



IRB InvIT Fund
Q3 FY-22 Earnings Conference Call – Edited Transcript
February 09, 2022

Moderator: Ladies and gentlemen, welcome to the IRB InvIT call hosted by the company for discussing financial results for Q3 FY22. We have with us on the call today, Mr. Vinod K. Menon, Mr. Anil Yadav, Mr. Rushabh Gandhi and Ms. Swapna Vengurlekar from IRB InvIT team. As a reminder, all participants will be in the listen-only mode. After the opening remarks by the management, there will be a question-and-answer session. Please note that the duration of the call would be 45 minutes and any queries left unanswered after the call, can be subsequently mailed to the management for adequate response and resolution. Please note that this conference is being recorded. I now request Mr. Menon to give you an overview of the significant development during the quarter. Thank you and over to you, sir.

Vinod K. Menon: Thank you. Good afternoon, everyone. I would like to welcome all the investors and analysts on this call. Hope you have reviewed our detailed numbers as well as the presentation.

December 2021 quarter witnessed an increase in economic activity across the country after the slump in the initial period of the year on account of the second wave of the Pandemic. Our per day collections have improved to over Rs. 5.01 crore for the quarter-ended December 2021 as compared to Rs. 4.68 crore per day for the quarter-ended December 2020, showing a growth of approximately 7%. IRB Pathankot Amritsar Toll Road Limited has recommenced toll collection at its toll Plazas on 16th December 2021. Post recommencement of the toll collection, the per day toll collection has reached to Rs. 3.3 million in the month of December 2021, surpassing the earlier average per day collection of Rs. 2.5 million for the six-month ended September 2020. Earlier the toll collection was stopped since October 2020 due to farmers' protest in the state of Punjab. In line with the NHAI circular and the provisions of the concession agreement, the Company has filed for compensation with NHAI, which is currently under review with the NHAI. During the recent third wave of pandemic, we have witnessed voluntary pullbacks on the activity and some restrictions at the local level where the

number of Covid cases were very high. We are however, witnessing far lesser impact on the economic activity and traffic from the current outbreak compared to the first two waves of Covid, that means the impact of the third wave of Covid is very negligible.

The trust has successfully re-financed the loan during the last quarter and brought the average cost of debt at the rate of 7.25% per annum from the existing 7.60% per annum. Four of the projects' assets, that is Jaipur - Deoli, Amritsar - Pathankot, Talegaon - Amravati and Tumkur - Chitradurga projects are expected to receive tariff revision effective from 1st April 2022 and the rate revision is 3% fixed + 40% linked to WPI. With the provisional WPI growth for December 2021 at the rate of 13.56%, we expect tariff rate revision for these projects to be approximately 8% to 8.5% for the next year.

I would now request Mr. Rushabh Gandhi to take you through the financial performance for the quarter, over to you Rushabh.

Rushabh Gandhi:

Thank you, Sir. I would like to present the financial analysis for the quarter-ended December 2021 compared with the quarter-ended December 2020. The total consolidated income for the quarter-ended December 2021 increased to Rs. 348 crore from Rs. 333 crore for the quarter-ended December 2020. The consolidated toll revenue for the quarter-ended December 2021 has increased to Rs. 344 crore from Rs. 323 crore for the quarter-ended December 2020.

EBITDA for the quarter-ended December 2021 has increased to Rs. 283 crore from Rs. 278 crore for the quarter-ended December 2020. Interest cost which includes the interest on premium deferment for the quarter-ended December 2021 stood at Rs. 36 crore, which was similar in the corresponding quarter of previous year.

Depreciation, which includes amortization; for the quarter-ended December 2021 has increased to Rs. 225 crore from Rs. 185 crore in the quarter-ended December 2020.

Profit after tax for the quarter-ended December 2021 has decreased to Rs. 17 crore from Rs. 58 crore for the quarter-ended December 2020.

I would now request the moderator to open the session for Q&A.

