IRB InvIT FUND

Q1 FY25 Earnings Conference Call – Edited Transcript – July 29, 2024

Moderator: Good morning, ladies and gentlemen. Welcome to the IRB InvIT call hosted by the company for discussing the Financial Results for the quarter ended June 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 the listen-only mode and after 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 answered after the call can be subsequently mailed to the management for adequate response and solution. Please note that this conference is being recorded. I now request management team to give you an overview of the significant development during the quarter. Over to you, sir.

Management: I 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.

Tariff revision was implemented with effect from 3rd June 2024 due to code of conduct on account of General Election in India. Four projects of the portfolio i.e. Talegaon Amrawati, Jaipur Deoli, Tumkur Chitradurga and Amritsar Pathankot project. The said projects received effective tariff rate revision of ~ 2.5%.

During the quarter ended June 24, due to General elections, we have observed softening of traffic across all our projects. As compared to the corresponding quarter of the previous year, we have observed 3% growth in toll revenue.
For Talegaon Amravati project, we have witnessed positive recovery in toll revenue from February, 2024 and the growth momentum continues in current quarter as well.

We are distributing Rs. 2 per unit for the quarter ended June 30, 2024. This quarter, we will be distributing Rs. 1.35 in the form of interest, Rs. 0.29 per unit in the form of dividend and Rs. 0.36 in the form of return of capital.
Till date, since the IPO way back in year 2017, the trust has distributed cumulative amount of till date - Rs. 3,968 Crs (Rs. 68.35 per unit), i.e., 67% of the aggregate fund raised.

During the current quarter ended June 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.

The Investment manager on behalf of the Trust continues to evaluate potential investment opportunities. The net debt to value of assets of the Trust is at 0.3:1, which provides sufficient debt capacity for acquiring new assets. On the acquisition front, HAM assets from the Sponsor Group i.e. VM7, Pathankot Mandi are expected to be completed in FY25. Chittoor-Thachur is expected to be completed in FY26. Once completed, the said assets shall be available for offer to the Trust.

As communicated earlier, we are in receipt of the final sanction letter and financing documents have been executed with the lender. The refinancing of the Trust debt and VK1 SPV debt will be completed in a phased manner. For refinancing of VK1 SPV debt, we have applied for approval from the NHAI, Authority. Upon receipt of the said approval, we shall complete the refinancing process of SPV debt.

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

Rushabh Gandhi: Thank you, sir, I will now present the financial analysis for the quarter ended June, 24 as compared with quarter ended June, 23:

The total consolidated income for the quarter ended June, 24 stood at Rs. 275 crores as compared to Rs. 269 crores for the quarter ended June, 23.

The consolidated toll revenues for the quarter ended June, 2024 stood at Rs. 236 crores as against Rs. 229 crores for the quarter ended June, 2023.

EBITDA for the quarter ended June, 2024 stood at Rs. 228 crores as against Rs. 227 crores for the quarter ended June, 2023.

Interest costs (including interest on premium deferment) for the quarter ended June, 2024 stood at Rs. 76 crores from Rs. 68 crores for the quarter ended June, 2023.

Depreciation including amortisation for the quarter ended June, 2024 stood at Rs. 63 crores as against Rs. 57 crores for the quarter ended June, 2023.

The PAT for the quarter ended June, 2024 stood at Rs. 86 crores as against Rs. 101 crores for the quarter ended June, 2023.

I will 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 from the line of Dhiraj Dave from Samvad Financial Services. Please go ahead, sir.

Dhiraj Dave: My question is about valuation report. So, in valuation report, FY39 onwards we find that there is revenue share in Tumkur Chitradurga project. So, just wanted to understand is there any revenue share on account of extension in Concession period due to traffic shortfall?

Management: The project has extension in the concession period and based on concession agreement, we have to pay the premium during the entire concession period including the extension. For the original concession period, premium payable to the Authority is already capitalized and corresponding liability as premium obligation. The asset is getting amortized and payment we are making to the authority, that is getting reduced from the liability. For the extended period, the premium cannot be capitalized because at the time of initial phase of the concession, we were not aware about this. Now during the extended period, there will be a premium payment to the Authority, which we have factored by way of revenue share but it's the premium payment to Authority in line with the Concession agreement.

Dhiraj Dave: Basically, if you can classify this as premium, since it is a heading only, it will avoid confusion in the mind of investor. So, that's one part. Secondly, if you look at major maintenance in the same valuation report, every 5 years, like FY25, FY30, we see an MMR provision in that. But once the extensions start, we don't find any MMR provision. This extension is almost for 6 years, but we don't find any MMR provision for that project. So, any specific reason like is it a kind of cost being borne by NHAI as well as us or if you can just look into that?

