



IRB InvIT FUND
Q3 FY25 Earning Conference Call – Edited Transcript - January 28, 2025

Moderator: Good morning, ladies and gentlemen, and welcome to the IRB InvIT Call hosted by the Company for discussing the Financial Results for the Quarter Ended December 2024.

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 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. Rushabh Gandhi to give you an overview of the significant development during the quarter. Thank you and over to you, sir.

Rushabh Gandhi: Thank you. Good morning to all. We would like to welcome all the investors and the analysts on the call, hope you have reviewed our detailed numbers as well as the presentation.

During the quarter, we observed traction in traffic across the portfolio. We've witnessed a notable surge in toll collections, driven primarily by robust traffic growth. Specifically, our key traffic corridors have shown significant YoY growth: a 7% traffic growth in Tumkur-Chitradurga project, 9% traffic growth in Jaipur Deoli project, and 5% traffic growth in Talegaon Amravati project. This strong traffic growth underscores the steady expansion of our traffic base.

The farmers' protests in Punjab indeed caused disruptions to toll collections, including the Amritsar Pathankot project, in the month of October and November 2024. As per the provisions of Concession agreement, we are eligible for a relief consisting of 50% reimbursement of interest and O&M costs, plus a corresponding extension of the concession period for the duration of the disruption.

We have filed claims under the Force Majeure provisions of the Concession Agreement. We have received compensation for past disturbances, which further mitigated the impact of these events.

Despite these temporary disruptions, we are pleased to announce a distribution of Rs. 2 per unit for the quarter ended December 31, 2024. This distribution comprises:

- Rs. 0.74 per unit as interest
- Rs. 0.24 per unit as dividend
- Rs. 1.02 per unit as return of capital

Till date, since the Trust's IPO in FY18, its cumulative distribution has reached Rs. 4,200 crs (Rs. 72.35 per unit), i.e., more than 71% of the aggregate fund raised.

During the current quarter ended December, 2024, Dividend has been distributed by MVR 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 unitholders.

During the quarter, the Investment Manager, acting on behalf of the Trust, received a preliminary and non-binding offer from IRB Infrastructure Trust regarding a potential acquisition opportunity. The proposed acquisition encompasses five completed and revenue-generating BOT projects, with a weighted average residual life of ~21 years.

As per the independent valuer's report of IRB Infrastructure Trust, the Enterprise value of these assets is approximately Rs. 15,000 crores. The Investment Manager is currently evaluating this opportunity on behalf of the Trust.

I will now take you through the financial performance for the quarter ended December, 24 as compared with quarter ended December, 23:

Despite the temporary disruptions experienced, the total consolidated income for the quarter ended December, 24 stood at Rs. 282 crores as compared to Rs. 283 crores for the quarter ended December, 23.

The consolidated toll revenues for the quarter ended December, 2024 stood at Rs. 238 crores as against Rs. 233 crores for the quarter ended December, 2023.

EBITDA for the quarter ended December, 2024 stood at Rs. 231 crores as against Rs. 210 crores for the quarter ended December, 2023.

Interest costs (including interest on premium deferment) for the quarter ended December, 2024 stood at Rs. 76 crores from Rs. 69 crores for the quarter ended December, 2023.

Depreciation including amortization for the quarter ended December, 2024 stood at Rs. 61 crores as against Rs. 58 crores for the quarter ended December, 2023.

The PAT for the quarter ended December, 2024 stood at Rs. 91 crores as against Rs. 81 crores for the quarter ended December, 2023.

Now, I will 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 from Dhiraj Dave from Samvad. Please go ahead.

Dhiraj Dave:

So, my first suggestion and kind of request to the management, which has been also done multiple times in past, please upload the presentation on BSE or NSE. Your presentation is uploaded on your website, which is fine, but

basically, we need to take all efforts to visit the website and then check again and again, and then we come to know at one fine time that the presentation is uploaded. The second one is, please keep Chorus Call Service for Diamond registration, Diamond pass registration. It makes life simpler, we need to wait for five minutes, and it makes everybody's life simpler. Everybody is implementing all REIT, hybrid security listed, you will find Chorus Call only, my humble request, please look into it Thanks a lot, wish you all the best.

Moderator: We move to the next question. Next question is from Sunit Dundole, who is an Individual Investor. Please go ahead.

