaja-Mahuva, Mhuva-Kagavadar is a country based project. In any country based project there is a significant release of you know efficiency and margins because of the efficiency of operations, efficiency of equipment's, materials all of those kind of things. So the overhead costs are significantly lesser. So putting that aside, not considering that we expect on an aggregate across the six projects our EBITDA margins to be in the range of 12% to 14%.

Shravan Shah: Okay and overall life time how do we see the equity IRR?

Murzash Manekshana: I think the equity IRR should be upwards on an aggregate basis across six projects some are little lower and some higher but on an aggregate basis the equity IRR should be in excess of 18% to 20% plus.

Shravan Shah: Okay, and sir lastly on the TOT. We have been hearing since long, so just wanted your thought process how do you see the first batch to start in terms of the tendering and how are our thought process in terms of are we going with some partner, how much initial equity to be needed and how do you see 5, 10 projects to be clubbed together if you can explain then it would be great?

Murzash Manekshana: I do not know if you are aware, but these final MCA has already been approved by the authority for the concession agreement and I think initial discussions around how the bundling of the projects are going to happen and indication of some of the first tranche of projects has already been hinted upon by the ministry. So we expect I think Q4 of the current financial year or that is the Q1 of the next calendar year we expect the bidding to definitely be initiated during that quarter. So it is as close as next month or the month after that.

Shravan Shah: Okay so there are we going with any of the partners because there the initial equity requirement would be higher?

Murzash Manekshana: Yes, so we are closely watching the space and evaluating it. There have been several large financial investors institutions, financial players who are very keen to have a tie up with relevant operating partner and we are in advanced discussions with quite a few of these entities to see what is the best working model depending on how the requirements and the tendering will come out. But to answer your question yes we are in discussions with certain parties on this.

Shravan Shah: So on the optimistic side, how much we can bag with the joint venture so can we look at close to Rs. 10,000 crores kind of a portfolio targeting your?

Murzash Manekshana: We wish but it is a bit early for us to estimate that, but we will definitely be watching this space and evaluating it in detail.

Moderator: Thank you. We will take our next question from the line of Mangesh Bhadang from Nirmal Bang. Please go ahead.

Mangesh Bhadang: Sir, my first question is how do you expect the government to compensate for the loss of toll post demonetization? Whether it will be the change in structure of concession by having a longer period or do you think they would be able to compensate it through cash?

Jayant Mhaiskar: Basically, if you see the current scheme of things where MEP is operating we have predominantly operated to two specific buckets, one is the one year tolling and second is the OMT space. Under the concession agreement for one year tolling and also the OMT agreement concessions, we have specific clauses where there are provisions in change in law or force majeure which provides in case of one year tolling a relief on account of the payment to be made to the authority that is something which we get a waiver of. Also the company is in I would say finalization of claims to be made on account of the O&M expenses to be cleared as part of the one year concessions.

In OMT projects again there are two aspects to it. One is the maintenance cost in O&M. Second is the concession fee payable. As per the concession agreement there is a provision which gives you an extension of timeframe or time period on the concession agreement and reimbursement of the O&M expenditure under the change in law as per the concession agreement. So these are the two available reliefs what the company has already applied or is in the phase of finalizing the final claims to be put.

But we expect both to be resolved by the authority particularly NHAI I believe has come out with various number of circulars on account of settlement of the claims. However, for the OMT there is no specific guideline as of now which has come out unlike I would say BOT toll where there is a guideline in which NHAI has already come out with. Now we expect similar guidelines from NHAI on account of OMT in one year in the next coming days.

Mangesh Bhadang: Okay sir and sir what would be the amount of the claims that you have made to the authorities and what according to you is the time period through which it may get settled the rough estimate?

Jayant Mhaiskar: The OMT/one year trolling what the company is currently operating should be in the range of around Rs. 70 crores to Rs. 80 crores for NHAI and for MSRDC it should be roughly in the tune of Rs. 35 crores to Rs. 40 odd crores. So all put together in terms of claims receivable/adjustment of the concession fee payable to the authority would range anywhere between Rs. 120 crores to Rs. 130 crores.

