

IRB InvIT Fund

Q1-FY22 Earnings Conference Call – Edited Transcript August 9, 2021

Moderator: Good morning ladies and gentlemen, and a very warm welcome to the IRB InvIT Call hosted by the Company for discussing financial results for Q1 FY22. We have with us today on the call 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. 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. Very Good Morning to everyone. I would like to welcome all the investors and analysts on the call. Hope you have reviewed our detailed numbers as well as the presentation. From April, 2021, various state governments have imposed restrictions on travel, considering the rise in COVID cases, and this has led to softening in toll collections in the months of April and May, 2021 to the extent of around 20 to 25%. We have seen improvement in the toll collections from the second week of June 2021. The toll collection in July 2021 is encouraging in spite of the partial restrictions imposed by various state governments and the heavy rainfall in the month of July 2021. As per the provisions of the concession agreement, we are eligible for the extension of concession period if the toll collection drops below 90% of the average collection before such intervention. We have filed our claim for the extension of time across all projects and remission of premium. Across projects, we have witnessed 36% growth year-on-year for Quarter 1 FY22, after eliminating the impact of 19 days of complete toll suspension in the last year and excluding the Amritsar-Pathankot project where tolling is temporarily halted due to the farmers' protest. This reflects that the impact of second wave of pandemic was far lower as compared to the first wave.

For the portfolio, the numbers would have been stronger had AP BOT also contributed to the same. Due to the ongoing farmers' protest tolling for the project has been halted since the beginning of October, 2020. NHAI has come out with a circular covering farmers' protest under force majeure clause of the concession agreement, whereby they will be paying 50% of the O&M and the interest cost as reimbursement in cash and an extension in the concession agreement to compensate for the revenue loss during the toll suspension period in line with our expectation, and as communicated to you all and the unit holders during our last concall. Based on the circular, we expect to receive cash compensation to the extent of 75% of the claim amount immediately. This will help to improve pay out to the unit holders.

Our per day collections have improved to over Rs. 3.7 crores for the quarter ended June 2021, even without any contribution from the Amritsar-Pathankot Project, as compared to Rs. 2.96 crores per day for the quarter ended June 2020 considering the operational 72 days only.

We have received toll rate revisions in Jaipur-Deoli, Pathankot-Amritsar, Tumkur-Chitradurga and Talegaon-Amravati Projects at the rate of approximately 3.9% applicable from April 1, 2021. Bharuch-Surat rate revision was to the tune of 7.9% applicable from July 1, 2021. Surat-Dahisar and the MVR project rates revision will be applicable from 1st of September 2021.

We have seen a spurt in the toll collection in 3rd Quarter and 4th Quarter of the previous year. Similarly, we expect growth in the toll collection once restrictions imposed by the state governments are lifted.

With high single digit GDP forecast, we expect to deliver around 10 to 12% growth in the revenue for FY22 in spite of the soft collection in the 1st Quarter.

Considering the collection trends as seen during the recovery post second wave of COVID, we expect to generate stronger cash flows for the ensuing year, which along with the compensation for the Amritsar-Pathankot on account of farmers' protest will lead to a higher distribution for FY22 more than 8.5 per unit undertaken for FY21. As already disclosed to the unit

holders, we have received an Arbitration Award from the Hon'ble Tribunal for Amritsar-Pathankot project, which if and when implemented by NHAI would provide extension in concession period of 518 days, which will accrue to SPV and the Trust.

With respect to the addition of assets to our InvIT, we are on track to add at least one project by the end of FY22. Based on the recent update, NSE and BSE have reduced the trading lot size of the Trust from existing 2,500 units to 1 unit, which shall be effective from 11th of August 2021.

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

Rushabh Gandhi: Thank you sir. I would like to present the financials analysis for the quarter ending June 21, compared with the corresponding quarter of previous year, June 20.

The total consolidated income for quarter ended Q1FY22 increased to Rs. 337 crores from Rs.198 crores in Q1FY21. The consolidated toll revenues for quarter ended Q1FY22 increased to Rs. 249 crores from Rs. 167 crores in Q1FY21.

EBITDA for quarter ended Q1FY22 increased to Rs. 275 crores from Rs. 141 crores in Q1FY21.

Interest costs (including interest on premium deferment) for quarter ended Q1FY22 decreased to Rs. 35 crores from Rs. 38 crores in Q1FY21.

Depreciation for quarter ended Q1FY22 increased to Rs. 129 crores from Rs. 80 crores in Q1FY21.