Sunit Dundole: Sir, I just had two primary questions. One was about a potential timeline for the acquisition of the offer that was given by IRB Infrastructure Trust. And that would kind of encourage the Trust, to buy more vehicles for essentially like an asset class that has an expiry date unlike REITs, REITs you essentially own the building forever. InvITs which you only have the Concession period for so many years. So, like an encouragement to acquire them earlier and more roads would be encouraged. And second is a suggestion from my side, as many people are not yet aware about InvITs, even though they might be potential investors. Now many potential investors are driving on these very roads without knowing that there's an investment opportunity. So, I come from Bangalore and I see, very close to the tech parks a big banner about a REIT put up something like that, where you are driving on India's first road InvIT is encouraged, so that more retail investors get to know about this, because many people from my own family, I have told them about this InvIT and they utilize these very roads very, very often.

Management: Thank you for your suggestion. We plan to educate commuters on the road that it is owned by InvIT, and provide adequate information at our toll plazas.

Regarding the life of the Public InvIT, you are correct that it currently stands at 14 years. However, if we successfully add the five new assets, the weighted average life will increase to approximately 19 years. This will indeed provide a significant extension to the InvIT's lifespan.

Moderator: Thank you. The next question is from Vivek Surekha, who's an Individual Investor. Please go ahead.

Vivek Surekha: So, first question from my side is, for these five assets which has been offered, let's assume we are going to invest in those assets. So, how is the funding look like in assuming we are buying out on this Rs. 15,000 crores as such, how are we planning to fund that?

Management: The Management is still evaluating and considering the current size of the InvIT, the entire acquisition cannot be funded through debt. EV is Rs. 15,000 crores so projects have roughly close to Rs. 7,000 crores of debt, which means the equity value is closer to Rs. 8,000 crores. And that Rs. 8,000 crores need to be funded in the form of debt and equity. But as of now, we are evaluating these assets, once we finalize, we will share with the unitholders.

Vivek Surekha: Thanks. And these five assets include the two assets which were going to be made available to us as per the last concall or are these over and above that?

Management: We have three HAM assets with our sponsor that are expected to be completed within the next two years. These assets will become available for acquisition by Public InvIT. The expected timeline for their completion and availability is as follows:
- Two assets: Operational by FY26
- One asset: Operational by FY27

Vivek Surekha: Okay. And if I can ask one more question, do we have any timelines for these five assets from a Management perspective. I know we are evaluating that, but is there any broad timeline by which we would be able to make some decisions around it?

Management: The process involves a detailed evaluation, which is currently underway. We have engaged an independent traffic consultant to conduct a traffic survey, and their report is expected shortly. Once received, we will begin engaging with potential investors. Additionally, we need to obtain certain regulatory approvals. The entire process typically takes six to eight months. With nearly two months already completed, we anticipate closing this transaction within the next five to six months.

Vivek Surekha: Operator, can I ask one more question, or should I come back in the queue?

Management: Please go ahead.

Vivek Surekha: In the last concall what I heard from the management was, we are looking at a DPU increase, maybe up to Rs. 8.50 to Rs. 9.00 per unit over the next two years. Looking at the current situation, can you give any guidance for the next year, or should we wait for the first quarter of next financial year?

Management: For this financial year, as previously discussed, we expect to pay close to Rs. 8.00 per unit i.e. within the range of Rs. 8.00 to Rs. 8.50 per unit. This is due to the two-month disturbance on the Amritsar Pathankot project.

For the next financial year, our unit payment will depend on whether we proceed with the acquisition. We will provide guidance on this after the Q1 results, by which time we expect to finalize the acquisition.

Moderator: Thank you. The next question is from Vaibhav Shah from JM Financial. Please go ahead.

Vaibhav Shah: Sir, firstly on the traffic growth numbers, you mentioned that Tumkur had a growth of 6% right?

Management: Tumkur traffic growth stood at 7%.

Vaibhav Shah: And Talegaon and Jaipur had 4% and 9%?

Management: Traffic growth for Tumkur was 7%, Jaipur was 9% and Talegaon Amravati was 5%.

Vaibhav Shah: Okay. And sir secondly, on the Amritsar Pathankot, there was a disturbance in October and November of roughly two weeks each in both the months. So, has

there been any disturbance in the month of January and do we envisage any disturbance for Q4?

Management: For the month of January, we have not experienced any disturbances.