Mangesh Bhadang: Okay and sir how do we plan to account for this in this quarter we will not be booking any revenues right but accordingly the payments that are supposed to be made to the authorities also get cancelled out. But what happens to the Mumbai entry points in that case because of the cost would remain the same in my opinion?

Murzash Manekshana: As far as NHAI is concerned, as you rightly mentioned, there would be a reduction in the top line oblique also the reduction in the payment to the authority. As far as Mumbai is concerned what we have done is since the money has been paid upfront to the authority and under the concession agreement there is a provision under change in law or change of scope where cash compensation will be paid by the authority. The company is in the final stages of making the claim to be submitted. It should be roughly around between Rs. 32 crores to Rs. 36 odd crores for the MSRDC part of it on Mumbai side. And based on that we expect cash compensation from the authority in Q4 of the current financial year.

Mangesh Bhadang: Okay, and sir next question is on the construction part. Since I think we would deploying a lot of third parties to outsourcing the construction. Despite that 12% to 14% construction margin, is it on the higher side or you think that because of the contiguity of the project it is still achievable?

Murzash Manekshana: I think, hi this is Murzash here. I think our estimates are not only based on the pre-bid estimates that we did. But as you can imagine we are almost on the anvil of achieving appointment date. So they are also based on what we have been able to finally negotiate and contract with the subcontractors. So we are quite confident that we should be able to achieve these numbers.

Mangesh Bhadang: Okay and sir if I may I will squeeze in one more question. Can we assume safely that the financial closure of the next few projects is dependent on the QIP or a preferential allotment that you will do?

Murzash Manekshana: For the next few projects you mean after beyond these six projects?

Mangesh Bhadang: No, I am saying the Nagpur 1 and 2 we have received?

Murzash Manekshana: No, absolutely not.

Mangesh Bhadang: We have received the other four projects?

Murzash Manekshana: No, the financial closure will be achieved from our lenders or the bankers side. The option that we may have going forward is to undertake a preferential or rights issue. I do not think we will need a QIP currently for these balance four projects.

Mangesh Bhadang: Okay and probably so once you start construction on the first two then probably that cash flow can get used as an equity in the future period?

Murzash Manekshana: All our internal approvals are available for the company to use across all our projects.

Moderator: Thank you. We will take our next question from the line of Alok Deora from IIFL Wealth. Please go ahead.

Alok Deora: Actually I just had a couple of questions. One was on the toll compensation part. So are we looking at the entire loss which we would have incurred to be compensated or could there be because there was a news flashing that it could be anywhere between 75% to 100%. So any update on that part or is it still in the process?

Jayant Mhaiskar: As I mentioned earlier there are two predominant buckets that the company is operating. One year and OMT. The new slides what we are all tracking is predominantly pertaining to the BoT toll. There is no specific guideline by the authority on OMT/the one year tolling however the concession agreement which has been signed with the authority has also given certain guidelines in terms of change in law or change of scope or force major events where there are specific guidelines on the settlement of the claim.

My understanding is that 75% guideline also in BoT toll is only a stop gap arrangement however the balance would be compensated to the concessioners of the developers whose reconsideration of the claims is made. So 75% is only an intermediate stop gap funding which will happen and balance would be then post reconciliation and settlement.

Alok Deora: Okay. So do you think this could since there is no guideline till now on the OMT part, so do you think it could take more time because even the toll operators have not received any compensation till now. So OMT could be even further you know delayed in terms of compensation?

Jayant Mhaiskar: I would like to say a few specific pointers on this. If OMT/one year tolling concessions, the philosophy is that the concessioner is expected to collect and pay the authority. So frankly speaking there is no real money which would be coming from the authority except the O&M expenditure to be reimbursed. The balance would be adjusted towards the concession fee payable to the authority as of the concession agreement.

BoT tolls what happens is the regulator has infused equity and they have taken a debt from the lenders, so repayment on servicing of the debt in principle requires certain cash to be compensated which may take a little while depending on case to case basis. However, in OMT and one year tolling there would not be real I would say cash coming in except the O&M expenditure.

Alok Deora: And one question on this hybrid annuity. We are hearing from the market that there has been some change in the model

concession agreement where you know in terms of payment by the authority and milestone payments and giving upfront payment of around 10%. Any input on that? I mean for all of our projects would we be eligible for that?

