



IRB InvIT FUND

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Q3 FY-23 Earnings Conference Call – Edited Transcript
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Moderator: Good Morning Ladies and Gentlemen. Welcome to the IRB InvIT Call hosted by the Company for discussing the Financial Results for Q3 FY23. 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 participant lines will be in the listen-only mode and 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. Over to you, sir.

Vinod K Menon: Thank you. So good morning 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. During the quarter ended December 22, we have observed robust traffic growth across all our projects. As compared to the corresponding quarter of the previous year, we have observed 21% growth in the toll revenue on a like to like basis i.e. excluding Bharuch-Surat, Surat-Dahisar and Pathankot-Amritsar Projects. Toll collection on Amritsar-Pathankot project was temporarily suspended on account of farmers protest in the state of Punjab from mid-December. The project has recommenced the tolling on January 15, 2023. NHAI had also filed a writ petition before the Punjab and Haryana High Court against the said protests. The Project SPV has filed claims under the Force Majeure provisions of the Concession Agreement. During the quarter, Vadodara-Kim HAM Asset has been successfully added to our portfolio. The project has received first annuity from NHAI along with the O&M payment. Recently, the Project SPV has been assigned 'AAA' rating by India ratings. Considering the current Bank rate of 6.50%, the project will be eligible for interest on annuity @ Bank rate plus 3%. i.e. 9.50%.

During the quarter, the Trust is also in receipt of 'AAA' issuer rating from two of the credit rating agencies i.e. India Ratings and Care Rating. Distribution in the form of return of capital was not considered as taxable since the same would be considered as reduction in the cost of acquisition. Based on the recent Finance Bill, we understand that the distribution in the form of return of capital would be taxable in the hands of the unitholders. However, as per the said bill, distribution resulting into redemption of unit will be considered as reduction

of cost of acquisition. This is an industry wide issue for which we expect that the industry bodies will make suitable representation to the Government. From our InvIT perspective, we have paid substantial distribution in the form of Return of Capital to the Unitholders in the past few years. We have projects which are having long concessions. We will devise our new strategy to maximize the distribution in the form of interest and we do not foresee any material distribution in the form of return of capital in the next couple of years. I would now request Mr. Rushabh Gandhi to take you to the financial performance of the quarter and the year. Over to you Rushabh.

Rushabh Gandhi: Thank you Sir. I would like to present the financial analysis for the quarter ended December 22 compared with the trailing quarter. The total consolidated income for the quarter ended December 22 has improved to Rs. 285 crores from Rs. 203 crore in the trailing quarter i.e. September, 2022. The consolidated toll revenues for the quarter ended December 22 has improved to Rs. 209 crores as compared to Rs. 199 crores for the trailing quarter i.e. September, 2022. EBITDA for the quarter ended December 22 has improved to Rs. 208 crores from Rs. 177 crores in the trailing quarter. Interest costs which includes interest on premium deferment and in the current quarter, interest on VK1 HAM asset as well, stood at Rs. 58 crores from Rs. 36 crores in the trailing quarter. Depreciation, which includes amortization, for the quarter ended December 22, stood at Rs. 46 crores as compared to Rs. 48 crores in the trailing quarter. Profit after tax for the quarter ended December 22 has improved to Rs. 100 crores from Rs. 91 crores in the trailing quarter.

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. The first question is on the line of Dhiraj Dage from Samvadh Financial. Please go ahead.

Dhiraj Dage: My first question is basically on the January Toll collection which we seen, and which has been given on NSE. We see basically there has been decline. On most of the assets, we have seen decline. Can you draw some light on what is the reason for dropping the toll collection in here? Considering December sequentially, Y-o-Y growth yes, but generally what result into, any specific factor?

Management: There is no specific factor for decline as compared to December month. Typically, the passenger car traffic increases in the month of December because of the holiday season and during the first week of January, School starts and other activity slows down and this is the routine phenomena year on year. Considering the seasonality, ideally, one needs to compare the toll revenue numbers with the corresponding month of the previous year, we have witnessed healthy growth in January 23 v/s. January 2022.