Management: Typically the major maintenance is incurred after every 5 years or 6 years. So, during this extended period of 5 years because the original concession was around 24-25 years, maximum extension is only for 5 years. So, based on our assessment in the last 5 years there will not be any major maintenance and the project will be handed over before the major maintenance requirement will come.

Dhiraj Dave: So, we are looking to kind of get, basically we are striving hard, and the team is also putting all kinds of efforts, when we should get to the original payout of Rs. 3, is there a possibility in say 3-4 years’ time or is it very difficult considering the way things are shaping up?

Management: If you look at for next 2 to 3 years, I think the payout will be on a similar level. At the current price, it translates around 12% to 14%. We expect a similar kind of payout based on the current dynamics, maybe 50 paisa increase in the payout.

Dhiraj Dave: And if I can squeeze one more. Basically, two assets which you are looking at i.e. HAM assets basically in the opening remarks, can you just repeat the name. Two assets, one was Pathankot something and I missed the other one. Can you just repeat the name?

Management: Yeah. One is Pathankot-Mandi, and the other is VM7, which is a part of Mumbai-Delhi Expressway and that is expected to complete in FY25.

Moderator: Thank you very much. The next question is from the line of Runit Kapoor from Elara Capital. Please go-ahead sir.

Runit Kapoor: I have two questions. I wanted to know what's the current status of the refinancing and are you looking to add any new assets apart from the ones announced in opening remarks.

Management: Thank you, Runit. So, currently, our Trust has 6 revenue generating assets with a weighted average life of less than 15 years. One of the assets concession period will end in FY27 i.e. Omalur-Salem project. So, you are right in highlighting the need for asset acquisition. It has been our objective to make our trust a perpetual vehicle by adding assets. Since listing, we have added 2 assets from the Sponsor i.e. Pathankot Amritsar project and Vadodara Kim HAM asset. We have also been evaluating assets from third parties. So far, we have evaluated more than 30 assets and given offers for some of them also. But none could materialize owing to high expectations from the seller. We understand the Private InvIT of the Sponsor currently has 14 assets having an enterprise value of more than Rs. 50,000 crores. Substantial part of the portfolio has matured and has an operational history of more than 5 years. So, our trust is an AAA rated asset having a net debt to asset ratio of 0.3:1, indicating thereby, that the trust has a low level of debt relative to the value of asset and is one of the lowest among the InvITs. So, it provides sufficient debt capacity for new asset acquisition. So, looking at the reducing weighted average life of the asset coupled with lucrative debt to asset ratio, we are basically well placed to consider the possibility of evaluating matured asset for acquisition, to sustain its life and to add value to the unit holders in long term. So, going forward, we will continue to evaluate whenever the opportunities are available, including those from the sponsor group. So, basically our endeavor is to increase the weighted average life of the trust and increase the overall payout to the unit holders over the life of the asset without compromising the AAA rating of the Trust. And on the refinancing bit, as explained in the opening remarks, we have already completed the documentation with the lenders and 50% of the refinancing debt has been taken and balance will be availed in the phased manner. So, for VK1 SPV debt refinancing, we are awaiting the NHAI approval. Once we get the approval, we will complete that part.

Moderator: Thank you very much. Next question is from the line of Shirish Vaze from Money Life Advisory Services. Please go ahead, sir.

Shirish Vaze: So, my question pertains to the toll collections for Q1 of FY25. So, I think as far as I know, the toll hike was delayed this year due to model code of conduct and came into effect on 3rd of June, if I'm not wrong. And so for April and May, we have seen around 2% to 3% of increase in toll revenues. But despite the toll hike coming in early June, even for the June quarter, we have seen only 3% increase in toll collections for that month. My question is, did we see a decline in traffic in June or what was the reason for the tepid increase for toll collections indeed? Thank you.

Management: Yes, you are correct. The tariff revision was revised in the month of June, i.e. 3rd of June. We have got impact only for less than a month for tariff revision in the toll numbers of Q1. There was a code of conduct because of the general election, typically overall level of economic activity was lower when code of conduct and election was going on. So, typically we see a decline in heavy vehicle traffic. And that has led us to a slower growth of 3%, which was largely driven by the traffic growth in this quarter.

Shirish Vaze: No sir, my question pertains to only to the month of June, like because I think the code was lifted on 3rd of June and so did the toll hike come in. So, what was the reason for the lower growth during June despite sort of the code being lifted and tariff hike coming like this? Maybe there was a decline in traffic across our routes in June or was there some other reason?

Management: This year monsoon has started early. So, there was some impact of the early monsoon also on the toll collection in the month of June.

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

Dhiraj Dave: So, one more question. Basically, we had sought extension from NHAI earlier, particularly Tumkur-Chitradurga. So, as per the Valuation report, we understand that we have requested by letter, but we haven't got any confirmation from NHAI. So, can you give us update on all the assets where we sought concession? What is the kind of timeline we will be looking at to get that confirmation?