Jayant Mhaiskar: As far as the specific changes in the MCR concern my understanding is they would be applicable for the projects to come in future or the projects which have been currently bidded out in the concession or and changes would not be there except one specific request of the lenders is the certification for the first milestone for lenders to disburse would be around 10% against 20% to be made by the authority. That guideline has already been circulated and being sent to all lenders and companies who are doing the hand projects. Other than that any specific changes on the NCA would be only applicable for the projects to come in future.

Alok Deora: Okay but is it been approved that from the coming for the future projects that 10% upfront payment would be provided to the concessioner?

Jayant Mhaiskar: As per the new MCA guidelines what we understand is basically the 10% mobilization advance which is to be payable to the developer on 61st day must be divided into two parts. One is 5% would be paid within first zero to thirty days and the balance 5% would be paid between 31st to 61st day. So the mobilization advance would be split into two buckets 0 to 30 and 31 to 60 for the projects going forward.

Alok Deora: Okay. So there is nothing like coming 10% is not coming upfront in any of the case?

Jayant Mhaiskar: No.

Murzash Manekshana: But the mobilization advance was also due on the existing of the earlier contracts. Only thing is that the claim for that mobilization advance could be made only subsequent to the 60th day and will be paid within the 90th day or earlier. That has been broken up into two buckets and 5% can be done in the first 30 days the balance 5% continues to be post 60th to 90th day.

Alok Deora: Okay, just one last question for all the HAM projects which we have won, will we entirely subcontracting the construction part?

Jayant Mhaiskar: No, so we are doing a very good balance mix. We are doing good amount of work inhouse and for certain areas and activities we are using very reputable and credible subcontractors for our projects.

Alok Deora: Okay so within a single project also there could be a blend?

Jayant Mhaiskar: Of course.

Moderator: Thank you. We take our next question from the line of Harshad Vartak from Yes Bank. Please go ahead.

Harshad Vartak: My question to the company is regarding the InvIT process for which we had read the news article that the DRHP seems to be filed by end of this month. So any developments in that regard especially with the background of the rating downgrade in the vehicle where the InvIT is happening?

Jayant Mhaiskar: As far as the InvIT is concerned apparently I would like to clarify two parts. One is as part of the DRHP document we have received an in-principal approval from the regulator. The DRHP document is more or less completed except a few NOCs/requirements from the authority for going ahead with the InvIT. Those should be in place. The minute we have them we should be able to go ahead and file the InvIT document. As far as the downgrade is concerned, there is no downgrade on the MEP Infrastructure Developers which is the ListCo. It continues to hold BBB minus from the rating agencies.

Harshad Vartak: Then MEP Infrastructure Private Limited which is the SPV this is where the InvIT is going to happen, right? As in this is the company?

Jayant Mhaiskar: No, the sponsors is MEP IDPL who will sponsor/hold the InvIT.

Harshad Vartak: So which SPVs are going to be transferred to the InvIT?

Jayant Mhaiskar: The company is currently evaluating multiple operating assets which would be clubbed as a part of the InvIT's strategy and those would be decided closer to the date of filing the DRHP. We would be able to get you the exact details of that.

Harshad Vartak: Okay. And any tentative timeline by which it is expected?

Jayant Mhaiskar: As soon as we have all the NOCs and permissions from the authorities.

Moderator: Thank you. We take our next question from the line of Prem Khurana from Anand Rathi. Please go ahead.

Prem Khurana: Sir, my question was with respect to our revenue breakup or rather the revenue profile. So when we came with our IPO the thought process was we wanted to increase our OMT a long term projects but then for some reason we have not been able to get even a single order I mean the only order that we could get during this year was Delhi and and somehow we could not kind of continue with that project.

So what has changed I mean because I mean at the time of approval you were very hopeful of getting the incremental projects in these two segments OMT and long term. But now things have not panned out the way that we were kind of expecting a year, a year-and-a-half back?