Dhiraj Dage: So there is nothing unusual, so the second perspective is basically what could be the kind of distribution henceforth. So basically we have almost reached in fourth quarter, so any guidance on FY 24 distribution?

Management: Our endeavor is to continue ₹ 2 distribution per quarter unless and until we acquire more asset and by that count, we can increase our distribution. As of now, we can only guide for ₹ 2 distribution per quarter basis.

Moderator: Thank you. The next question is from the line of Satinder Singh from Eon Infotech. Please go ahead.

Satinder Singh: So my question is regarding some of the assets, in Talegaon-Amravati can you throw some light because Talegaon-Amravati in the quarter that we are discussing, the revenue growth is about 14%, but 10.2% comes out of the tariff increase only, so the effective traffic increases only about 3%. In fact, in January, as is being evidently, it is only 5%, which means we are talking of a traffic degrowth of almost 5% - 6%. So, Talegaon-Amravati seems to be clearly struggling on the traffic side and we understand because of the tariff increase, revenue is still higher.

Management: Talegaon-Amravati lower traffic growth, we have discussed in the previous few quarters as well. Because of some construction work going on, the traffic on that particular project was soft. In fact, in December quarter we have seen some improvement that is close to 3.5% to 4% traffic improvement. We believe that going forward, once the construction work for adjacent corridor and the metro works are completed, probably, we will see further uptick in the traffic, but last quarter was quite encouraging, and we have seen some improvement if we compare with the trailing quarters for the same year.

Satinder Singh: So when does this work on Talegaon-Amravati get over this, bridge or whatever which is feeding our traffic? So we were of the impression that probably their work is already over as of last quarter.

Management: No, last time we had told that by December, the work should get over. And that's why we have seen some improvement in December quarter. Probably we have to see one or two quarter more for further improvement of the traffic in the Talegaon-Amravati stretch. Anyways, this project contributes hardly 10% to 12% of the overall revenue of the trust so that way it's not a very sizable project. Because of the ongoing construction activity, there was laggard in the traffic. On account of the tariff improvement, we have got double digit kind of growth in this project.

Satinder Singh: Alright, on Pathankot-Amritsar project sir, we had a claim of about Rs. 80 crores. This is for the previous farmer agitation and we had received about Rs.

36 crores. So could you give one an update on what has happened to that arbitration and 2nd what is the rough claim that we are raising for this one month of disruption?

Management: I think with respect to Pathankot-Amritsar project, I would like to update that we have also received equivalent number of days extension in terms of concession agreement and plus we have received Rs. 36 crores of cash compensation for the last toll closure and for balance as you rightly mentioned, we have moved in for arbitration. And typically, as you know that arbitration process takes 1 to 1.5 years to conclude. So, probably after a year or so, we may expect some resolution on that aspect. Now, with regard to the recent one month toll closure, compensation amount is around Rs. 7 crores and this claim, as Mr. Menon has already explained, has been already lodged with NHAI. There will be a similar one month extension in the concession period as well.

Satinder Singh: OK, and what about Tumkur-Chitradurga settlement? Is that like a settled or what is the status on that arbitration? We understand that the embargo has been lifted all on the escrow account, but what is the status of the settlement?

Management: The escrow bank account for Tumkur-Chitradurga project is now normalized. It is in normal operation mode, so the arbitration is with respect to whatever claim that NHAI had on the advancement of some deferred premium. So that arbitration is continuing, pleadings from the parties are ongoing and it will reach argument stage very soon.

Satinder Singh: Sir, what is the contribution of the Kim projects to this distribution of ₹2? So just wanted to understand a like to like comparison that this Kim is the new entrance this time, so how many paisa has it contributed, 10 paisa, 1 paisa, 12 paisa to this distribution time?