Moderator: Thank you very much. We will now begin the question-and-answer session. Anyone who wishes to ask a question, may press ‘*’ and ‘1’ on their touchtone telephone, if you wish to remove yourself from the question queue, you may press ‘^’ and ‘2’. Participants are requested to use handsets while asking a question. Ladies and gentlemen, we will wait for a moment while the question queue assembles. The first question is from the line of Mohit Kumar from DAM Capital, please go ahead.

Mohit Kumar: Hi, thanks for the opportunity, Sir, Congratulations on good set of distribution per unit. Sir, first question is, when is the expiry of Surat - Dahisar and Bharuch - Surat, if you can let me know the dates?

Management: Bharuch - Surat will be ending in the coming quarter, that is March 2022 and thereafter the Surat – Dahisar i.e. Q1 FY23.

Mohit Kumar: Sir, what is external debt on the books and how much you expect it to be paid in FY23? Are we trying to re-finance and extend the tenure, like more back-ended?

Management: As of now, debt will be roughly Rs. 1400+ crore and repayment of debt in FY23 will be close to Rs. 54 crore. Considering the collection from the balance projects, it will be more than sufficient to cater the interest and debt obligation. If we will go by the numbers which are available in public domain i.e. as per independent valuers’ report, post payment of interest and repayment of debt, we should be able to payout between Rs.7 to Rs. 9 per unit to the unitholders from these balance available projects itself.

Mohit Kumar: Sir, this is a very wide range, that is Rs. 7 to Rs. 9, will it depend entirely on the traffic, because 8% tariff hike, I think that is a significant number. So will we be able to touch the upper end of the guidance; Rs. 9?

Management: The period prior to 2013-14, most of the assets in road sector has witnessed a revenue CAGR of 12% - 14% i.e. from the year 2007 till 2013-14 on backdrop of high inflation and high growth. So, we may see similar trend in the next 3-4 years as GDP growth is expected to be around 8%-9% and as we

have already discussed about the inflation linked tariff revision which will be around 7% - 8%. If the revenue grows in the range of 12% - 14%, we may reach the upper band of the payout.

Mohit Kumar: Lastly sir, what is the status on acquisition of asset. I think we were expecting one acquisition from the HAM asset from our promoter entity, where are we and when can we expect the acquisition?

Management: In terms of the opportunities available, we have roughly Rs. 23,000 - 25,000 crores worth of assets in the Private InvIT where the Public InvIT has a ROFR and plus the IRB Assets including HAM projects where Public InvIT has a ROFR. Once we reach to particular level, we should be able to share further details on the same.

Mohit Kumar: Okay so, it will take time? Do you expect something happening in the next 6 months?

Management: I think it will happen in near future but once it reaches to the Board Level, we will share the details on the same. As of now, it will be premature but having said that we would like to inform you that we have additional debt capacity of approx. Rs. 4500 crores. Our endeavor is to acquire the project through debt and those projects should be yield accretive to the unitholders.

Mohit Kumar: And what is the kind of expectation we have from Pathankot - Amritsar in terms of revenue for the quarter, I think we have earned Rs. 10 crore, right for this month?

Management: Pathankot Amritsar project started tolling from 16th December 2021, the revenue was not for the full quarter but for the month of January 2022, we had ~ Rs. 10-11 crores of revenue which is ~ Rs. 33-34 lakh per day. When the project was closed at that time, the 6-month average revenue was around Rs. 25 lakhs per day. We have seen good growth and this being winter month and Fogging, we see lower traffic traction in those parts of the region and once things normalize, we should expect even higher numbers in the coming months from the Amritsar-Pathankot project.

Moderator: Thank you. The next question is from the line of Dheeraj Dave from Samvad Financial Services. Please go ahead.

Dhiraj Dave: Sir in Talegaon Amravati Highway and Tumkur - Chitradurga Highway, we have seen decline in toll revenue, so any specific reason why there has been decline when we compare the same with the last quarter?