The PAT for quarter ended Q1FY22 increased to Rs. 108 crores from Rs. 24 crores in Q1FY21. I would now request the moderator to open the session for Q&A.

Moderator: Thank you very much. Ladies and gentlemen, we will now begin the question and answer session. The first question is from the line of Ashish Shah from Centrum Broking. Please go ahead.

- Ashish Shah:** My first question is on the Amritsar-Pathankot project. Do we have any visibility now? What is the thought process on resuming the toll collection or still there is no timeline or clarity on the same?
- Management:** With respect to the Amritsar-Pathankot Project, the farmer agitation is on-going and, which will take some time to get resolved. But good thing has happened that NHAI has come out with a circular for losses due to farmers agitation. Based on this circular and provisions of Concession agreement, we expect to receive reimbursement for 50% of interest and O&M costs.
- Management:** I will add to it. There will be extension to the concession period also to keep NPV neutral.
- Ashish Shah:** Which will be computed based on for how many days the toll falls below 90%?
- Management:** It would be the same since the toll collection was suspended for the entire period and if the toll collection is zero, number of days of suspension will be equal to the number of days of extension.
- Ashish Shah:** And by when do we expect this money will be released, this compensation? Can we expect that to be released within this quarter?
- Management:** 75% cash compensation will be released immediately. That is what the circular says and it has already reached the highest level of approval.
- Ashish Shah:** Secondly, on the addition of asset to the portfolio, we have indicated we want to add one asset by the end of this year. So, are we looking at a toll asset? Are we looking at HAM asset? What is the thought process, if any you can share?
- Management:** In last 1-1.5 years, in terms of the toll collection 1st wave of Covid had an impact and thereafter, post that in 3rd and 4th quarter, we have seen a strong recovery. But thereafter the 2nd wave of Covid also impacted the toll collection. So as of now, we are not looking at toll assets till the toll revenue stabilizes or else it can be a deterrent to the unit holders. We will be eyeing for addition of HAM projects in trust, at least one HAM asset before end of this financial year.

- Moderator:** Thank you. The next question is from the line of Mohit Kumar from DAM Capital. Please go ahead.
- Mohit Kumar:** There are two questions. Firstly on Pathankot-Amritsar. So the amount that we have recognized in the revenue is Rs. 71 crores. I believe this is only for the 50% of the number which the NHAI has indicated. Is the understanding right?
- Management:** Yes Mohit.
- Mohit Kumar:** And close to 10 months, right, 10 months of compensation.
- Management:** Yes, close to 9 months of the compensation.
- Mohit Kumar:** Secondly on this, what is the kind of tariff hike expected in the Surat-Dahisar from which happens in September, if I am not wrong.
- Management::** The tariff rate revision for the Surat-Dahisar project would be close to 1½ %, which will be effective from 1st September and the other project Omalur-Salem, the tariff rate revision would be close to 7.9%.
- Mohit Kumar:** And thirdly given the fact that there was a reduction in traffic in Q1 FY22, is there any chance of extension of Surat-Dahisar and Bharuch-Surat to compensate that? Is it possible or no?
- Management::** Mohit, as we have discussed in the last con call and as part of the management commentary in this con call, if the traffic falls below 90% during the Force majeure event, proportionate extension in the Concession period has been provided in the Concession agreement. In fact, our federation has shared a letter, which is addressed by NHAI to the Ministry to provide the extension in line of the concession agreement. Accordingly, till the time we have less than 90% of the toll collection, we expect the extension in concession period in all concessions, including the Surat-Dahisar and Bharuch-Surat as well.
- Mohit Kumar:** When do you think you will get the clarity?
- Management:** In a couple of months, we will have the clarity in place.

Moderator: Thank you. The next question is from the line of Rishab Dalal from Pravin Ratilal Shares and Stock Broking. Please go ahead.

Rishab Dalal: My question is also on the addition of assets only. So, your 55% of the revenue does come from Bharuch-Surat and Surat-Dahisar, and in the investor presentation you mentioned that, the end of concession period will be April and May 22. So the first question is, so what kind of anticipation do you see? I mean, how long can it be in our portfolio? And after the extended concession period ends, do you plan to rebid for the assets or, if the new asset is going to come, will it be able to compensate for the kind of share of NDCF it has in the current portfolio?