Management: It's an automated process. This needs to be evaluated by Independent engineer of IE and to be confirmed by NHAI. In fact, just to give you the example of Surat Dahisar, the project we had been awarded 12 years of concession and we got almost 460 days extension, i.e. formula driven. And therefore, the arithmetical accuracy and the traffic survey which is already carried out by Independent engineer appointed by NHAI. So, the formality is already completed and NHAI letter is awaited in this aspect. Typically, it comes closer to the end of the original concession period.

Dhiraj Dave: So, that is one part. The second part is supposed there is a deficit and we got 20% tenure. I think what is the term, this is more for understanding, maximum time we can extend is only 25% or, 20% of original tenure or is there some other terms as well, some situation where we can actually make further?

Management: There is particular clause which called as a target traffic clause, which is independent of any other extension which a concessionaire is eligible to get i.e. due to COVID or any other reasons. So, this clause talks about that a target date and project specific Target PCU on that date. And then, 3 years traffic survey (i.e. one year prior target date, on target date and one year later to the target date) will be done, and average of the 3 years will be taken. And if there is a shortfall of 1%, then extension will be 1.5% and the maximum extension can be 20%. And this clause also works as a floor and cap model. On the floor side, if you have higher traffic by 1% on the target date, your concession period can get reduced by 0.75% and maximum reduction can be 10%. It works in the interest of the Concessionaire so that for any eventuality, they should get an extension of 20%. And for reduction, since the revenue is realized early, there can be maximum 10% reduction in concession period.

Dhiraj Dave: And this is rolling. So, basically, let us say the original project was for say 15 years. And the first review came, we have deficit of traffic which was not anticipated. So, basically maximum during that revision, which is let us put a date out say 2020, we got a Concession agreement started with 15-year tenure. 2023 we have first review of traffic and then we find deficit of 10% or 15% or whatever, we become eligible for maximum period. So, that means 2013 maximum extension can happen is 3 years since 20% is of 15 years. Is my understanding correct?

Management: Yes, so basically if it's a 15 year concession, the target date is already given. It will not be rolling forward. For the computation, the 3 years i.e. one year prior to Target date, one year later of the target date and the target date will be counted, and the 3 years average will be taken. On that basis, if it is 15 years concession, maximum extension can be 3 years.

Dhiraj Dave: Okay, now coming to another part, so it happened, first review happened in 2023 when traffic was not meeting requirement and 2026 would be another review date, right? Assuming three years, the traffic study is conducted and kind of it. Even in 2026, if we find that there is a deficiency of traffic as actually projected, then would that 18 years will become further, say 3.6 years or kind of it or no? Then that 18 gets frozen. How exactly does this work?

Management: So, if the target date is 2023, they will do a traffic survey in 2022 and traffic survey in 2023 and traffic survey in 2024.

Dhiraj Dave: Sir, that I understood. First part I understood. I am saying that every three years you will be doing a traffic survey, right?

Management: No, only once. Whatever is mentioned in the concession agreement, one target date is mentioned.

Dhiraj Dave: So, only one target date mentioned or is it the frequency is 5 years or 6 years or kind of it?

Management: It's only one target date is mentioned. You are talking about new model concession agreement which is for the TOT where there are two or three target dates are mentioned.

Dhiraj Dave: Pathankot traffic toll collection, we find the decline particularly during this quarter. So, was it because of some mine related issues which you used to face in the past, that's not applicable here?

Management: Yeah, so in case of Pathankot, so overall the traffic has been on softer side because of the election in the month of May. But particularly in case of Pathankot, there was some mining related restriction because it is near to the border area and there was some law-and-order situation in J&K in the month of April and May. So, due to that, we have seen some softening of traffic, but we believe this is temporary and the traffic should get back to us.

Moderator: Thank you very much. Next question is from the line of Tanveer Sure who's an individual investor. Please go ahead.

Tanveer Sure: So, my question is around basically for referencing slide 13 and 17 of your presentation. I would just like to understand the gross BOT toll revenue that you are reporting, there is Rs. 1,053 mn for Tumkur-Chitradurga project. And then in slide 17, the total income is shown as Rs. 936 mn. So, I just want to understand what the difference actually is.

Management: Sure, Tanveer. So, basically, in case of Tumkur-Chitradurga Project, NHAI has provided us an additional stretch of Tumkur bypass wherein we are just collecting the revenue and we are paying 97% as a revenue share to the Authority. So, on slide 17, we show only the net amount as part of our total income. We are showing gross collection on slide number 13. On slide number 12, we have provided the bridge between the gross and net toll collection.