Vaibhav Shah: Okay. And sir secondly, if you look at the like-to-like toll collection growth for the third quarter, it was around 2% mainly impacted due to disturbance in Amritsar and collection in MVR. So, how do we foresee the growth in Q4?

Management: Traffic growth will be closely linked to economic activity. We've seen robust growth in three of our projects, and Amritsar Pathankot would have likely followed suit if it hadn't been impacted.

For MVR, with only two years of concession life remaining, we're not seeing significant traction between the two cities, and therefore expect lower growth compared to our other projects.

However, on a portfolio basis, if India's GDP growth remains between 6% to 6.5%, we anticipate achieving traffic growth of around 5.5% to 6.5%.

Vaibhav Shah: So, can we expect growth to remain similar in Q4 as it was in Q3 for Amritsar and MVR the other three projects?

Management: Yes. I'd like to add that regarding the Amritsar Pathankot project, we have adequate provisions in place to address any disruptions caused by the agitation. As Sh Rushabh mentioned earlier, our Concession agreement provides for compensation, including 50% of interest and O&M costs, as well as an extension of the concession period equivalent to the number of days lost. This provision effectively mitigates our losses and ensures that the project remains financially neutral from an IRR perspective.

Moderator: Thank you. The next question is from Mohit Kumar from ICICI Securities. Please go ahead.

Mohit Kumar: Two questions on my side. One is, what is the expected tariff hike from April 25 on the road front?

Management: It is expected to be close to 3.5%.

Mohit Kumar: You said that you are looking to acquire these five assets, is there a potential chance of acquiring only a few assets, with debt only?

Management: Mohit, currently, the offer is for a bundle of five assets. However, given the six to eight months' timeline for completion and the various regulatory approvals required, it's likely that acquiring the entire bundle will be the most commercially viable option, as the assets are being offered together.

Moderator: Thank you. The next question is from Dhiraj Dave from Samvad. Please go ahead.

Dhiraj Dave: My one question basically, what is the kind of payment? Do we have made any payment to NHAI for the deferment premium in the Tumkur Chitradurga during FY25?

Management: We have made the premium payment of Rs. 265 crores as stipulated in the original concession agreement.

Dhiraj Dave: Okay. So, how much was the cash outflow because of that during FY25 or nine months FY25?

Management: It will be close to Rs. 200 crores.

Dhiraj Dave: And do we expect a significant jump in FY26 on that item?

Management: It will depend upon the cash surplus available at the SPV Company for the next financial year.

Dhiraj Dave: Fair enough. So, based on that cash surplus we will adjust and kind of it. Second request would be basically in the presentation, when we get three months NCDF and nine months NCDF, actually speaking we can't compare so basically, it would make sense to add last year also, so that we can compare it. Otherwise, I need to open previous presentation, so just one suggestion is also include the base of last year, so that we can compare them. And the last observation, which I had is, MD has said that the delay in Pathankot is going to be IRR neutral. I just want to say we are distributing Rs.8 per unit on price of Rs. 62 or Rs. 63. The opportunity cost is not whatever your cost of funding is. So, any kind of delay, unless we become kind of our NAV and trading price comes neutral from market perspective, while you are right on accounting perspective, that your cost is a 9% and you will be getting 9% but the real cost of borrowing in market terms is 13% to 14% because unit is trading at discount to NAV. So, your IRR, any delay is going to be positive if you are trading at more than NAV from a market perspective. But if it is trading at discount to NAV, then it is negative for us. So, we should either try to improve our NAV about that and then we are very happy because then what MD is saying I am completely in agreement. At NAV or premium to NAV, what we are gaining is any delay is good for us. But when situation where we are, when we are trading at a discount to NAV, it is very critical for us to get cash flow, because we would discount at 13% to 14% or at least market will discount a 13% to 14% for us and not at 9%. There is just one observation, please take that in mind so basically, we are not happy to delay because that's going to kill our NAV, in fact, it will end further discount to NAV.

Management: When I mentioned IRR neutrality, I'm referring to the typical IRR range for these projects, which is between 16% to 18%. This range serves as a threshold for NHAI, and it's the basis for the initial financial model submission. So, to clarify, our IRR discussion pertains to this 16% to 18% range i.e. Equity IRR, not the debt cost like 8% or 9%.