Management: In case of Talegaon - Amravati project, which is situated in Maharashtra, there has been ongoing metro works in Nagpur city, which has led to entry restrictions for heavy vehicles. We expect the works to be completed shortly, so once those restrictions are uplifted, the traffic will be back to normal.

Dhiraj Dave: So, basically it should get normalcy, so this is expected in Q4 FY22?

Management: It will take some time, the works had started 6 or 8 months back. So, it may take some time but once the restrictions are uplifted, then definitely we can see the normalcy in toll revenue. Tumkur – Chitradurga project is situated in the state of Karnataka. In the month of November, we have seen heavy flooding in Karnataka, which has led lower number for the project.

Dhiraj Dave: So basically, coming to the distribution, how much is expected this year? Also, this quarter basically we see a significant jump on amortization, well this should not affect distribution, but depreciation and amortization charge went up almost by 22% during the quarter, so was there any specific kind of amortization which we charged to P & L? I am referring to slide 14.

Management: We are amortizing the assets on the basis of the actual revenues for the current period and expected revenues for the future balance concession period. As the revenue has increased in the current quarter, the amortization typically will increase and plus for Bharuch – Surat project, earlier the expected date for completion was in May, 22 and due to some interpretation issue, the Concession for that project is expected to end by March 22, which has also led to some additional amortization.

Dhiraj Dave: If I may squeeze one more question, how much cash we are carrying as a cushion to normalize the distribution for FY23? Because this time also we distributed 90% something like that and last quarter also we did not distribute

full amount or 100%? So, can you just guide us, how much amount we are carrying as cushion?

Management: We are carrying surplus of close to Rs. 100-150 crores which will be used for the future distribution.

Dhiraj Dave: And that would be translating into per unit approximately?

Management: Approximately Rs. 2-3 per unit.

Moderator: Thank you. The next question is from the line of Gagan Bijan from Wealth First. Please go ahead.

Gagan Bijan: Just to put some numbers in perspective, so for the next quarter the concession period for Surat - Dahisar and Bharuch - Surat expires, so barring these two projects we are left with other five projects. So, if you consider the current quarter's number, so approximately around Rs. 300 crore are coming from, I am talking about the gross toll revenues, so to make up for this Rs. 300 crore, barring these two projects the remaining 5 projects being somewhere around Rs. 162 crore odd, so can you just put some numbers in perspective, because if you want to get back to the current set of numbers, we would require somewhere around 80% - 85% of growth as against what we have seen for the past couple of quarters the growth stands somewhere around 6% - 6.5%, so even if we are factoring 8% - 8.5% growth, so that gives us somewhere around Rs. 200 crore, add to it a Rs. 100 crore of cash surplus, so how do we see the distribution going forward for at least a couple of years, can you please throw some light on it?

Management: To put it in the right perspective, you do not have to look at only the toll collection numbers because in Surat - Dahisar there is a revenue share with the Authority of approximately 51% - 52%, so the net contribution comes hardly Rs. 100 crore plus to us for quarter, out of the Rs. 220 crore of the revenue. These two projects i.e. Surat - Dahisar being a 240 km road stretch and Bharuch - Surat being almost 70 km road stretch, so together these being almost 300 km road stretch, routine maintenance and also certain major maintenance was going on, on this projects, so then those maintenance costs will also come down. So, basis the data available in the public domain in

terms of the valuation report, the maintenance expenditure which was around Rs. 300 crore for FY22 will come down close to Rs. 100 crore in next financial year. So, then on the EBITDA side based on the projected numbers of the valuer, there will be only decline of Rs. 100 crore in FY23. This is based on assumption of 10% - 11% revenue growth, which is factored by the valuer.