Management: When we have talked about adding of VK1, VK1 was about to contribute close to 50 paisa on per annum basis from FY24 onwards since in this financial year, we will be receiving 2 annuities. Due to increase in interest cost, the DSRA requirement has also increased from Rs. 55 crores to ~ Rs. 62 crores which will be created out of the 2nd annuity. Due to this, the contribution from VK1 HAM project will be close to 40 paise in FY24. From FY25 onwards, the contribution should be as envisaged earlier.

Moderator: Thank you. The next question is from the line of Mohit Kumar from DAM Capital. Please go ahead.

Mohit Kumar: Three questions from my side Sir, can you please let us know the debt on the asset as of now and repayment for FY24 and FY25.

Management: On VK1 HAM asset, we have debt of Rs. 955 crores and Rs. 55 crores is repayment for FY24 and similar amount in FY25 as well.

Mohit Kumar: My question was the entire debt on the entire InvIT?

Management: The debt at InvIT level is ~ Rs. 1,588 crores and the cost of debt currently, is little less than 8%. And with respect to the repayment, repayment will be Rs. 55 crores in FY24.

Mohit Kumar: And this is over and above the repayment scheduled for VK1.

Management: Yes, next year we will be paying for InvIT plus VK1 put together close to Rs. 110 crores.

Mohit Kumar: Understood Sir, and any premium repayment for Tumkur-Chitradurga project in FY24 and FY25.

Management: So it will be close to Rs. 225 crores for FY24 and it will be Rs. 265 crores for FY25.

Mohit Kumar: And the last question on the taxes distribution. You said that the changes in the budget, industry is going to make a representation. So can you please let us know what is the demand of the industry? Is it on the principal amount that you don't want any reduction? Is that what you're talking about here?

Management: We are under discussion with the industry body. But as a Company, the principal repayment which we are doing, that should be first allowed as an adjustment against the cost of acquisition for the investor. If we are paying more than whatever the cost of acquisition for the investor, then whatever the surplus is there, that should be taxable, not the entire repayment per se. So that will be our plea with whatever the forum we represent. But anyways, for our InvIT, it is not an immediate issue because for next three to five years, distribution will be largely in the form of interest. And principal repayment will be very minimum. Because all our concessions has a long balance period, almost 16 to 18 years life left except for one concession which is MVR, but whatever the loan repayment will happen in MVR, similar kind of repayment will also paid by the trust also for the third party debt. So considering that aspect, we will not have immediate issue, but on long term basis definitely, this is an industry wide issue and probably once we will get resolution on the same, post that, we can re-device our strategy. But as of now, our strategy remains that we will try to distribute maximum amount by way of interest only.

Mohit Kumar: And , can you please repeat the number which you said on the VK1? How much distribution expect it to add in your FY24?

Management: For FY24, it will add around Rs. 40 paisa per unit.

Moderator: Thank you. The next question is on the line of Krishna Prasad from Go Frugal, please go ahead.

Krishna Prasad: I just want to understand, if there are any updates on the buyback proposal. Because this is an industry issue and is there any representation and any updates on that.

Management: Sir, I think Federation has already met with SEBI but the only issue with respect to buyback is from where the trust will do the buyback because whatever the cash trust is generating, the trust is mandated to pay minimum 90% of the Distribution. SEBI has come back, saying that the trust is formed to make a payment to the unit holders. And if buyback is not permitted out of NDCF, from where the buyback will be done? Because if they allow the payment of buyback from NDCF then there will be only selected unit holders which will be receiving the money in buyback because no trust can buy back the entire unit, so that is the only tricky part over there. Apart from that, I think on regulation side, there should not be any other challenges, but the only challenge remains is that how we will manage the buyback.

Krishna Prasad: I understand that there are SEBI regulations, but if the majority of the shareholders approve for such right, because if I look at the fair value as per your valuation report and the price it trades and also over the last two years due to COVID and other overhang, the price was very less. From a unit total perspective, it would have added lot more value to it, So that is the concern which is why I asked this question. Thank you Sir.