Jayant Mhaiskar: Basically if you see the whole philosophy of the company right from the beginning has been and continues to be in the current scheme of things. If you see the portfolio of projects what the company is operating, the company is currently operating into two specific I would say buckets, one is the one year tolling; second is the OMT projects. One year tolling is a continuous phenomena which the company keeps on bidding for multiple projects across different territories in every single month. So that continues to grow and that continues to I would say sustain the current scheme of things what the company had envisaged prior to the IPO and post IPO as well.

Second is the OMT space where if you really see the kind of OMT market which was envisaged to be there, unfortunately does not exist for two reasons. One is that our government is currently evaluating shifting from the OMT space to the toll operate transfer because the current one year tolling projects which are being operated majority of them would be transferred under the TOT scheme which were expected to be under the OMT scheme. So the TOT scheme once it comes will absorb all the one year tolling and the OMT projects which are expected to be I would say awarded.

So the space of OMT really will be taken over by the TOT model which the government is going to go ahead. The third as far as the hybrid annuity projects are concerned, if you see the way the hybrid annuity projects are designed, close to 40% is the grant which comes from the government as the equity support, balance 60% has to be brought in by the developer in the ratio whatever best he can raise from the banks on account of his credibility and his ability to get the banks on board.

So the equity infusion for those projects also is substantially low as compared to BoT toll or annuity model. So the philosophy of the company has been and continues to remain as far as asset side is concerned. In annuity it is far more safer for the company going forward because the risk of toll collection oblique the traffic and tariff growth is passed on to the government which assures a decent or assured amount of return to the investors.

Prem Khurana: But then do you think I mean if you want to convert all your short term toll collection project and OMT will the government will be able to find takers because the basic difference between OMT and I mean at least from NHAI’s standpoint is TOT would have to make the payment upfront but in OMT you do not get to see that I mean like it has paid over a period of time except for MSRDC wherein you have made advance payment. You have not made any payment upfront so I mean if you were to convert short term toll collections then you would have to find takers who are I mean wherein you have balance sheet to be able to kind of take up these kinds of project so?

Jayant Mhaiskar: No, I think you will have to appreciate the transition that is expected. The key criteria of any project to be eligible for TOT is the projects has to be existing for an operating period of two years' post COD, okay. So during those two years, all road projects will necessarily continue to operate in the short term tolling pool. Only those projects which are matured with the two year operating record are eligible to be moved into the TOT. So yes, overall period of time the OMT space will be cannibalized by the TOT space.

But all new hybrid annuity projects, all new EPC contracts, all new governments funded project this will continue to operate under short term tolling initially and then they will rotate off into the TOT side. With respect to MEP's track record in the last year, with respect to our slightly lower extent of new short term tolling projects as we have been able to guide that is largely also because of the fact that if you see the way the bidding has happened we believe that the bidding in the short-term tolling space has transitioned or transgress to a slightly more aggressive space which we are very happy to stay away from.

Prem Khurana: Sir, my question was from the perspective of developers or I said because I mean do we have enough player in the system to be able to take up these kinds of opportunities I mean essentially we are talking about 100 odd stretches which are already the NHAI and now if you were to convert?

Jayant Mhaiskar: No, you will have to appreciate that we do not foresee existing operators operating under TOT space by themselves. There will be financial partners that will be coming in with the funds that will be required to participate. So most of the TOT projects will done by way of a consortium or a joint venture kind of approach rather than a standalone operator approach. So to that extent the experience capabilities of the existing operators will be backed and coupled by large financial institutions and players and hence it will be a combination of that.

Prem Khurana: Then it will no more be a I mean toll collection would no more be an asset light because you would have to make some payment upfront, I mean even if you were to bring in some partner so partner was?

Jayant Mhaiskar: In TOT the toll collection will not be asset-light. But again as I repeat the entire quantum of the 1 lakh plus kilometers that are currently being developed other projects that are being developed through EPC not only through hybrid annuity all these will continue to be in short term tolling for the initial two years. So it is not a switch on, switch off it is a transition over the next couple of years the more the road network is developed those many more projects will be available in short term tolling. And yes, the mature projects will move into the TOT space which will be slightly more capital intensive but that does not mean that there is a total annihilation of asset light tolling opportunity in the country.