Dhiraj Dave: Okay. And just last thing, this HAM asset which we acquired, has it performed as promised because I don't find any addition, while I understand there has been some disturbance in Pathankot, and it would have taken cash outflow. But

the point is that HAM asset, did it perform as per expectation of Management, the Vadodara-Kim HAM asset?

Management: The HAM asset has generated better-than-expected annuity receipts, which have been duly distributed to the Trust. However, the disruption in the Amritsar Pathankot project has had a netting-off effect.

To provide additional context on the HAM asset, at the time of evaluation, the bank rate was relatively low. Subsequently, the bank rate increased by 50 basis points, and the interest on annuity received from NHAI also rose by 50 basis points. Notably, the project has performed better than our initial expectations at the time of acquisition.

As I mentioned earlier regarding NDCF, SEBI has revised the reporting format for the current financial year. Consequently, we couldn't provide a comparative analysis this time. However, we will definitely provide the comparison from next year onwards.

Dhiraj Dave: Sir, if you look at all REIT/ InvIT it would have changed for everybody. At least you can put a note. See, that's fine that last year, there was a different disclosure, or something, whatever kind of it. We cannot even compare that base is also different. So, in fact, you are the best people, whatever is best disclosure, you would be the best person to take a call. But do we give comparative whether there is a growth, de-growth how do we know?

Management: Thank you, we will take your suggestion into consideration.

Dhiraj Dave: Thanks. And do we have any reserve, last question before I, do we have any kind of reserve, we distributed almost 100% of NCDF, or we kept some buffer?

Management: So, the reserve will be close to Rs.25 to Rs. 30 crores.

Moderator: Thank you. The next question is from Vivek Surekha who is an Individual Investor. Please go ahead.

Vivek Surekha: So, my question is on the cash surplus, which we are holding its overall Rs. 23 crore or that is only for this quarter?

Management: So, an additional Rs. 25-30 crores will be accumulated, over and above the DSRA and MMR reserves that we already maintain.

Vivek Surekha: So, our current debt to equity is 0.3, my question was, what is the additional buffer we have to acquire new assets without raising equity?

Management: So, additional buffer for debt would be close to 2,500 crores.

Moderator: Thank you. Next question is from Saurabh Chitare, who is an Individual Investor. Please go ahead.

Saurabh Chitare: So, I have got a couple of questions. One is, what is the rate of interest that we are paying for the debt?

Management: It's close to 8.7%.

Saurabh Chitare: And considering that we are 'AAA' rated and everything seems to be like strong balance sheet. I am just comparing with the other InvITs, they are paying close to 8.15% so is there, and we also did refinancing. So, was there any opportunity that we have may have missed or something on those lines, or it's like this is the best rate that we got?

Management: Our interest rate is linked to MCLR, so we'll benefit from any future reductions. Previously, our interest rate was around 7.25%, and we'll see a decrease in line with MCLR changes going forward.

Saurabh Chitare: Okay, so it's not fixed rate. So, in that, how much is fixed and how much is variable, or everything is variable, everything is linked to MCLR?

Management: Everything is variable i.e. linked to MCLR.

Saurabh Chitare: Okay, got it. And my other question was, if I look at slide number #16 in presentation, in that, I can see that the cash earnings per unit is Rs. 7.8 for nine months for FY25. So, for my understanding, as per the model, 90% of the profit should be distributed. Which components are getting added here, obviously we are all, like we are distributing six, which does not come to 90% so which other things that need to be excluded or I should not be looking at that at all?

Management: This amount will be reflected as per profit and loss account. However, the premium payment is not accounted for here. To clarify, Rs. 200 crores we're seeing includes a nine-month premium payment that needs to be excluded.

Saurabh Chitare: Okay, got it. So, does premium payment not come here?

Management: That's correct.

Moderator: Thank you. Next question is from Ashok Shah from Eklavya Invesco Family Office. Please go ahead.

Ashok Shah: Sir, five assets has been offered by the parent. So, can you just throw some figure or ball point figure, what the investment will be and how it will be profitable or if you can give some idea about it?

Management: As disclosed, the total asset value is approximately Rs. 15,000 crores, comprising roughly Rs. 6,500 crores of debt and around Rs. 8,000 to 8,500 crores of equity value, as per the last valuation report. We are conducting our own evaluation, having appointed an independent traffic consultant. Once we finalize the key aspects, we'll be able to provide more detailed information.