Moderator: Thank you. The next question is from the line of Rahul Marathe from ICICI Prudential. Please go ahead.

Rahul Marathe: So recently we saw that there was a strong impetus on infrastructure spending by the Government in budget. So, what are the new set of opportunities which we are looking at all, the deal pipelines which we are looking at for acquiring assets?

Management: I think InvIT being formed with an object to pay maximum distribution to the unit holders, we will be looking at the matured assets and probably the HAM asset will be best suited asset for the InvIT since the HAM asset starts contributing to the payout from year one. The payments in case of the HAM assets are evenly distributed over the life of the asset. So basically, as of now we are eying for the third party HAM assets and probably we will add HAM asset from the third party. We are evaluating various projects and once we reach to a particular level, then definitely we'll be discussing with our unitholders.

Moderator: Thank you. The next question is in the line of Saurabh Chitre as an individual investor, please go ahead. Sorry Sir, Saurabh is not connected anymore so we'll move to the next question. That is from the line of Ketan Shah as an individual investor. Please go ahead.

Ketan Shah: In Budget, we understand lot of efforts and our money are put in railways. So do we see any threat on this. If there are some railways coming up near to our projects, do we see any threat in immediate future?

Management: I think, the substantial part of funds would be utilized towards the expansion of the existing rail network. Probably that will not impact the road traffic and anyways, our projects have robust traffic depending on the consumption in India. And considering that, we don't foresee that increase in railway budget will have any impact on the current traffic of our road projects.

Ketan Shah: Similarly, budget is also focusing on infrastructure, so any new roads which are alternative to our roads?

Management: Sir, as of now there is no parallel facility to our existing projects. But anyway, there is a provision in the Concession agreement that if there is any parallel facility constructed, we can claim the compensation for loss of the revenue from NHAI, that is already well scripted in the Concession agreement. And we can claim for the compensation if there is any loss on that count.

Moderator: Thank you. The next question is from the line of Satinder Singh from Eon Infotech. Please go ahead.

Satinder Singh: Is mining going on full stream both on our JD, Tumkur-Chitradurga and Pathankot-Amritsar. Any restrictions on mining currently or are things going on full swing?

Management: I think on Jaipur Deoli, Mining has gradually started, based on the directives from Hon'ble Supreme Court. The Hon'ble Supreme Court has provided guidelines for availing mining licences basis which mining activities has gradually started. With respect to Tumkur Chitradurga project, I don't think so there is any mining ban and we are seeing a robust collection on Tumkur-Chitradurga project. Now coming to the Amritsar-Pathankot project, there were some restrictions on mining considering the international border and law and order situation over there, we think that is a temporary phenomenon. Once lifted, probably, we'll see some uptick in the traffic.

Satinder Singh: In this quarter, the interest component of the payout is high and the capital is low compared to the previous quarter. So is it a deliberate decision out of the judgment, or is it because of Tumkur-Chitradurga funds coming in, whatever,

so just wanted to understand that. Is it a plan or is it just because of the cash flows which have come in?

Management: Basically, as you rightly mentioned, a couple of projects, Bharuch-Surat was handed over to the Authority last year and Surat-Dahisar project in the current year. Since those projects were towards the end of their respective concessions, there was large loan repayment coming from both the projects. Probably now we have projects which have a longer concession life, accordingly, it would have been larger portion of interest and the repayment portion would have been reduced. Even considering the current budget proposed amendment, we will try to maximize the interest and we will try to pay almost nil repayment till we will get clarity on the subject matter.

Satinder Singh: One final question, you've mentioned that average costs is about 8% and can you just share this in terms of repo? So both for our trust loan and our Kim loan? What are the terms like repo plus what kind of a spread are we talking about?

Management: So at the trust level, the interest rate for loan is linked to MCLR rate and even the SPV project level that is linked to the MCLR rate, both are linked to MCLR rate.

