

IRB InvIT Fund

Q4 FY21 Earnings Conference Call – Edited Transcript May 17, 2021

Moderator: Good morning ladies and gentlemen, welcome to the IRB InvIT call hosted by the company for discussing the Financial Results for Q4 FY21. We have with us on the call today. Mr. Vinod K Menon, Mr. Anil Yadav, Mr. Rushabh Gandhi and Ms. Swapna Vengurlekar from IRB InvIT team.

As a reminder, all participant lines will be in the listen-only mode and after the opening remarks by the management there will be a question-and-answer session. Please note that the duration of the call would be 45 minutes and any queries left unanswered after the call can be subsequently mailed to the management for adequate response and resolution. Please note that this conference is being recorded. I now request Mr. Menon to give you an overview of the significant development during the quarter. Over to you, sir.

Vinod K Menon: Thank You. Good morning 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.

We have ended quarter on a promising note in terms of collections. Across projects, we have witnessed a double digit growth YoY for Q4FY21, ranging from 10% - 19% - after eliminating the impact of 6 days of toll stoppage in last year. For the portfolio, the numbers would have been stronger had APBOT also contributed to the same. Due to the ongoing farmers protest, tolling for the project has been halted since last October beginning. We have intimated NHAI of this event and expect compensation under Force Majeure clause of the concession agreement, where we receive 50% of the O&M and interest costs as reimbursement in cash and an extension in concession agreement to compensate for revenue loss during the toll suspension period.

Our per day collections have improved to over Rs 49.1 mn for the quarter ended March 2021 – even without any contribution from APBOT – as compared to Rs. 46.8 mn per day for quarter ended March 20 considering only the operational 85 days. A resumption in tolling for the APBOT project

will take this number to new highs and is expected to lead to a stronger double digit YoY growth for the portfolio in coming quarters.

From 2nd fortnight of April 2021, various State Governments have imposed restriction on travel considering rise in Covid cases and this has led to slight softening in toll collections. As per provision of concession agreement, we are eligible for extension of concession period if toll collection drops below 90% of average collection before such intervention.

Various international rating agencies are forecasting double digit GDP growth for India even after 2nd wave of Covid for FY22. With double digit GDP growth for FY22, we expect to deliver around 10 to 12% growth in Revenue for FY22 – inspite of soft collection in recent weeks.

This would further be facilitated by a higher WPI, which for the month of March 21 was reported as 7.39%. Two of our projects Bharuch Surat and MVR – which are directly linked with WPI – will benefit from this in the form of rate revision of 7.39% from July 1 and September 1 respectively.

With respect to addition of assets to our InvIT, we are evaluating favourable HAM/BOT projects and before the end of FY22, we should add at least more asset to the portfolio.

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 financial analysis for the quarter ended March 21 compared with the quarter ended March 20.

The total consolidated income for quarter ended March, 21 increased to Rs. 334 crores from Rs. 316 crores in quarter ended March, 20 registering growth of 6%. The consolidated toll revenues for quarter ended March, 21 increased to Rs. 326 crores as against Rs. 305 crores in quarter ended March, 20 registering a growth of 7%.

EBITDA for quarter ended March, 21 increased to Rs. 275 crores from Rs. 253 crores in quarter ended March, 20.

Interest costs (including interest on premium deferment) for quarter ended March, 21 decreased to Rs. 35 crores from Rs. 38 crores in quarter ended March, 20.

Depreciation for quarter ended March, 21 increased to Rs. 190 crores as against Rs. 172 crores in quarter ended March, 20.

Profit after tax for the quarter ended March, 21 increased to Rs. 50 crores from Rs. 43 crores in quarter ended March 20. I will request the moderator to open the session for question-and-answer.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Mohit Kumar from DAM Capital. Please go ahead.

Mohit Kumar: While traffic growth has been pretty strong in last three months. How has April May been faring, that is my first question. And secondly sir, in case of, of course if there is a decline in traffic in April and May and you apply for compensation. So how in this case you will get extension given that the base itself last year was subdued. I'm trying to figure out the comparison on which the extension will be given for this second year of pandemic. And thirdly, sir what are the tariff hike from April of our road projects. Those are the three questions sir.