Management: Firstly, with regard to the concession period end date, the concession period end date in corporate presentation is without factoring the impact of 2nd wave of Covid. We will get extension in concession period on account of the 2nd wave of covid impact. End Date referred in corporate presentation only factors the wave one compensation. With respect to your other question with regard to Surat-Dahisar and whether those projects can be rebid. Definitely if those will come for the toll collection then, the Trust can rebid. But if it will come for the construction along with it, then Trust, depending upon the size of the project may or may not be qualified to bid because, Trust being a Public Trust cannot have an asset more than 20% under construction in terms of enterprise value of the assets. It will depend on that particular type and as explained in the earlier query, we are trying to add one or two HAM asset every year and probably one HAM asset in this year also.

And, third question with regard to the pay out, after projects like Surat Dahisar goes off, without assuming any new addition/ any further extension in the current concession period, based on the projections provided in the valuation report (available in the public domain), minimum pay out would be in the range of Rs. 8.50 to Rs. 9 every year, based on those numbers.

Rishab Dalal: So, if I am understanding correctly, you mean to say that without any addition, but considering the new HAM asset that will come in the portfolio, you will be able to pay out Rs. 8.5 to Rs. 9 and, Surat-Dahisar and Bharuch-Surat will not be in our portfolio. Is this the correct assumption for that Rs. 8.5 or Rs. 9 distribution pay out that you are talking about?

- Management:** Yes, you are absolutely correct, except that I am not considering even HAM asset additions also. Without any addition neither toll asset nor HAM asset we should be able to pay between Rs. 8 and Rs. 9 even after Surat-Dahisar and Bharuch-Surat goes off the table. This is based on the number provided by the independent valuer in their valuation report.
- Rishab Dalal:** So only from the remaining five assets the Tumkur-Chitradurga, Jaipur-Deoli and all those we will be able to generate a distribution per unit of Rs. 8.5 to Rs. 9? Is that understanding correct?
- Management:** Yes.
- Rishab Dalal:** And just a follow up to what you said. So, you said that the Trust might bid for Surat-Dahisar and Bharuch-Surat or the Trust might not. So at what point of time in this financial year can we get an idea whether the Trust will be able to bid or will not be able to bid considering that we need only 20% of the assets under construction?
- Management:** Till the bids are not out, we will not be able to provide any colour on that. So whether NHAI has the intend to award that particular asset again, or they have a different intent because NHAI has also come up with their own InvIT. This project may form part of their own InvIT as well or this can form part of some BOT. So it will be decided in future and today we should consider that trust might not able to bid for those projects.
- Rishab Dalal:** But can we get an idea at least by the end of December or so? A rough idea, whether we will be able to bid or not?
- Management:** If NHAI comes out with a tender, we will be able to inform to the unit holder. But if there is no bidding strategy by the NHAI, we will not be able to commit by December as well.
- Management:** Basically these projects are ending in May 2022, right. So NHAI would not be able to come up with a tender before the end of the project.
- Rishab Dalal:** And just a small humble suggestion from me. Now there are InvITs where even pension funds are investing into those InvITs. So, I think if we as an InvIT fund, if we can disclose more about what are the new assets we are

planning to add, I think we can also get more marquee investors into our InvIT also. This is just a humble suggestion from my end. I am sure that the management is capable and will consider this.

Management: Definitely, we will try to consider that. However, if we include on basis of preliminary discussion that may not be appropriate. But anyway, we will discuss internally and if it is feasible, then we will include that.

Moderator: Thank you. The next question is from the line of Ruhi Pabari from Reliance Nippon Life. Please go ahead.

Ruhi Pabari: I have two questions; one is with respect to the DPO which is announced for this quarter at Rs. 1.80 per unit. So please correct my understanding if it is so. So the decline is basically with the cash flows in form of interest which is received from the SPV is comparatively less than what was received at the same period last year, and there is, I think you have also mentioned that some Rs. 33 crores roughly is due but not received. So I wanted to understand that these are from which assets and by when you expect this to be received? And what is the reason for this delay? Secondly that, do we have this strategy of creating reserves or something like that, so that we do not have fluctuating DPOs. We have a smoothening of DPOs for that. So that is my first question.

Management: So, coming to your first question with regard to the pay-out, the corresponding quarter of the last year, we have paid Rs. 1.5 per unit, because of the wave one of pandemic, the toll collection was impacted and last year in first quarter call also, we have said that Rs. 0.50 per unit, we have paid out of the retention. So the actual pay out was close to Re. 1.00 in the Q1 of FY21. Now coming to Q1 of FY22, we are paying out Rs. 1.80, and as in the opening remarks, we have provided that impact of wave II in April, May and in fact, first fortnight of June also, the number were impacted in the range of 20 to 25%. This has led a lower collection as well. Now, third question with regard to one SPV is not able to pay out the interest. As we have informed last time also, there is an embargo on the escrow account because of some minor dispute with NHAI. Once that freeze is removed, then we will be able to pay out this interest also and probably in this quarter or next quarter that is expected to be released and plus we will get compensation amount for Amritsar-Pathankot. So I think, with that we will be able to better the pay out

than what we did last year. Last year we have paid around Rs. 8.5 per unit and we should be able to better in this year.