Tanveer Sure: And it's good that you are also indicating the Vadodara Kim HAM project here, so that you can see that Rs. 273 crores is your total income. And I think the EBITDA from that comes up to Rs. 229.8 crores. So, this is at an SPV level, correct?

Management: Correct.

Tanveer Sure: Okay, yeah, that will be very helpful also. And then just to understand further, from this Rs. 229.8 CR, which is the EBITDA, you all are generating cash flow from operations as Rs. 173.2 crores, right?

Management: That's the cashflows distributed from SPVs to Trust. Post debt servicing at Trust level, on Slide number 23, the NDCF generation for the current quarter is Rs. 122.8 crores, out of which we are distributing Rs. 116 crores.

Tanveer Sure: Yes, that's right. But I just wanted to make sure that the cash flow from operations, which is Rs. 173.2 from the SPV comes from that, from after the EBITDA is done, right?

Management: Yes, that's correct. Distribution by SPVs is out of EBITDA post external debt servicing at SPV level.

Tanveer Sure: And just one last question is, cash flow from operating activities under Holding co / SPV negative Rs. 7.3 crore, can we have like why that negative Rs. 7.3 crore on Slide number23?

Management: So, there is the cash flow, or the expenditure incurred at Trust standalone level.

Tanveer Sure: At trust level, okay, so that's a loss basically for this quarter right?

Management: Correct.

Moderator: Thank you. The next question is from the line of Shirish Vaze from Money Life Advisory Services. Please go ahead.

Shirish Vaze: I just had one question. So, since that toll hike this year was delayed by 2 months, considering that we usually get the toll hike in April and this year because of elections it was implemented only in June, is there any way that the concessionaire will be compensated for this delay or like there's no way around it?

Management: The federation has already represented the matter to the Authority for the compensation and once we hear from NHAI, we will update the unitholders.

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

Dhiraj Dave: Just last one, thanks a lot for providing me third opportunity. Basically, we are looking at FASTag being replaced by satellite base kind of a thing and there is a discussion in media about same. So, one is what is management views on that? And secondly, how is revenue profitable for our InvIT specifically?

Management: I think that will not have any significant impact neither on the cost side, nor on the revenue side because we are having the highway project where most of the traffic is through traffic. So, 80%-90% of the traffic is through traffic and whether you collect a toll on the particular toll plaza or through satellite, the number of vehicles will not change. And secondly whatever the short distance vehicles are there, today we might be losing some of the vehicles if they are not crossing the toll plaza. So, those will also come under the purview of the tolling if new system is implemented.

Dhiraj Dave: Okay, so per se we don't see any negative or positive, means it's going to be neutral, revenue neutral for us.

Management: Yes

Moderator: Thank you very much. The next question is from the line of Tanveer Sure, an individual investor. Please go ahead.

Tanveer Sure: Just wanted to understand that given that we have a couple of projects in the Private InvIT which are coming up for maturity, so what are we evaluating in terms of, is it the interest rate environment that is too high or is it the price that is too high? So, what is stopping us from purchasing this project as of now just to add to our portfolio?

Management: I think we are still evaluating because, as mentioned earlier, the life of InvIT has started reducing. Now less than 15 years is left. And when we formed this InvIT, the intent was to have this InvIT as a perpetual structure. So, we are evaluating that and once our evaluation is finalized, we will be definitely share the details on that. The challenge which you have asked typically what happens if you have a 20 years concession, your revenue will be increasing by the range of 8% to 10%. So, if you acquire the project through entire debt, initial years that will have some negative impact, when I call it negative impact, that will eat some cash flow of the existing project. But if you look at overall basis, that will improve overall payout to the unit holder, that will increase the life of the InvIT, and our intent is to continue the AAA status of the InvIT even if we add a few assets from the Private InvIT.

Tanveer Sure: Okay, so basically, are you hoping that if the interest rate environment further improves, that negative which you mentioned would work in our favor, provide us a tailwind and that would be the right time where you would probably acquire it? Is that understanding, correct?

Management: I think typically acquiring the toll road asset when your interest rate is on peak, that will be more appropriate time because if interest rate comes down, then automatically, seller will factor that kind of interest rate. So, then buying that asset when interest rate is at peak, that will make more sense than the buying at the bottom of the interest rate cycle.

Tanveer Sure: Sir, from what you are saying, we are almost at peak only. So, shouldn't we be buying it sooner than later?

Management: Yes, we also believe the same.

Moderator: Thank you very much, Mr. Sure. Ladies and gentlemen, that was the last question for today's call. I now hand the conference over to management for closing comments.

Management: We would like to thank all the investors and analysts on the call. We will see you in the next quarter. Thank you.

Moderator: On behalf of IRB InvIT that concludes this conference. Thank you for joining us and you may now disconnect your lines.