



IRB InvIT Fund

Q3 FY24 Earnings Conference Call – Edited Transcript – January 31, 2024

Moderator: Good morning, ladies and gentlemen, and welcome to the IRB InvIT call hosted by the company for discussing the unaudited Financial Results for the quarter ended December 2023.

We have with us on the call today, Mr. Vinod Kumar Menon, Mr. Anil Yadav, Mr. Rushabh Gandhi and Ms. Swapna Vengurlekar from IRB InvIT team.

As a reminder, all participant lines will be in a 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 will 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. Vinod Kumar Menon to give you an overview of the significant development during the quarter. Over to you sir.

Vinod K. Menon: Thank you. So, very good morning to all. 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.

Being Investment Manager of IRB InvIT Fund, our endeavor is to maximize the value of our unit holders. Value can be maximized in two ways i.e. either by adding more assets or through efficient financial management. We would like to present some interesting data points to our unit holders. Based on the latest available valuation report, the total asset size was Rs. 8,194 crores and the debt was Rs. 2,416 crores. So, debt to asset percentage is ~ 29%. The weighted average life of the debt is ~ 7.5 years as against the average portfolio of concession of 15 years. So, we will evaluate various options to elongate this debt tenure to increase the distribution. IRB's HAM assets, Vadodara Mumbai Package 7 ('VM7') and Pathankot Mandi ('PMHAM') are expected to complete in FY 2025. Chittoor Thachur HAM is expected to be completed in FY 2026. Six months post completion of these projects, they will be available for offer to the Trust.

We are distributing Rs. 2/- per unit for the quarter ended December 31, 2023. During the current quarter, we will be distributing Rs. 1.70/- in the form of interest and Re. 0.30 /- per unit in the form of dividend. The Trust has announced its



maiden distribution in the form of dividend. Dividend has been distributed by the M.V.R. Infrastructure and Tollways Limited - SPV. The said SPV continues to follow the old tax regime. Accordingly, based on our knowledge, the said distribution in the form of dividend shall be exempt in the hands of the unit holders.

As compared to the corresponding quarter of the previous year, we have observed a growth of 11% in the toll revenue. The key contributors to the total revenue growth are Jaipur-Deoli, Tumkur – Chitradurga and Omalur – Salem project. The Investment Manager on behalf of the Trust continues to evaluate potential investment opportunities. The net debt to enterprise value of the Trust is below 0.3:1, providing sufficient debt capacity for acquiring new assets, and the Trust continues to have a 'AAA' / Stable credit rating from two of the rating agencies that is CARE Ratings and India Ratings and Research (Ind-Ra).

I would now request Mr. Rushabh Gandhi to take you through the financial performance for the quarter ended year. Over to you. Rushabh.

Rushabh Gandhi:

Thank you Sir. I will now present the financial analysis for the quarter ended December 2023 compared with the corresponding quarter of the previous year.

The total consolidated income for the quarter ended Q3FY24 stood at Rs. 283 crores from Rs. 285 crores in Q3FY23.

The consolidated toll revenues for the quarter ended Q3FY24 improved to Rs. 233 crores as against Rs. 209 crores in Q3FY23 registering growth of 12%.

EBITDA for the quarter ended Q3FY24 stood at Rs. 210 crores as against Rs. 179 crores in Q3FY23.

Interest costs (including interest on premium deferment) for the quarter ended Q3FY24 stood at Rs. 69 crores from Rs. 58 crores in Q3FY23. This is on account of interest cost from newly acquired Vadodara Kim HAM project.

Depreciation, including amortisation for the quarter ended Q3FY24, stood at Rs. 58 crores as against Rs. 46 crores in Q3FY23.

The PAT for the quarter ended Q3FY24 stood at Rs. 81 crores as against Rs. 100 crores in Q3FY23.

I will now request the moderator to open the session for question & answer.

Moderator:

Thank you very much. We will now begin the question-and-answer session. The first question is from the line of the Dhiraj Dave from Samvad Financial Services LLP. Please go ahead.