Ruhi Pabari: So sir, what I understand is basically, since the collections were better than the same period last year, the money is there but it is stuck in the escrow accounts and hence, it is not received to the Trust. Is that correct?

Management: Yes to the extent of Rs. 30 crores of surplus.

Ruhi Pabari: And sir with respect to, do we have this strategy or the policy of creating some kind of reserve? Like you said last year 0.50p was paid from that retention money. So, was something like that also done this year as well, or no?

Management: So from last year post the first quarter result, we have started distributing close to between 90 to 95% to the unit holder and we are creating a reserve for the unit holder. As this year also, a surplus will be created out of the collection of this year and close to Rs. 1 to 2 of surplus per unit. So, by end of this fiscal we will have a roughly total cash balance of roughly Rs. 200 crores.

Ruhi Pabari: And our DPO guidance for FY22 is almost at a similar level as FY21 or something different than that?

Management: We expect it to be better than the FY21 numbers.

Ruhi Pabari: My second question is with respect to the asset acquisition. If you can throw some light with respect to if there is any asset which is short listed or anything, the HAM project which you were mentioning about. Secondly, also wanted to understand sir, what is the strategy in terms of, because there is a one private InvIT as well. So that has I think more operating assets in that InvIT and here we have seven and the two are almost likely to end the concession periods in FY23 beginning only. So, what is the strategy in terms of how do we allocate these assets? Because since the inception, we have not acquired any asset.

Anil Yadav: So from inception, we have added Amritsar-Pathankot project which was the seventh asset in our portfolio. With regard to the private InvIT, there are

under construction assets, when we had transferred these nine assets, , around seven assets were under construction. The thought process for the private InvIT incorporation was that to take development risk and acquiring the under construction assets. And whenever Private trust decide to sell these assets, it will be first offered to the public InvIT and with regard to the HAM asset addition, we have one asset with the sponsor which is expected to complete in this quarter itself and that HAM asset can be transferred to public InvIT subject to unit holders' approval; and plus we also propose to acquire the third party assets. Once those opportunities will reach advanced stage, we will be able to share further details with the unit holders.

Ruhi Pabari: When you say the private InvIT holds under construction projects, so at what stage of under construction were they transferred to the private InvIT? Because what I understand is, right now all the nine are revenue generating assets, if I am not mistaken.

Management: Those assets include four to six lane assets, wherein the revenue starts from day one and thus, even though those assets are under construction but simultaneously we are collecting the toll as well.

Moderator: Thank you. The next question is from the line of Ashok Shah from L.F.C. Securities. Please go ahead.

Ashok Shah: Sir first of all, after distribution of Rs. 1.80 what is the face value of the unit remaining after refunding basic 0.60p to the investors. Secondly, you have counted or estimated that current year it would be, full year it will be Rs. 8.5 to Rs. 9 and future it will be Rs. 8.5 to Rs. 9 as income for the future year. So does it include the return of capital or it is only the income from all the assets which we have?

Management: Sir, minor correction for FY22, we are forecasting that we will be able to improve the pay-out done last year and, with regard to the future pay out, it will include interest as well as capital repayment also.

Ashok Shah: So is it perfect to assume that you will be able to distribute Rs. 7 as an interest out of the income and Rs. 1.50 approximate would be from the capital?

- Management:** Sir, we don't have the exact breakup for the future years.
- Ashok Shah:** And currently in the month of April and May, and also first two weeks of June, this Surat-Dahisar route was not giving good returns. So would we get again an extension for that period?
- Management:** Yes. As we have discussed since the collection has dropped below 90%, we expect a proportionate extension in concession period. For example, if I am able to collect only 75% of the revenue for entire one month, so then 30 days multiplied by 25% equal to 6days will be the extension.
- Ashok Shah:** This Surat-Dahisar route we have got collection right only up to the September or October 22?
- Management:** Concession period end date for Surat Dahisar project is May 22.
- Ashok Shah:** So there may be an extension of three to four months again?
- Management:** No sir, it may not be three to four months of extension because the collection was impacted in April and May, and probably half month of June and that also to the extent of 20%. So, two and a half months multiplied by 20% would be the ideal extension. With regard to your earlier query, the book value is close to Rs. 90.
- Moderator:** Thank you. The next question is from the line of Dhiraj Dave from Samvad Financial. Please go ahead.
- Dhiraj Dave:** In the project management field, there is something which is at around Rs. 227 crores was spent on major repair and that were provided from provision. So that is not actually charged to P&L. So can you explain exactly which, just this major repair and what is the kind of future going to be on those kind of requirement or something?
- Management:** So sir, as per accounting pronouncement, we are required to incur major maintenance expenditure after every five years to seven years. However, we have to make a provision each year. For example, in a particular road asset, if I have to incur Rs. 100 expenditure after five years, we need to create provision of Rs. 20 each year. In first year, we will make provision of Rs. 20