Now coming back to your other question that in last couple of years we have seen a very lower growth, but as we have explained in our opening remarks that tariff revision itself because of the high WPI will be around 8%. In past, we have seen the tariff revision of 1% to 3%, in certain projects 4%, so on an average, the tariff revision was hardly 2% or 3%, as against we expect around 8% tariff revision for next financial year. Considering the GDP, expected around 8% to 9%, 6% - 8% kind of growth can be easily achieved in terms of the traffic. Both put together we should be able to surpass the projection given by the valuer which is around 10% - 11%. So, I think we should be able to better the payout which we have talked about in the range of Rs. 7-9 in coming years as well. Since you are comparing the current quarter toll numbers, so Pathankot - Amritsar project was only operational for 15 days, so if we need to consider proportionately for future periods.

Gagan Bijan: So just to understand what you have mentioned right now so the net effect will be somewhere to the tune of Rs. 100 - 120 crores so that corresponds to somewhere around Rs. 2-3 per unit. That's right?

Management: Yes, Rs. 100 - 120 crores in the EBITDA will be around Rs. 2 per unit in terms of the distribution.

Moderator: The next question is from the line of Satinder Bedi from Eon Investments. Please go ahead.

Satinder Bedi: Congratulations on turning out a good set of numbers translating into high distribution and also to Mr. Menon and your team for being very responsive Investor Relations team, so whenever we raise questions offline also, they have promptly responded to. And your disclosures and Investor Relations are absolutely best in class. I have got a couple of small questions, one is regarding the Talegaon - Amravati that we have just mentioned that there is

some works which are going on in Nagpur, so which is calling in disruptions, so already we have lost 4-5 months on sub-optimal traffic and you are saying that it will probably continue for many more months, so is there any compensation that we will be eligible for, because of this kind of a force majeure.

Management: Concession agreement refers to average daily fee. If average toll revenue for FY22 compared with average toll revenue for FY21 is lower than 90%, then there is some compensation mechanism. We have already notified the Force Majeure event to the Authority, so as soon as the toll revenue falls below 90% of the average daily fee, then we will have a claim.

Satinder Bedi: While I understand that exact timelines might be difficult but what is your best guess as of now on the time duration? We understand that is the basic thing but what is based on the ground situation what is your best guess on the time period for this project to be impacted?

Management: In Talegaon – Amravati project, it may take another 6-8 months' time for normalcy in traffic. However, we expect that traffic to gradually pickup over the period.

Satinder Bedi: Regarding the Tumkur - Chitradurga sir is the escrow released now?

Management: No, not yet we are in discussions with NHAI. The conciliation is in progress and at the same time, there is a court case for which the hearing is yet to happen. So in between we have attempted conciliation, so that conciliation is about to begin. So, in that conciliation we have asked for this release of embargo on the escrow account and at the same time we will try to resolve the dispute once for all.

Satinder Bedi: Okay fine and sir on the Pathankot - Amritsar, what is the now that the project has restarted, so what is the total claim that we have raised for the period of stoppage, how much of it has been received and how much of it has been recognized in our revenue so far?

- Management:** So, for Amritsar - Pathankot project, the matter is still with NHAI and probably we will be taking up the matter in conciliation or arbitration with NHAI.
- Moderator:** Thank you. The next question is from the line of Parikshit Kandpal from HDFC Securities. Please go ahead.
- Parikshit Kandpal:** My first question is that you said that you can buy Rs. 23,000 – 24,000 crore worth of assets in the Public InvIT, so just wanted to understand how do you intend to deploy this capital in FY23 and '24?
- Management:** Parikshit, we have talked about Rs. 23,000 to Rs. 24,000 crores worth of assets of the Private InvIT where the Public InvIT has a ROFR and once those assets will get matured, those will be offered to the Public InvIT. Public InvIT has a debt capacity of Rs. 4,500 crores and probably we would like to add these assets with 100% debt, so that we can increase the pay out to the unit holders. And as of now, it will be difficult to provide year wise deployment of the capacity of Rs. 4,500 crore of additional debt capacity.
- Parikshit Kandpal:** So, in case if we deploy in this, just for using that if you deploy everything of it, Rs. 4500 crore of debt that you imply, so at 10% - 11% IRR if you add about Rs. 450 crore worth of NDPF and roughly about Rs. 6 to 7 of DPU, incremental?
- Management:** Definitely, whenever those assets will be added, then those will be adding to the DPU but as of now it will be very difficult to comment on a particular number.
- Parikshit Kandpal:** So, the other listed InvITs despite being more annuity kind of a nature, there are no growth option. However, we have been doing relatively well and the Public InvIT has been trading much below the face value. So despite now the growth kicking up and inflation releasing its head, how can we go back to our journey wherein at least we will reach our face value?
- Management:** So, I think once we start showcasing the revenue growth of double digits, then the scenario and the intrinsic value of the InvIT will get reflected. As we have talked about the potential of the InvIT in terms of the addition of the