Management: Yes, thank you Mohit. With respect to your query simply so, as Mr. Menon has explained that from second fortnight of April we have started seeing some impact of the travel restriction on the project. And just to share with you, April numbers were around 10% to 15% soft. Now, with respect to coming to your second query with regard to the extension of the concession period, last time also they have compared basically in terms of the extension or shortfall with the previous month only. However, you have rightly mentioned that last year numbers were subdued. So, for comparison purpose probably they should ideally take the previous quarter numbers or previous month numbers before the lockdown restriction was started by the various states. The tariff rate revision for four of the projects has been around 4% where the Tariff revision is linked to 3% Fixed and 40% of WPI and the two projects could be in the range of around 7% where the WPI is linked to the

month of March. For Surat Dahisar project, where average WPI of the year will be considered, the tariff revision will be around 1.5%.

Mohit Kumar: Understood. One more question, what is the repayment due for FY22 and FY23 if you can quantify the number and have you taken any extension on your loan agreement in FY21. If you can throw some light?

Management: The principal repayment for the secured loans from banks at Trust level would be in the range of Rs. 55 crore for FY22 and FY23.

Moderator: Thank you. The next question is from the line of Arun Kejriwal from Kejriwal Research. Please go ahead.

Arun Kejriwal: Just wanted to understand, the lot size that we have for our unit is 2,500. On Friday, we had another InvIT being listed with a lot size of 100 trying to understand the guidelines behind it. Our lot size should also be changed to 100 and we are already in violation of the guidelines laid down by SEBI, any comment from your end?

Management: Sir, with respect to lot size we have represented to SEBI and thereafter they have reduced the lot size. And there they have reduced it to value closer to Rs. 1 lakh value as per SEBI Circular. For the new InvIT as you rightly mentioned there the lot size is 100. Anyway, in fact, in various forums, we have raised this issue to SEBI that the lot size should reduce as low as a single unit, because if the retail investor wants to basically acquire, they should be allowed to acquire this kind of unit from the market. We are representing at various forums with SEBI and once the appropriate regulation is in place, then definitely in the line with the regulation we will try to reduce our lot size as well.

Arun Kejriwal: Sir, I have spoken to SEBI myself over the weekend. And I am given to understand that IRB is in violation of the law. So, I would urge you to please have your compliance officer check the concerned guideline, if necessary I could contact you and also mention the guideline which I am referring to, it is for us to switch over the loss we don't need any permission from the regulator. And because our loss is divisible by 100 there is no issue in doing it. This is what I understand as a shareholder of this particular unit.

- Management:** Sir, this is regarding the minimum lot size for IRB InvIT fund. SEBI some time back came out with a circular where they have instructed the listed trust to look at reduction in the minimum lot size. And they have looked into the technical problem of odd lot if it may arise due to the reduction in the lot size and accordingly in consultation with the exchange each trust had to work out their minimum lot size. We have in consultation with SEBI and the exchanges have come out with the minimum lot size of 2,500 which is at present. We are in compliance with the SEBI regulation or even exchange regulation as far as the minimum lot size is concerned. So this much I can say at this point of time in terms of the trading regulation or the SEBI regulations.
- Arun Kejriwal:** Sir one question on the business front, in the coming 12 months, any escalation we are expecting on the toll tariff collection on the various projects?
- Management:** Sir Surat-Dahisar, MVR and Bharuch-Surat these projects are expecting toll revision. Bharuch-Surat will be from 1st of July and Surat-Dahisar and MVR will be from 1st of September.
- Arun Kejriwal:** And what kind of increase in percentage terms would that be?
- Management:** Bharuch-Surat and Omallur project will be close to +7% and Surat Dahisar project will be close to 1.5%.
- Arun Kejriwal:** And this would be for three years, am I correct sir?
- Management:** No, it's a yearly revision.
- Moderator:** Thank you. The next question is from the line of Rajiv from Skanda Investment. Please go ahead.
- Rajiv:** My question is regarding the Escrow account amounts of 393 odd crores, would you be able to let us know how much of this is the TC share, that's Tumkur Chitradurga SPV. And is that share locked up for some reason because of our dispute with NHAI?
- Management:** This Escrow has been debarred like it has an embargo on that account by Hon'ble High Court order upon request of NHAI because of the dispute on

the additional premium. But now, because of the COVID restrictions, the Court is also not hearing the matter at this point of time since last one year. They are only taking up urgent matters, but now NHAI has approached us and we have mutually decided that we may end this dispute on conciliation. So the process has started for conciliation. So, soon we will have this embargo on this Escrow account released then we will be able to pay all this interest and premium part of Tumkur Chitradurga project.

Rajiv: So, how much amount around this Rs. 393 crores would be TC share roughly?

Management: Around Rs. 350 crores.