- Dhiraj Dave:** Thanks a lot for giving me the opportunity and congratulation to the management team for maintaining the distribution at Rs. 2/- per unit. My first question is on the portfolio asset, I refer to Slide 7 where we get toll performance for Pathankot Amritsar project and in FY24, we get around daily toll collection being Rs. 4.1 million vis-à-vis 4.3 million and basically can you explain why there was a drop in December month because in November which was 30 days month, it was 4.3 million while in December we are getting 4.1 and do we see change in trajectory now?
- Management:** Amritsar Pathankot being a project in northern part of our Country, typically is affected due to cold weather condition in the 2nd half of December, 2023. Such weather condition impacts the overall traffic and that lead to softer toll collection. In the month of December for previous year, toll collection was suspended due to farmers' agitation in 2nd half of December 2022. Due to this, the average collection is softer as compared to the same month of the previous year. But if you look at the earlier months as highlighted by you, the growth was better as compared to last year and we expect that momentum should continue beyond January.
- Dhiraj Dave:** OK, so basically, it's a seasonal phenomenon and how you see because I believe the situation is in fact not so great in January also. So, do we see collection being on the same line or do we see marginal drop and expect some improvement?
- Management:** I think January will have some marginal drop as you might have seen from the newspaper that we are seeing fog situation for few days. So, then definitely there will be a marginal drop, but I think that should improve from February onwards.
- Dhiraj Dave:** So, it was a pattern connected to same. In Talegaon Amaravati project, when do we expect that Nagpur Metro project works to get over which had affected our traffic movement?
- Management:** We understand that the restriction is still on, but one interesting data point is that, if you look at the September month collection, it was Rs. ~ 19 crores and from Rs. ~ 19 crores, collection has improved to Rs. 21.66 crore, roughly 13% growth witnessed in Talegaon – Amravati as compared to the trailing quarter. So, we believe that it's on the recovery path and in fact, there was robust growth as compared to trailing quarter. If you look at other projects also, the growth as compared to trailing quarter was close to 4.5% to 6%, but Talegaon – Amravati was roughly ~ 13% growth as compared to trailing quarter and that provides us also a good kind of comfort. Going forward, we believe that there should not be any decline on the traffic and it should start improving but the restriction continues.

- Dhiraj Dave:** Thank you for the response, and for this and if I may squeeze one more, particularly on the expected NCDF calculation for next year, I believe there is some kind of amount which was deferred by NHAI particularly for the Tumkur – Chitradurga project, In fact repayment will start probably from FY25 onwards. So, what is an expected outflow and with that expected outflow, what do you see as a distribution kind of it or impact of distribution from FY25 onwards?
- Management:** I think, Sir, based on the current cash flow, we should be able to maintain the distribution of Rs. 8 per unit, however, as CEO sir also suggested that, if you look at our debt which is less than 0.3 of the total assets. The life of the debt is only 7 to 7.5 years as against the balance life of portfolio is ~ 15 years. So, we are trying to balance out both the things because typically the projects are funded through debt or equity and your equity, i.e. the unit capital is costlier than the debt. So, our thought process is that we should elongate the debt tenure to ~ 9 to 10 years so that the distribution to the unit holders should increase. We are working on that lines and once we finalize, probably, the distribution should increase between 7% to 10% from here on i.e. probably will move from Rs. 8 to 9 per unit.
- Dhiraj Dave:** Ok and just a specific question, what is the time of expected NHAI payment of the deferred premium in FY 2025 for Tumkur – Chitradurga project?
- Management:** I think that for FY 2024, we expect to pay close to Rs. 184 crores kind of premium payment and that should increase ~ Rs. 265 crores in FY 2025.
- Dhiraj Dave:** Ok and with that increase, we see that we can make that distribution at Rs. 8/- assuming everything goes as is.
- Management:** Yeah.
- Dhiraj Dave:** Thanks a lot. Wish you all the best.
- Moderator:** Thank you very much. The next question is from the line of Satinder Singh Bedi from EON Infotech Limited. Please go ahead.
- Satinder Singh:** Yeah. Thanks for the opportunity. So, just two housekeeping questions. So, what is the deferred premium outstanding as of December 31, on account of Tumkur – Chitradurga project?
- Management:** Yes, the total outstanding deferred premium is close to Rs. 625 crore at the end of December 2023.
- Satinder Singh:** Ok. At the time of VK1 acquisition, it was estimated that that acquisition should lead to a bump off of about ~ Rs. 20 to Rs. 25 crores in the profits and hence, about



Re. 0.30/- paise bump up in distribution. When do we expect the impact of that to flow in, because the distribution was stable even before that acquisition so any sense on that Sir?

Management: Yes. So, VK1 probably should increase the payout from FY 2025 that is one thing and second thing because of the lower toll collection in Talegaon-Amravati and Pathankot Amritsar project that led some kind of dip in the revenue or else even in this year, we would have paid around Rs. 8.3/- to Rs. 8.4/- per unit to the unit holders.

Satinder Singh: Okay, right, sir and what is the cash retained at the Trust and the SPV level as of December 31?

Management: Total cash and bank balance is close to ~ Rs. 260 crores.