Satinder Singh: Even the Kim is also linked to MCLR.

Management: Yes.

Satinder Singh: OK so what is the spread between our Kim borrowing and the Bank rate plus 300 that we get contractually so? So what is the spread available to us there?

Management: Interest rate is 7.55% and we get close to 9.50% from NHAI, so the spread is 205 basis point.

Satinder Singh: Whether all the MCLR increase have been baked in this?

Management: No, in case there is a RBI increase rate which will have an impact on the MCLR. Then definitely that will have an impact both on the Bank rate and on the borrowing rate.

Satinder Singh: Yes, that neutralizes because Bank rate has gone up by 25 basis points today, and so the MCLR, since they have quarterly/ half yearly resets, will be happening on our borrowing side.

Management: Basically, there I can't say that there is no lag. Probably most of the rate is baked in, but sometimes what the bank does, if RBI increases the rate today,

they increase with the lag of month or so. There may be a 25-30 basis point here and there, but apart from the increase in RBI rate today.

Moderator: Thank you. The next question is on the line of Dhiraj Dage from Samvadh Financial. Please go ahead.

Dhiraj Dage: There's not so much of question but some kind of disclosure and if you can make it more investor friendly. For instance, the presentation of a company is not uploaded on BSE website. We need to download from your website and also like con call detail. They are not getting uploaded on BSE, we have to specifically come to company website. So just a request, if you can upload because almost all InvITs and REITs and companies basically, they put these details so it becomes one source for us as an investor to check that part. Secondly, in the presentation we get 9 months traffic for all the projects. Now it would make sense means basically if you're giving annual traffic that is fine, but nine months. Actually I need to see last quarter presentation, then to see what is the last quarter. So if it is a Q3 kind of it, I would appreciate you give us Q3 number rather than nine months or so. In first quarter, it would make sense because there is no other quarter, but in Q3 I'm getting nine months. I don't even know what was basically growth in this Q3 kind of it. So one request is if you can modify the disclosure of information on presentation on that and last, basically the results which we declare particularly financial while in December quarter is for quarter but September and March quarter you give six-six months now I have looked into other peer groups also, they exactly give us the quarterly results. So rather than making six month, why don't you give us quarterly even if it is required by regulation, please as a particular specific quarter because we need to otherwise recalculate saying that June was so much and September is so much, so September minus June is the September quarter is, so these are certain things which you I would appreciate if you can look into it and try to address because it will make things simpler for most of the analysts and I think all others InvITs and REITs are doing that information, so this is just an humble submission. I wish you all the best for your future.

Management: Thanks for your suggestion. We will try to incorporate all those suggestions with respect to the disclosure as far as the result is concerned, We were complying with the SEBI norms, but as you rightly mentioned, we will try to include the additional information so that it's it will be handy for you. Anyway, we give the Concall detail on the both the exchanges and on our website also, but with respect to the presentation we will try that if it can be uploaded on the exchanges also or there is a link created on the exchanges so that you can directly access from there.

Dhiraj Dage: And I would just request if you can look into some other listed InvITs, say India Grid or Embassy REIT or Mindspace. The information is not basic minimum. See if it's like this, the interest of confidence investor get is also

based on the disclosure of information. So if you see that in fact it takes almost 2 hours to read that. I'm not saying we should disclose everything and probably you are the best person to disclose what you should disclose. But at least it should provide means, basically you don't get NCDF even if it is not required by regulation. Why can't you provide project wise NCDF? Means regulation may be silent, but we get an aggregate NCDF. But what is happening on individual project? Because that comes in March quarter and September quarter. But in this quarter. It doesn't come so no, that's a humble request. See more you disclose the more it's going to benefit all of us, all stakeholders, including management. That's my humble submission. I may be expecting probably, it might mean some effort on your end, but we'll appreciate if you can do that because last 1-2 years your disclosure on tolling, actually, you can see the positive reflection in your unit price. And similar kind of clear disclosure will make things simpler. And will get us better in future, that's my humble submission.