Rajiv: And the court has asked us to deposit some Rs. 63 odd crores of interest amount, how have we accounted that in our balance sheet?

Management: So, the court has asked us to deposit Rs. 63 odd crs plus some interest on it. In the books of accounts, the entire obligation for premium has been accounted for on day one.

Rajiv: Fine. And my second question is regarding an important project which is Pathankot Amritsar, which unfortunately is totally at standstill. Now because it is now about 6.5 months where the project is not giving any revenue, would you able to quantify what kind of claims we will able to make on NHAI because this is so material in terms of the health of our InvIT?

Management: Yes, regarding Amritsar Pathankot you are very right that for the last 6.5 months, there was almost nil collections. And that was across all the projects in Punjab and Haryana due to farmer's protests. However, we have been putting up claims with NHAI on monthly basis. Plus there would be increase in concession period of 6.5 months as per provisions of Concession agreement.

Rajiv: Lastly, if you can take another small point Jaipur-Deoli do you see on the ground any movement after some of that relaxation in the mining ban?

- Management:** Yes, if you look at the last year we have seen a robust growth in terms of the MAV vehicles of that particular project corridor on the backdrop of some relaxation in the mining activities.
- Rajiv:** But that has not been fully relaxed yet as per your date?
- Management:** That's correct. The final order on upliftment of complete mining ban from Supreme Court is awaited.
- Moderator:** Thank you. The next question is from the line of Dhiraj Dave from Samvad Financial, Please go ahead.
- Dhiraj Dave:** So, the one question I have is on results page #87 we find it's NHAI premium obligation of around 5700 crore, so which is shown as 440 crore being current and balance being noncurrent So, what is this exactly, can you give some detail exactly, why this is appearing and how it gets accounted for?
- Management:** So, this is regarding the Tumkur Chitradurga project, where we have obligation to pay premium to NHAI on annual basis so as per accounting standard, we have created an asset on day one and corresponding obligation has been created on day one. So, the obligation is reduced to the extent of actual premium payment on annual basis, and the asset is amortized over the life of the concession.
- Dhiraj Dave:** Okay, but if you look at Rs. 5,300 crores, like if assuming even kind of 20 years life it would be kind of Rs. 250 crores kind of amount, if I'm taking just a ballpark calculation and are we getting that kind of collection or how exactly it is happening?
- Management:** See, in terms of the collection, collection will be improving continuously on the project because there will be a 10% to 12% revenue growth on annual basis. And that collection will get ballooned up, it will extrapolate with the current number to the future number and the premium on this project was initially started with Rs.140 crore per annum which increases by 5% on annual basis.
- Dhiraj Dave:** Okay, so basically cash flow wise, while we'll be paying, but there is corresponding assets being created. So, what is the impact of cash flow and

how it gets accounted in NDCF, if I may, I'm not expert in this field so if you can just, we do see some kind of NHAI payment coming in, NDCF for this project, but this Rs. 5,700 crore like accounting wise, how critical would it affect cash flow into future?

Management: For the purpose of calculation of NDCF, we are reducing the actual premium payment of each year from the cash flow. We have created an asset and against that particular asset, we have created an obligation. Out of the obligation whatever premium payment we are making, to that extent the liability gets reduced. And amortization of the asset is charged to the Statement of profit & loss account. Accordingly, whatever the exact payment we make to NHAI, that amount will reduce from our NDCF.

Dhiraj Dave: And can you give me some idea about what was the total major repairs expense during FY21 for all the projects of company, if you can give breakup by project that could be helpful?

Management: So, on a cash flow basis the total O&M expense was close to Rs. 210 crores, project wise breakup, we will update while we give the annual report.

Dhiraj Dave: Okay, fair enough. So this is a 210 crore and broadly this would have been paid to the project manager?

Management: Yes, because it includes both periodic and routine O & M.

Dhiraj Dave: And third part, like if I may just squeeze in, any idea why we are trading like 53, 54 and if we are looking at project acquisition which management indicated, IRR on current yield, I assume Rs.2.5 distribution per quarter i.e. Rs.10 annually kind of, is coming at approximately 17% to 18%. Are we be able to get some kind of asset which will give this IRR of 17% to 18% and if we don't get into, then does it make sense, isn't it dilute you to the existing unit holder if you go for acquisition?