Prem Khurana: And sir, if I am not missing when you spoke about doing almost 18% of equity IRR on your HAM projects. So when you say 18% I mean this includes your construction margin that you will make, right? So basically the equity that you would put in you are adjusting this equity for all the money that you will make on your construction margins?

Jayant Mhaiskar: It is a combination. If you consider that as an equity IRR grows much higher.

Prem Khurana: But then I mean I were to look at the model the model essentially says you would be given bank rate plus 300 basis points which works out to be 10% return on your investment. So how come?

Murzash Manekshana: Of annuity?

Prem Khurana: Yes, for annuity. So the principle that you have I mean the investment that you are making would come back to even the form of the annuities I mean which are predefined in the sense that I mean you will get to a 4.2% in the first year and 4.6% in the second year. So essentially the return that you are making is bank rate plus 300 basis points right and you would get to have some incremental IRR if you were to somehow manage to have your debt below 10% of course or rather below the bank rate plus 300 basis points. So I was wondering I mean how does this 18% kind of equity IRR workout without taking into consideration the construction margin that you makes on EPC?

Murzash Manekshana: Of course you do. You take into consideration the construction margin, you also have to appreciate that there are opportunities for securitizing the annuity payments from the government right at the end of the COD. So you really do not need to wait for the 15 years and the **bank rate plus** 3% to come down. So there are various other financing options available which upfront equity repayment and also improve the cost of debt thus giving you a better pop. But the pop will not move from 8%, 10% I mean to 10%, 11% to 18% to 20%. You have to consider the EPC margins in that.

Prem Khurana: Sure and just a couple of bookkeeping question. At this quarter you seemed to have restated your finance cost I mean the number which used to be almost Rs. 90 odd crores on a quarterly basis. We have taken it to almost Rs. 120 odd crores on a quarterly basis. So what does this I mean how do you explain Rs. 30 odd crores of increase in your finance cost?

M. Sankaranarayanan: On the finance cost if you see the total outflow to the banks and financial institutions for the H1 is Rs. 190.30 crores as compared to Rs. 193.49 crores. Resulting is due to the Ind-AS adjustment on account of acquisition of trade payable because as I do not know whether you are aware the entire concession fee payable to the authority have been classified as intangibles and the corresponding entry goes to the amount payable to the authorities. So there is an unwinding happening at every quarter.

Murzash Manekshana: So there is a cost stagnant value of money which the accounting standard now requires you to account for and unfortunately that component sits or gets alluded onto your financing cost, you are absolutely right. There is a book entry your accounting entry inflation in the finance cost numbers it is not definitely anything considered on the contrary our cost of borrowings has from an average gone down with the additional loans that we have been able to get on board.

Prem Khurana: So if I were to understand you correctly, basically this is because I mean you have taken these liabilities on present value basis and not book value basis, right? And which is are you required un-winded on a quarterly basis. But then I mean if that is the case then you should have restated depreciation number because depreciation would be calculated on your NPV number now because but you have not seen any dip in our depreciation number for the quarter I mean you have not restate that number. Presently it should be a counter entry, right because I mean if my interest is going up my depreciation should come down not by the same extent but then to a certain extent?

M. Sankaranarayanan: So that is a good amount of NPV factor comes in to this actually. So as you have rightly said that the payment made to the authority which has been on the upfront basis I think clarified as intangible subsidy but if the new requirement as per the work group which has been formed under ICAI guidelines have also find that in case of a OMT project where you pay an incremental basis of 10% every year the similar effect has to be taken as an intangible. So the entire effect has come in because of this particular issue.

Murzash Manekshana: And just on a side note I will just like to remind to you that the half yearly numbers are pretty much reviewed and signed off both on the balance sheet and P&L by our statutory auditors which is KPMG. So the accounting implication and the representation of what is the current understanding of how standards requires is to be done is pretty much driven by KPMG because these are all evolving new standards. So it is pretty much kind of by that.

Prem Khurana: And just two more questions. One is on net worth if you could clarify I mean there is significant change in our net worth I mean we have done some profits in first half almost over around Rs. 100 odd crores we were despite that our net worth has gone down and second was on the exceptional that you have booked during the course. If you could explain what does that pertain to?

Murzash Manekshana: Could you repeat the second point please?