Management: Thanks for your suggestion. As I have mentioned earlier also that we will try to incorporate details, whether it's mandatory required or not. We will try to incorporate that information to the extent practically possible. Thank you.

Moderator: Thank you, the next question is on the line of Rajan Patadiya as an individual investor, please go ahead.

Rajan Patadiya: How much borrowing capacity is still left for us?

Management: We have close to Rs. 3,000 crores additional borrowing capacity with the trust.

Rajan Patadiya: And just hypothetical question, if it is materializing, what will be total impact on yearly distribution?

Management: Sir, it will be too hypothetical to basically add any kind of number, but I think with one project addition. I think 5% to 6% kind of increase in the distribution happens with the addition of 1 project.

Rajan Patadiya: And on this quarter basis, how much NDCF we have distributed as a percentage?

Management: So on nine months basis, we have distributed close to 93% to 94%.

Moderator: Thank you. The next question is from the line of Shuman Ghosh, as an individual investor, please go ahead.

Shuman Ghosh: I just want to ask like the last time concall for this VK1 project that you have guided for the entire year. You can go ahead with the distribution of around 50

to 60 paisa for FY24. Now that you are guiding less, what is the reason of this downgrade of distribution?

Management: Due to increase in interest rate, the DSRA amount to be created for the project has increased. So basically ranging from 35 paisa to 40 paisa is what we can add in the distribution from VK1 for FY24. This is one-time impact. Post FY24, the distribution from VK1 would continue to be close to 50 paise as stated earlier.

Shuman Ghosh: One more question. You also guided like probably by the year end one or two HAM asset probably you were in the process of adding so any update on that.

Management: Sir, we are in process of evaluation and once we will reach to a particular level then definitely we will inform to the unit holders.

Moderator: Thank you, the next question is from the line of Mohit Kumar from DAM Capital. Please go ahead.

Mohit Kumar: So one clarification, Sir, what is expected tariff hike from April 23 for our road assets?

Management: I think so far there is only provisional WPI number is declared which is close to 5%. If I consider that, to be very precise it was 4.95%. If I consider that to be final number, then it will be close to 5% kind of tariff improvement from 1st April.

Moderator: Thank you, the next question is on the line of Saurabh Chitre as an individual investor, please go ahead.

Saurabh Chitre: I had two questions, so I'm on slide number 20 and 21 on the presentation. I can see that cars are going up, but other types of vehicles like SUV, truck/bus LCV and MAV are going down and that is not only like year on year phenomenon. You can see across four to five years, so is it because of reclassification of vehicles or are there any other insights that management has?

Management: I think this was asked in the previous quarters as well, and it is predominantly to do with some kind of commercial vehicle. Earlier, I think Tata Ace vehicle called Chota Hathi, that particular vehicle was earlier classified as LCV but post the Fastag collection, that got reclassified as LMV i.e. under car category. This is reclassification of vehicle class.

Saurabh Chitre: OK, and my second question is that obviously our toll has a tariff component and right now we are seeing like even this year it might be like you mentioned for answer of earlier question i.e. 4.95 and 5, but what happens in case that it

becomes negative, potentially for FY 24-25. Is it then we have to revise it downwards the toll numbers or toll that you collect.

Management: Tariff policy is 3% fix plus 40% of WPI. We get only 40% of the WPI, so till that time WPI is high the resultant number comes high. If WPI is lower or higher than the resultant number will be lower or higher.

Moderator: Thank you. Ladies and gentlemen, that would be our last question for today. I now have the conference over to Mr. Menon for closing comments. Thank you and over to you Sir.

Management: Thanks to all the participants on today's call. Hope to get in touch again soon.

Moderator: Thank you. Ladies and gentlemen, this concludes your conference for today. We thank you for participation and for using Researchbytes conferencing services. You may please disconnect your lines now.