Management: See, we were also in the same dilemma. And basically as of now this 17% to 18% kind of IRR which we are talking about is on the BOT asset and since the listing, we were looking after the acquisition, but because of this current IRR on the project, we were not able to acquire those kind of projects. Due

to the same reason, we were not able to acquire any BOT asset. But with respect to HAM asset, the amount is assured by a kind of assured semi-annual annuity from NHAI. HAM project even if bought at lower IRR we will add value to the unit holder. Secondly the acquisition will not be happening on raising the additional unit from the existing unit holders. It will be done through the debt and if the cost of debt is around 7.5% to 8% and even if we are buying a HAM asset of around 10% to 11% kind of discounting, still it will add value to the unit holder.

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

Rushabh Sharedalal: Just one question on this new asset acquisition that you are planning to make. So, you say in your opening remarks that before the end of the financial year 22 you should be adding at least one asset. So, if you can throw some light on what kind of an asset will it be and what kind of impact will it have on the NDCF that would be all from my side, thank you.

Management: To provide any precise number what kind of addition it will make to the NDCF would be difficult and typically these projects to begin with initially will not contribute any significant amount in the NDCF. And secondly, we are looking at to acquire basically HAM asset. So, there will be steady state of cash flows which will be available and there will be some minor addition to the NDCF, but those details we can provide basically once we are on the advance stage of the acquisition.

Rushabh Sharedalal: Okay. So, will you be raising some debt or will you be raising equity to actually purchase this new asset?

Management: So, probably it will be through debt only and secondly, in the HAM asset that cash flow is evenly distributed over the life of the asset.

Rushabh Sharedalal: Okay. So after this acquisition what kind of a target debt to equity will you be having just a rough idea, I don't expect a pinpoint number.

Management: So, basically we don't want to go beyond 1:1 debt equity, and we still have head room of roughly Rs. 45 billion and the entire proceeds may not be

utilized in this year only. We will do the acquisition over the period of coming two to three years.

Moderator: Thank you. The next question is from the line of Sagar Khanna from EWC. Please go ahead.

Sagar Khanna: Yes, I had a couple of questions. Can you tell me the projects where the term will expire over the next two years?

Management: So, the concession period for Surat-Dahisar and Bharuch-Surat project will expire in FY23.

Sagar Khanna: What kind of cash flows will get impacted, what percentage of our existing cash flows will get impacted and in turn what kind of DPU's distributions will get impacted?

Management: Surat-Dahisar and Bharuch-Surat project contribute around 30% to 35% to EBITDA. Post COVID recovery, if the other projects normalize, the impact would not be that material.

Management: Once both the projects go off the table, then within a couple of years, the DPU which is around Rs. 2 to Rs. 2.50 per quarter that may come down in the range of Rs. 6 to Rs. 8 per unit.

Sagar Khanna: So, when you say Rs.6 or Rs.7, what kind of traffic growth and tariff hike you are assuming over the next two years?

Management: Traffic growth of around 6% and tariff hike around 4.5% to 5%.

Sagar Khanna: So, basis that you are expecting a DPU of around Rs.6 to Rs.7 is that correct, excluding Surat- Bharuch and Dahisar-Surat?

Management: Yes.

Sagar Khanna: Got it. And what kind of projects will get added over the next two, three years?

Management: So, we have headroom of roughly Rs. 45 billion in terms of raising debt and acquiring the project. Over the period of next two to three years, we will try

to add at least one or two asset every year through a debt acquisition. And when we basically acquire the product through debt acquisition, cost of debt will be around 7.5% to 8% and the discounting which we will typically use will be around 10% to 11% for the HAM assets, that will be yield accretive to the unit holders to the extent of 200 to 250 basis points, and on that basis we will be acquiring the project.

Sagar Khanna: Got it. Now, since the promoter has already crossed more than three years, which is mandated to hold these units, any change in plans or any thoughts of promoter divesting or getting a new partner?

Management: See, basically in terms of partner definitely at appropriate time, we may introduce some kind of financial Investor or Financial partner but, with regard to the selling of the unit, the Sponsor don't have any intent to sell the units of 16% to 17% which they own in InvIT.

Moderator: Thank you. The next question is from the line of Krishnaprasad from Gofulgar. Please go ahead.

Krishnaprasad: I just want to understand the total NHAI, what is the payment you need to NHAI I understand that the two projects which are going out, we are paying more than 50% of the toll collection but for the other project, if you can give us a ballpark number as to what is the gross total collection and what percentage will go towards payment of NHAI if we do so. Thank you.

Management: In case of Surat-Dahisar project and Omallur Salem project, revenue share is around 50% and 22.50% respectively. Also, in the case of Tumkur Chitradurga project, there is a premium payment to NHAI.