Prem Khurana: The exceptional Rs. 100 odd crores that you have booked during the quarter so what does that pertain to, which project would that be?

M. Sankaranarayanan: See I will clarify one-by-one. First on the net worth part. As per Indian GAAP however net worth will continue to stay at Rs. 110 crores. The effect is because of various impacts on Ind-AS adjustments. So the Ind-AS adjustments requires you to provide the total obligations on repairs and maintenance over a period of time till you incur the respective repairs and maintenance. That has to be provided in every quarter and so vis-à-vis financial year also.

Prem Khurana: So this is basically because of the opening adjustment that you have made for the last three to four years of operations?

M. Sankaranarayanan: The opening adjustments we will continue to do it I mean which has been done in the translation period at 01.04.2015 at the opening balance sheet date. And afterwards there have been four quarters for 2015-16 and two quarters for this financial year. So that will go on day-to-day net worth. So the second as I have passed else in case of which I told you about the intangible asset classifications for the OMT projects also. So which will also drag the net worth to considerable extent to in this particular financial half year you can say.

Murzash Manekshana: And I am sure this is the industry phenomenon that you would be observing across all players because all players with large long term contracts which require some kind of maintenance obligations over a longer term will be requiring to account for this thing especially in the tolling space.

Prem Khurana: And exceptional if you could explain that please?

M. Sankaranarayanan: The exceptional item is again actually we have handed over the Madurai-KanyaKumari project back to the authority under an amicable settlement scheme. So the question is that whatever the maintenance obligations which have been considered post the transition date which is 1 April 2015 and also whatever has been there prior to 1 April 2015 has to be returned back as that particular project was handed over back to the authority. So which needs to be recognized as an inflow in the P&L.

Prem Khurana: But then we did that last quarter, right the Rs. 50 odd crores will be the number that you have booked last quarter?

M. Sankaranarayanan: There are two aspects to it. The Rs. 35 crores impact was on the maintenance obligation last quarter. That quarter in the current quarter is relating to the intangible assets classification which was supposed to I mean you are not allowed to use the high-end sight relating thing as of now. So you will have to do the entire working as on that particular date of transition date. We have handed over in the month of August and there are two different workings.

Moderator: Thank you. We take our next question from the line of Rita Tahilramani from Edelweiss. Please go ahead.

Rita Tahilramani: Sir, I just wanted to know the land acquisition stage on the remaining projects that we are yet to receive the financial closure that is Aravali country and the two in Maharashtra and two Gujarat projects?

Jayant Mhaiskar: As far as the land acquisition is concerned for Nagpur 1 and 2 the land acquisition for both the projects is already in place. The appointed date as Mr. Manekshana mentioned earlier would be 15 December and 30 December for NR1, NR2 respectively. For Arawali-Kante, Kante-Waked the land acquisition is more or less in line with the requirement of the financial closure. So we should be able to have the 80% plus land acquired or land required on or before the date of financial closure which is end of this month.

For the Talaja-Mahuva, Mahuva-Kagavadar I would say the land acquisition is already there. So we should be able to have that line as well available for the financial closure which is the precondition for the FC to be done. So as far as the land acquisition is concerned we do not foresee any challenge on account of land acquisition as coming as a hindrance for the financial projects.

Rita Tahilramani: And I assume the total project cost for all the six HAM projects is somewhere around Rs. 3,800 crores, is it?

Jayant Mhaiskar: That is the mix project cost.

Rita Tahilramani: Yes, and 40% will be given to us by the government that is Rs. 2,300 crores and we mentioned that the equity requirement will be in the range of almost Rs. 400 crores so basically we are like almost Rs. 200 crores is just 17% on the remaining cost that is the Rs. 4,300 crores so that means bank is funding 85% of the remaining cost, is it that way?

Jayant Mhaiskar: No, it is 75:25, Rs. 400 crores is all component you have to consider the component that the JV partner will also get. So total requirement is close to around Rs. 500 plus crores.

Rita Tahilramani: This is because of the JV project now, okay.

Jayant Mhaiskar: Yes.

Rita Tahilramani: And the mobilization advance which you have mentioned earlier we used to receive like 90 days but post this change in the MCA will we still receive like the payment would be done in 90 days or the payment would be done in 60 days?