and similar amount for subsequent year as well. Provision will be debited to the P&L account, and in the fifth year when we incur the actual cash expenditure, the provision will be reversed to the extent of Rs. 100.

Dhiraj Dave: So in the current quarter P&L, basically consolidated we find project management fees of around Rs. 316 crores, if my number reading is correct?

Management: Sir, its Rs. 31 crores.

Dhiraj Dave: Rs. 31 crores sorry. I made a mistake on that. So Rs. 31 crores plus we have approximately whatever is spend on major repairs. So that is actually cash outflow, right? Rs. 31 crores plus Rs. 23 crores?

Management: Yes, Rs. 31 crores plus Rs. 23 crores that is correct.

Dhiraj Dave: So approximately we spent Rs. 53 crores of which 31 charged to the P&L and 23 crores on accrual basis it was charged and cash outflow happened during this major repairs

Management: Yes.

Moderator: Thank you. The next question is from the line of Abhilasha Satale from Dalal and Broacha. Please go ahead.

Abhilasha Satale: My question is pertaining to Pathankot toll road. Given the Arbitration Award, which is likely to be received by the company Rs. 252 crores. I want to know in the disclosure, it is given that the appropriate amount will be settled towards claims of EPC contractors. So, I want the details of the same like which are the claims which will be settled towards EPC contract, and any other asset where you have such kind of claims pending?

Management: Abhilasha, we will provide brief on the claims: there was delay in completion of the construction works and due to delay if SPV is incurring any additional cost and the delay is not on the account of EPC contractor or SPV, then as per the provisions of the Concession agreement, Concessioneing Authority is supposed to compensate for such expenditure. In this case, SPV has sub-contracted the EPC works to the EPC contractor and the EPC contractor has incurred an additional overheads due to idling of machinery and the other

costs. On the basis of this, they have submitted their claim to the SPV. SPV, based on the claims submitted by the EPC contractor has initiated the arbitration and based on the supporting submitted by the EPC contractor, arbitration panel has given the arbitration award. First and foremost thing is that, there should be additional cost incurred by the SPV to claim it from the arbitration. If SPV is liable to pay and in worst-case scenario also the selling shareholders have given an indemnity that in case of any event prior to the transfer, it will be the responsibility of the selling shareholders.

With regard to the extension of concession period, that will flow to the SPV which is 518 days and this translates to roughly Rs. 200 crores based on the last collection on Amritsar-Pathankot project.

Abhilasha Satale: Okay that is additional. So this you have already paid and whatever you will receive in addition to that around Rs. 200 crores that will be transferred to SPV. Is this right?

Management: Abhilasha, I would like to clarify over here. Now it is an arbitration award. NHAI may go for further appeal and the final outcome may take some time. With respect to compensation, there are two kinds of compensation: One is for cash losses incurred by the EPC contractor to that extent there is reimbursement to the SPV of Rs. 252 crores and plus 518 days of extension. But Rs. 252 crores will flow to the EPC contractor and SPV will not get the benefit out of that because it is reimbursement. Secondly, 518 days of extension will flow to SPV and if we calculate the monetary terms for the 518 days of extension that translates roughly approximately to Rs. 200 crores.

Abhilasha Satale: And when we are expecting that sum to be received?

Management: For SPV, extension of 518 days will be in form of the toll collection over the extended period.

Abhilasha Satale: Okay, so that will get added to that. Any other claims are there from EPC contractors for any projects?

Management: We have provided details of all the litigations in the annual report.

Moderator: Thank you very much. I now hand the conference over to Mr. Menon for closing comments.

Management: Thanks to all the participants on today's call. Hope the management has satisfactorily replied to all your queries. Hope to have an interaction with you all very soon. Until then please do take care of yourself. Thank you.

Moderator: Thank you very much. Ladies and gentlemen, this concludes your conference call for today. Thank you for your participation and for using Researchbytes Conferencing Service. You may now disconnect your lines.