Moderator: Thank you. The next question is from the line of Dhawanit Chawala an Individual Investor. Please go ahead.

Dhawanit Chawala: In this trouble times my question is with regards to the effects of implementation of FASTag on all the major toll routes and how has it impacted our collection is it possible to quantify.

Management: With respect to FASTag now, almost +90% toll collection is through FASTag and in some project even we have reached 95% for the month of March.

Dhawanit Chawala: Okay, just a follow up on my first question. Have we seen better realizations due to implementation of FASTag or is there no material impact or something which we can judge?

Management: With respect to implementation of FASTag, the operational efficiency has increased. However, we have not observed any significant improvement in toll collection due to the implementation of the FASTag.

Dhawanit Chawala: Alright. And what about the cost of implementation?

Management: The lanes were FASTag enabled from the beginning only and there is no significant cost.

Moderator: Thank you. The next question is from the line of Harsh Shah an Individual Investor. Please go ahead.

Harsh Shah: Sir, a couple of questions. Firstly, on financials of SPVs. So, if you all could upload those financials on the website that would be very helpful.

Management: So, would be uploading the annual report before the AGM. You can refer to the annual report.

Harsh Shah: Okay. And the second question basically is on the two Surat-Dahisar and the Bharuch-Surat projects. So, basically the loan outstanding to the trust combined for both of these projects is 150 crores and I have about one year like 12 to 14 months of outstanding concession period for the two projects. So, the connections over this period will be much higher than the 150 crore. So, what would be the surplus money that could be left in both of these projects against the equity investment?

Management: So, basically as the form of distribution is interest, repayment and to the extent of the profit, it will be distributed by way of dividend. So, basically the entire money at the project level will get upstream in three forms of the distribution. So, there will not be money left at the project level.

- Management:** And also this 150 crore loan itself is from the trust. So, there's no external debt that also get upstream to the trust only.
- Harsh Shah:** Right. So, sir 150 crore is the loan there would be another 30 odd crores charge of interest for FY22. So we would be looking at a 180, 190 crore of distribution from these two projects in terms of debt and interest. And since both of these projects don't have positive reserves, how will the distribution happen in the form of dividends?
- Management:** So, what will happen, we will distribute minimum 90% depending on the type of distribution we have received from the SPV. So, if it has been received in the form of interest, the same will be distributed in the form of interest.
- Moderator:** Thank you. The next question is from the line of Mohit Kumar from DAM capital. Please go ahead.
- Mohit Kumar:** Sir what is the average tariff hike in the entire portfolio for FY22. If I remember correctly last year Surat-Dahisar had a 1.7% tariff hike while the Bharuch-Surat had 0.4% right?
- Management:** So, just to share with you Bharuch-Surat and MVR gets a tariff hike based on the WPI applicable as on 31st March every year. And Surat-Dahisar, it is an average WPI during the year.
- Mohit Kumar:** Correct, so that's the reason you are expecting a slightly higher tariff hike in Bharuch-Surat and in MVR right?
- Management:** Yes.
- Moderator:** Thank you. The next question is from the line of Parikshit Kandpal from HDFC Securities. Please go ahead.
- Parikshit Kandpal:** Sir, any impact of current second wave on the volumes and you can give some sense on that I may have missed it, you have discussed earlier.
- Management:** Parikshit as Mr. Menon also said in his opening remarks, that post the second fortnight of the April, we have started seeing some kind of impact on the

traffic as the state government has started travel restriction and the April month impact was around 10% to 15%. And in spite of the second wave of the COVID, most of the international rating agencies have projected a double-digit kind of growth in the GDP of India. If that holds true, then definitely we also expect the overall increase in the revenue of the trust will be in-line with the GDP and there will be additional cash flow coming from the increase in the tariff.

Parikshit Kandpal: Sir any talks with NHAI on extending giving, further extension because in because in the first we got 90 to 180 days kind of thing. So do you think any shot there that we may get some more relief from NHAI on the second wave?

Management: Yes, in the last wave NHAI has already granted extension of concession period for most of the projects for a minimum of 90 days. So, in the current wave, we have already notified force majeure event to NHAI and we will be putting up our claim shortly so that then NHAI can work on it.

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

Vinod K Menon: Thanks all the investors and analysts and shareholders for attending this call. Please take care and stay healthy. Thank you.

Moderator: Thank you sir. Ladies and gentlemen, this concludes your conference for today. We thank you for your participation and for using Researchbytes Conferencing Services. You may please disconnect your lines now. Thank you and have a great day.