Jayant Mhaiskar: As per the original guideline the mobilization advance is expected to be paid on completion of the 60 days. So we expect the mobilization advance to be paid within 60 to 90 days anytime between that for the current scheme of things. For the new concession agreements which are coming it would be we understand in terms of 0 to 30 and 32 upwards 5% each would be paid in the new contracts which are being currently take on account.

Moderator: Thank you. We take our next question from the line of Ashish Shah from IDFC Securities. Please go ahead.

Ashish Shah: Sir, could you give the revenue toll collection and the key projects especially with the Mumbai Entry Point project?

M. Sankaranarayanan: Mumbai Entry Point we have achieved Rs. 218 crores it includes an ETC revenue of around Rs. 6 crores. And MEP Infrastructure Developers which is of approximately Rs. 355 crores. Hyderabad-Bangalore is around Rs. 80 crores. HRBC around Rs. 35 crores. RGFL is around Rs. 57 crores so and so forth.

Ashish Shah: RGSL you said is Rs. 57 crores?

M. Sankaranarayanan: Rs. 57 crores.

Ashish Shah: Just coming back to the project. So what is the traffic like in the first 10, 12 days of December I mean especially in the context of the demonetization impact. Have you seen any material impact on the traffic on the road projects you have?

Jayant Mhaiskar: I would like to answer that question in two parts. One is currently the company is operating in two specific I would say segments. One is the urban tolling and one is the national highways. As far as the urban tolling is concerned the majority of the traffic particularly in projects like Mumbai our feeling we have majority of the traffic in part of car traffic and I would say the commercial traffic is on the lower side.

As far as the car traffic is concerned I do not see any dip in that. However, in the commercial traffic if you see within Mumbai and across the national highways there has been a dip in terms of I would say initial first two, three days it was close to around 20%, 25% now it has been ramping up and the current dip to our understanding is close to around 10% to 12% on the commercial traffic on the national highways only.

Ashish Shah: And this you are saying for the first 10, 12 days of December?

Jayant Mhaiskar: That is correct.

Ashish Shah: Sir, also with regard to the Chennai Bypass project so we have those two accounts saying that there was a contractual obligation the amount was nil for the quarter and for the previous six months it was about Rs. 2.8 crores. So can you just explain what how is the accounting here because till the I mean have we handed over the project back or how is it, the current status?

Jayant Mhaiskar: Yes, we have handed over the project on 8 April I believe in the first quarter. So there was no ride back of liability or any amount payable to the authority which we have not recognized which was nil. So in the first quarter it was around Rs. 2 crores or something.

Ashish Shah: Right, so basically that Rs. 2.8 crores is for the first quarter and now we have not recognizing any liabilities on that account?

Jayant Mhaiskar: Because of the project not handed over on 8 April.

Ashish Shah: And what would be the status of the settlement with the authority on this?

Jayant Mhaiskar: Basically on the Chennai bypass project the authority along with the company under the amicable settlement I would say has decided to go ahead with the arbitration route. The arbitrators have already been appointed and it would be a panel of three arbitrators. One each from authority and company has been appointed. Now those two arbitrators would eventually appoint the third arbitrator.

That process is in progress. Once the third arbitrator is appointed then the arbitration proceedings will begin early I would say beginning of January 2017. As per the new arbitration guidelines it is expected the settlement of those claims to be done within a period of one year. Post which the final ride back in terms of the amount payable which was provisioned in the last financial year would be a made good.

Ashish Shah: Sure, that is it from my side. Moderator, do we have any other questions in the queue?

Moderator: No.

Ashish Shah: Sure, so we can end the call. Sir, can we have any closing remarks from your side after which we can end the call, sir?

Jayant Mhaiskar: We would thank everybody to join the call and from the company and the management and we would also be open if anybody requires any further information. You can get in touch with our team and we will be more than happy to address any further questions subsequently. Thank you everybody.

Ashish Shah: So on behalf of IDFC Securities, I thank the management of MEP Infrastructure for giving us the opportunity to host the call. Thank you everyone.

Moderator: Thank you very much. On behalf of IDFC Securities, that concludes this conference. Thank you for joining us and you may now disconnect your lines.