Satinder Singh: Rs. 260 crores okay and which includes the payout, which will happen now.

Management: Yes.

Satinder Singh: Right, Sir. Thank you very much. That is very clear. Thank you.

Moderator: Thank you very much. The next question is from the line of Manish Goyal from Thinkwise Wealth Managers LLP. Please go ahead.

Manish Goyal: Thank you so much. Sorry, I would like to continue on Tumkur – Chitradurga, the deferred payment outstanding is Rs. 625 crores. So, when is this amount to be paid like over what duration?

Management: So, I think the deferred premium should start from next fiscal and will be paid in another five to six years.

Manish Goyal: Because I am just reading the rating report and it says that the deferred premium obligation was approved up to FY 2024 and FY 2025 onwards, we will have to pay the amount. Now if Rs. 625 crore is to be paid over the next six years, then it's additional Rs. 100 crores impact for us in the cash flows. So, in such scenario, also you mentioned that we will be able to maintain distribution of Rs. 8 per annum.

Management: Actually as per the Premium Deferment policy, the entire deferred premium has to be repaid one year prior to the end of the concession, that is how the policy has been framed. However, we are trying our best to repay this deferred premium within six to seven years from now. That will depend based on the cash flow available, and as per policy, the deferred premium must be cleared one year prior to the concession period end date.



- Manish Goyal:** So, when is that ending, sir?
- Management:** The original concession period ends in FY 2037.
- Manish Goyal:** OK. No, I am just little worried in terms of because in opening remarks also it was mentioned that couple of projects are completing their concession in FY 2026, which in turn will also lead to lower cash flows for us and on other side if we have to pay Rs. 100 crores more than just wondering as to how can we expect the payout to remain at Rs. 8 /- per unit?
- Management:** So, I would like to just draw your attention to the Concession agreement and waterfall mechanism. Waterfall mechanism for the Tumkur Chitradurga project says that toll collection less O&M payment, less interest whatever the surplus will be left that will be paid as a premium and if we are able to service the premium and if any amount is left that will be utilized for the deferred premium. So, Trust, what debt Trust has extended to the SPV, that will have a priority over premium that is mentioned in the concession agreement itself. So, whenever the deferred premium will be paid, that will be paid out of the surplus left post the servicing interest to the Trust. So, considering that, I think we should be able to make the payment of Rs. 8/- per unit and probably large portion of the premium will be paid in next four to five years post FY 2025.
- Manish Goyal:** No, I agree Sir. But the point is that on other side, we have been saying that we want to defer our debt schedule payments. So, I am just like wondering that technically for us this liability does exist, and I believe that annual interest rate also we have to keep building on the pending amount and if we probably want to do NPV of the asset, then definitely it will take a hit on our NPV, right?
- Management:** I think if you are deferring the debt that has lower cost than the cost of equity, typically the NPV should increase.
- Manish Goyal:** I am saying that if we settle the Rs. 625 crores number which is anyway we have to pay maybe if we pay after the cash flows improve, but technically we have to pay. So, I am just saying that the NAV what we have disclosed, does it factor this payout of Rs. 600 crore?
- Management:** Yes, yes, the valuer considers the outstanding deferred premium and also interest payable thereon in their valuation model.
- Manish Goyal:** And assuming that if we don't buy any more assets, then probably for us yield to maturity would be what. Today we are paying out Rs. 8/- per unit but if I am

holding till the end of concession of all the projects which probably get over, then what would be our yield to maturity?

Management: I think yield to maturity will be somewhere between ~ 13.5% to 15% depending upon what kind of growth you are assuming in the traffic growth and the kind of inflation you build in your projections.

Manish Goyal: Ok. No, no, what I am trying to say is that we have a definite life of these projects, 6 projects what we have. So, ideally, there is a definite life where probably concession period will get over. So, if we were to build in that with a ~13% or 12% annual growth rate both on traffic and inflation, I am just trying to understand that probably will this Rs. 8/- continue over a life of till the concession is there that is what I'm trying to understand.

Management: Rs. 8/- per unit will continue and probably from later years from post FY 2029 or so, that should significantly increase to ~ Rs. 12/- or Rs. 13/- per unit because at that time substantial part of deferred premium will be paid and distribution will significantly increase in the latter part of the life.

Manish Goyal: OK. So, basically unit holders will get back its capital and in turn probably, that will have the impact on the NAV also and resultant share price.

Management: Yes. So, basically, if I will, I will just give you an example. If you are investing Rs. 70/- today, that is the outflow for you and over the life of concession, the Trust will pay the payout and based on ~ 9.5% revenue growth, the IRR on today's date will be close to ~ 13.5% to 15% what I had discussed.