asset, that potential will further lead to increase in the payout to the unit holder, then definitely these two things will help to regain the intrinsic value of the InvIT.

Parikshit Kandpal: Okay, so just lastly on the maturity which talks about the Rs. 24,000 – 25,000 crore the Private InvIT has worth of assets, so when do you think they will mature enough, wherein we can, the Public InvIT will start evaluating them from the acquisition or the transfer perspective?

Management: So, Parikshit since you track us from a long period of time, private Invit has some assets which are operational from last 3-4 years and as of now, we will not be able to provide details on those assets. Once those assets come for the Board level discussion and if the Board decides on those, then definitely, we will be discussing on that but in terms of whatever the information available in public domain, Private InvIT do have some assets which has an operational history of more than 4-5 years, those will be good assets to look at it.

Parikshit Kandpal: Okay from BOT perspective you were looking at timeline of at least 4-5 years of operation and realization post that we have better visibility on revenue, then the Board will take whether we need to take it forward from there, right?

Management: Parikshit I will not able to confirm any number but there are some assets and at appropriate time those will be offered to the Public InvIT and once those are discussed at board level we will be able to share much details on this.

Parikshit Kandpal: Okay just lastly on Surat - Dahisar and Bharuch how much is the total after winding down of two assets and transfer to NHAI, so how much will be the cash which will still be unused, which will get transferred to the trust?

Management: I think the total cash of the trust will be close to Rs. 100 - 150 crore which will be retained by the end of this year and that will be carried over for FY23.

Paresh Thakkar: I and my family have been unit holders almost since the listing of the units in the stock exchange, I have heard everything from the beginning what you have explained regarding the acquisition of new projects. However, can the management provide firm guidance on acquisition of new assets?

Management: Sir, we thank you for being investor since the IPO. Post the public issue, the Trust has acquired Amritsar Pathankot project from the Sponsor in September, 2017. The Trust has evaluated various third party assets over the period. Since these assets were not value accretive for the existing unitholders, the acquisition could not see the light of day. Last two years were affected due to the Covid-19 pandemic. We were not sure how the Pandemic would pan out and affect the collections. Moreover, the sponsor HAM assetS which were due for completion was delayed by a year due to the pandemic. All this led to delay in the acquisition process. As explained earlier, the Trust has ROFR over the Private InvIT assets with EV of 23,000 to 25,000 crores. Over the period, these assets would also be available under ROFR apart from assets from sponsors.

Paresh Thakkar: Okay, I hope the acquisition will happen very soon.

Management: We can expect for project addition in the near future.

Paresh Thakkar: Thank you so much for such a positive reply.

Moderator: Thank you. Ladies and gentlemen, we will take that as the last question. I now hand the conference over to Mr. Menon for closing remarks. Thank you and over to you, sir.

Management: On behalf of the investment manager, thank you all for attending this conference call and sharing your feedback with us. Hope to hear from you again soon, till then please take good care of yourselves, thank you.

Moderator: Thank you sir. Ladies and gentlemen, this concludes your conference for today. We thank you for your participation and for using Chorus Call Conferencing Services. You may please disconnect your lines now. Thank you and have a great day.