Ashok Shah: Sir, the assets are from Private InvIT itself, or it's from the parent side?

Management: The assets are being offered by a Private InvIT, whose shareholders include IRB with 51% ownership, Government of Singapore affiliates with 25%, and Ferrovia with 24%. Once we assess the offer and receive Board approval, it will subsequently be presented for unitholder approval.

Ashok Shah: Sir, ours is the first InvIT, and the Sponsor had not offered this to us and it was converted into Private InvIT by some offer to the other investors and again that InvIT is sharing to us, so why such a route is taken and not directly it is given to us?

Management: Excellent question, sir. The Private InvIT served as a development platform for these assets when IRB initially won them, and they were under construction. At that stage, they weren't revenue-generating and, as per Regulations, couldn't be part of the Public InvIT. Consequently, they were part of the Private InvIT, initially funded by IRB and GIC, with Ferrovia Group joining later. Now that these assets have matured, they're being offered to the Public InvIT by the Private InvIT.

Ashok Shah: Sir this is the latest offer, earlier we had acquired something, some assets three to four years back by taking some loans. So, that asset is also net level profit making, or it's still in loss?

Management: Sir, as I mentioned earlier, the asset is actually performing better than our initial guidance, and it's contributing to the payouts to our unit holders.

Ashok Shah: Okay, so earlier interest rate 7.7% approximately, has increased to 8 plus interest rate, but still it's making profits?

Management: Yes.

Moderator: Thank you. The next question is from Satinder Singh Bedi from Eon Infotech Limited. Please go ahead.

Satinder Singh Bedi: My question was regarding the distribution. So, now the distribution character is undergoing a change, in the sense that it is becoming more tax efficient because of the dividend component and the capital reduction. So, what's the Indicative breakup of the distribution for FY26, like what percentage, what part should be dividend and what percentage could be reduction in capital please, indicated for FY26?

Management: For FY26, we're unable to provide guidance at this time due to the potential addition of new assets, which will alter the payout dynamics. However, for Q4, we anticipate a similar distribution pattern and breakdown.

Regarding MVR, as it approaches the end of its concession period, the asset continues to generate significant profits. Consequently, we'll distribute dividends, which will be exempt in the hands of unit holders, given that the asset follows the old tax regime.

Satinder Singh Bedi: Okay, fine so that gets clarified. And this debt, I assume it will be linked to MCLR, it will be a floating rate, so what we reset so in case like February 7th, the anticipated repo rate cuts happen, when will the benefit of this start flowing to us on the cost side?

Management: Our interest rate is linked to the three-month MCLR. As and when the MCLR is reduced, we'll automatically receive the benefit. The pass-through will occur at regular intervals, following any MCLR rate cuts by the bank.

Satinder Singh Bedi: Okay. So, our next reset would be 1st of April, I assume, is that a correct understanding?

Management: It would be mid-March.

Satinder Singh Bedi: Okay. And our Jaipur Deoli and Tumkur Chitradurga projects showing handsome traffic traction. So, do we expect that to continue going forward, or any challenges we see here, because we have seen good growth in the last few months now?

Management: We anticipate that our growth momentum will continue.

Satinder Singh Bedi: Has Talegaon Amravati come back? So, there was a flyover or whatever which was getting built up, because Talegaon Amravati still seems slightly on the weaker side. So, is all the interruption over or some part still left?

Management: We've observed that a significant portion of the project is now complete, which is also reflected in the toll collection data. Notably, the average toll collection for December was higher as compared to previous periods.

Satinder Singh Bedi: Okay, finally sir on the Pathankot Amritsar, so there's a compensation metric. Could you just amplify so what is the compensation mechanism, it is extension by equal number of days, +50% of?

Management: 50% of operation and maintenance costs and finance costs and 100% of extension in Concession period.

Moderator: Thank you very much. We will take that as the last question. I would now like to hand the conference over to Ms. Swapna Vengurlekar for closing comments.

Swapna Vengurlekar: Thank you all for joining this call. We appreciate your participation. If you have any further questions, please don't hesitate to reach out to us. Thank you.

Moderator: Thank you ma'am. Ladies and gentlemen, this concludes your conference for today. We thank you for your participation and for using Research Bytes Conferencing Services. You may please disconnect your lines now. Thank you and have a great day ahead.