Manish Goyal: And last question in terms of like we have a lot of room based on our debt equity. So, are we contemplating buying more assets and in turn probably which in turn can help us to increase our payouts?

Management: Yes, we are continuously reviewing the project and at appropriate time we will add the asset. In fact, there are three assets from Sponsor which will become eligible for evaluation to the Trust i.e. two assets by end of FY 2025 and another one asset expected in FY 2026.

Manish Goyal: If you can share broadly the total value of these three assets.

Management: The total value for these 3 HAM assets will be more than Rs. 2,500 crores.

Manish Goyal: Ok, wonderful that will be on the base of Rs. 8,000 crores what you mentioned.

Management: Yes.



- Manish Goyal:** Ok. Thank you so much.
- Moderator:** Thank you very much. The next question is from the line of Yash Dedhia from Maximal Capital. Please go ahead.
- Yash Dedhia:** Good afternoon, sir. So, just to understand one previous point that you have mentioned. So, you have taken as an assumption of around ~ 9.5% basis, around 5% growth in traffic as well as inflation and that is yielding you ~ 13.5% to 15% IRR.
- Management:** Yes.
- Yash Dedhia:** Ok, understood. Secondly, sir, now you know IRB also has some private InvIT with GIC, if I'm not wrong. So, then how do you know when these assets are being developed by the sponsor, how are you deciding which InvIT should take part in this?
- Management:** I think both the InvIT has different objects. Private InvIT is a development platform and GIC has invested close to Rs. 4,000 crores in FY 2020 and till FY2023, there was no distribution and in fact there was additional capital requirement by the Private InvIT which GIC and IRB have already infused. So, it is a development platform where the long-term projects are getting developed in the Private InvIT and those projects will not be suitable for Public listed InvIT because Public InvIT is the vehicle where unit holder expects steady kind of distribution and with a stabilized cash flow, if we can buy some asset which can improve the yield to the unit holder that can be accepted by the unit holder. So, our endeavor is to buy the asset where the balance life will not be too long, but also it will not have negative value because if I will try to buy some toll asset with a 15 to 20 years life that will have a negative carry to begin with and which may not be accepted by the unit holders. So, considering that we are eyeing for the HAM asset and if we can add some toll asset as well, where the distribution to the unit holder should not decrease significantly, those kinds of assets we will be looking going forward.
- Yash Dedhia:** So, you are looking more like some assets which are already matured and maybe have only got 5 years to 10 years of life left.
- Management:** Yes
- Yash Dedhia:** Ok, understood and Sir, there was one media report regarding this Yedeshi Aurangabad Tollway where the arbitration of Rs. 1,720 crore was awarded. So, which entity does it pertain to in IRB group?

- Management:** So, it is a part of Private InvIT, but the large portion of the said amount will flow to EPC contractor i.e. IRB, because it is a construction related compensation and since EPC part was executed by IRB, the amount will be due to IRB.
- Yash Dedhia:** Understood and in our calculations in NAV, you said that the Rs. 625 crores has been adjusted, by the valuation guy. Now what about, you know, do we have some of the arbitration and potential positive outcomes which have also been considered in the calculation of NAV and what are these particular outcomes and what kind of flows can we expect going forward like for example this arbitration award?
- Management:** So, I think that if you have tracked earlier, we have got 518 days of extension in Pathankot Amritsar project and that matter is currently pending before the Hon'ble Supreme Court. Once that order comes in our favour, that will be basically result in extension of the concession period.
- Yash Dedhia:** And apart from that, there is no other positive outcome that we expect out of any of our assets.
- Management:** None has been factored in the valuation report.
- Yash Dedhia:** And this extension of Pathankot, sir, would be of what value or how many years, if you can give some sense.
- Management:** I think Pathankot Amritsar project is doing Rs. 40 to 45 lakhs per day and 518 days should translate around Rs. 225 crore in the current terms.
- Yash Dedhia:** Understood, sir and sir, finally now what we are seeing in the listed universe there are so many players which are not on because of the competitive intensity, they are not doing EPC and now they are doing more of HAM. So, in HAM, you know because of their requirements, they are down selling the assets. So, we have seen a lot of larger players coming out with divestment with other entities. So, are we not able to because there is a willingness from their side to sort of divest these operational HAM assets. So, why are we not able to get hold of some of these assets at a good valuation like what we have been seeing in the news reports.
- Management:** I think if you track the past our concall also, we have also said that we have evaluated more than 25 to 30 assets, which were the third party assets and there the expectation of the players are close to two times of the book and secondly the O&M considered on their project we believe that that is not adequate and that will lead to some kind of bleeding if the Trust acquires those assets. So, unless and until expectation of the seller comes down, there will be no added value to the Trust and there is no meaning to add liability to the Trust.



- Yash Dedhia:** Sir, most of these deals, at least what is available in the public space, has been done around ~ 1.4x or 1.5x book value.
- Management:** I think what we have heard recently that was the last deal which was close to ~ 1.7 because of the size, then definitely that does not provide any kind of upside for the Trust to begin with.
- Yash Dedhia:** But anything in the pipeline for you from the third-party assets.
- Management:** That we do continuous evaluation. If we are able to reach the final stage, definitely we will be sharing those details.
- Yash Dedhia:** Understood, Sir. Thank you and all the best Sir.
- Moderator:** Thank you very much. The next question is from the line of Tanveer Sure, an individual investor. Please go ahead.
- Tanveer Sure:** Hi sir, thank you for taking my question, Sir, I am referring to slide 14 which is the annuity from VK1 HAM sir, so I'm actually a little new to this entire Trust in which, so just trying to understand how do these annuities come in like are we already getting cash flows from this particular project? Is it like on an annual basis?
- Management:** Basically, in the case of a HAM asset post construction completion, the annuities are received on a semi-annual basis. So, there will be 30 annuities which will be received over the period of 15 years.
- Tanveer Sure:** OK and are we already getting it for this project?
- Management:** So, this project was acquired in October last year. So, since then, we have received 3 annuities and we have been getting them on time.
- Tanveer Sure:** So, the chart, so the bar graph that is shown. So, those are the three annuities that you've been receiving, right, and this project is entirely complete?
- Management:** Yeah. It was completed prior to acquisition by the Trust.
- Tanveer Sure:** OK. All right. So, any changes in traffic movement or all of that does not impact this project at all, right? I mean I am guessing this is not a toll collection, so this will just be a fixed amount that will keep coming, correct?
- Management:** Absolutely you are right. So, one portion would be the annuity part which would be fixed amount which will be received on a semiannual basis. Apart from that we



will get interest on annuity which will be linked to bank rate plus 3% and that also will receive on outstanding annuities and O&M payment also.

Tanveer Sure: Ok. So, that is how you keep getting the incremental value from, I mean every year, right.

Management: Yes, you are right.

Tanveer Sure: Ok thank you so much.

Moderator: The next question is from the line of Satinder Singh Bedi from EON Infotech Limited. Please go ahead.

Satinder Singh: Sir, you mentioned about the Trust considering increasing the weighted average life of debt, okay to align it more with the pending concession period. So as to reduce the current interest obligations thereby supporting increase in distribution. By when do we expect this to start playing out in terms of flow into distribution?

Management: I think we are still in talks with the lenders and probably by the end of this financial year, we should be clear about what kind of improvement it should lead to distribution. I think from now one quarter, we should be able to inform the unit holder.

Satinder Singh: Right, sir, I think it's a great step and I would urge the management to look at this keenly because I think it's a great step in terms of improving distributions and what is the current cost of funds as of December 31, exit rate?

Management: 8.7%.

Satinder Singh: 8.7%. OK and so there was a pending arbitration at Pathankot Amritsar. Any update on that? We probably had about ~ Rs. 40 to Rs. 45 crores of expectation from that settlement. Any update on that, Sir?

Management: The interim amount only has come now. So, in that arbitration, certain amount has been declared as payable. So, the calculations are supposed to be done by both the parties and then shared with the arbitrator who will decide the final payout amount. So, that is still in progress. We are expecting the final award in the coming month.

Concession has been increased, that is for sure. Concession period would be increased by 472 days.



- Satinder Singh:** Okay yeah that's fine and this on the annuities again just a housekeeping question like we payout distributions on a quarterly basis while this annuity received every six months so how do we account for this in terms of? How do we even out distributions given that this inflow happens every six months while our payouts happen quarterly?
- Management:** No, so the Trust has been charging interest to the SPV company and that distribution is happening to the Trust on monthly basis and the annuities are issued on semi-annual basis but corresponding the principal repayment at the SPV level that is also happening on semi-annual basis.
- Satinder Singh:** OK, fine get it. Thank you very much. All the best.
- Moderator:** Thank you, Sir. Ladies and gentlemen, this concludes your conference for today. We thank you for your participation for using the Research Byte Conferencing service. You may please disconnect your lines now. Thank you and have a great day.