IRB InvIT FUND

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Q4 FY25 Earnings Conference Call – Edited Transcript - May 9, 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 and year ended March 31, 2025.

We have with us on the call today, Mr. Jitender K. Chauhan; Mr. Anil Yadav; Mr. Rushabh Gandhi; and Ms. Swapna Arya from IRB InvIT team.

As a reminder, all participant lines will be in a listen-only mode and after the opening remarks by the management, there will be a question-and-answer session. Please note that the duration of the call 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. Rushabh Gandhi to give an overview of the significant development during the quarter. Thank you and over to you, sir.

Rushabh Gandhi: Thank you. Good morning to all. 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.

Toll revenue performance:

The general elections in India during the first half of FY 2024-25 initially impacted our performance. However, as the elections concluded, we witnessed a significant surge in activity during the second half, signaling a strong rebound. This uptick suggests that the temporary slowdown was largely election-related, and the underlying demand and momentum are robust.

On an annual basis, we have witnessed revenue growth of ~5% for the financial year. FY24 was a leap year, resulting in an extra day. Conversely, Q4FY25 has one less day, which will also impact the growth comparison.

The sustained momentum in April 2025 is highly encouraging and underscores the robust economic activity across our corridors. On a portfolio basis, we have witnessed 10% year-on-year growth for April, 2025. This performance was primarily driven by a 16% increase in the Tumkur–Chitradurga project and a 10% growth in the Jaipur–Deoli project.

Tariff revision for the Financial Year 2025-26:

For the financial year 2025-26, we have received a tariff revision of approximately 3.5% across four of our projects—namely, the Talegaon-Amravati Project, Tumkur-Chitradurga Project, Jaipur-Deoli Project, and Amritsar-Pathankot Project.

Consistent distribution:

For the quarter ending March 31, 2025, we are distributing ₹ 2.00 per unit, in line with our past distribution trends. This includes

- ₹1.69 per unit as interest
- ₹0.26 per unit as dividend
- ₹0.05 per unit as return of capital

With this, the cumulative distribution for the financial year 2024-25 stands at ₹8.00 per unit.

This distribution comprises:

- ₹4.98 per unit as interest
- ₹2.00 per unit as return of capital
- ₹1.02 per unit as dividend

Till date, since the Trust's IPO way back in year 2018, its cumulative distribution has reached ₹4,316 Crs (₹74.35 per unit), i.e., 73% of the aggregate fund raised.

Update on Acquisition:

The net debt to value of assets of the Trust is at 0.3:1 providing sufficient debt capacity for acquiring new assets.

On the acquisition front, we are in receipt of the revised NBO from IRB Infrastructure Trust offering 3 BOT assets. We are currently evaluating the opportunity received from IRB Infrastructure Trust.

With our MVR asset's concession life ending in financial year 2026-27 and its contribution close to Rs. 110 crores i.e. ~16% of the overall NDCF generation for FY25, the addition of new assets will facilitate a smooth transition, ensuring operational continuity, increasing the weighted average life of the assets, and minimizing potential disruptions.

Financial performance:

Now I will take you through the financial performance for the year.

The total consolidated income for the year ended FY25 stood at ₹1,110 crores as compared to ₹1,086 crores in FY24.

The consolidated toll revenues for the year ended FY25 increased at ₹945 crores as against ₹915 crores in FY24.
EBITDA for the year ended FY25 stood at ₹916 crores as against ₹886 crores in FY24.

Interest costs (including interest on premium deferment) for the year ended FY25 stood at ₹294 crores from ₹272 crores in FY24.

Depreciation including amortization for the year ended FY25 stood at ₹254 crores as against ₹230 crores in FY24.

The PAT for the year ended FY25 stood at ₹356 crores as against ₹373 crores in FY24.

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. We have a first question from the line of Dhvaneet Savla - from Savla Family. Please go ahead.

Dhvaneet Savla: Thank you for the presentation, my first question is with regards to the DPU, can you tell us what will be the impact of these new projects, from the Private InvIT, if we take, what kind of DPU can we look at going forward? And also, on the same front, this year, I think, we have had a significant part of the DPU coming from capital reduction. So, should it be a cause of worry or something? or is it a normal course of business? And my second question is with regards to the most recent activity which is happening near the border. I understand that this might adversely impact at least Pathankot Highway. So what are the built-in provisions between our agreement? And does it cover events such as wars or combats?

Management: Thank you. With respect to asset addition, our endeavor is to make the InvIT a perpetual vehicle. Adding assets will increase the InvIT's life from 14 years to approximately 17 years, making it more attractive to long-term investors like insurance companies and pension funds, which typically consider InvITs with a life of over 15 years.

Regarding payout, increasing the life from 14 to 17 years will have some impact. However, our aim is to maintain a steady payout. As this is currently a non-binding offer, we're evaluating the opportunity. Once we approach unit holders for approval, we'll have clarity on funding mix, pricing, and timelines.

At that point, we'll share revised payout details. Rest assured, there won't be any significant reduction in payouts.

Coming to your second question regarding capital reduction, as Rushabh mentioned in the opening remarks, the M.V.R. asset has just over a year of life left. As the project nears its end, debt repayment from the SPV to the Trust typically occurs, and the Trust distributes this to unit holders. You've likely seen this pattern with projects like Bharuch Surat and Surat Dahisar as they concluded their concession life.

Regarding the Pathankot Amritsar project, our concession agreement includes provisions for unforeseen events, such as acts of war. I can assure you that, currently, activities are proceeding normally, with no disruptions to traffic flow on this or any other project.

Dhvaneet Savla: Sir, just a small follow-up. Sir, I just wanted to know, does the concession agreements cover damages caused to the highway due to the war ? So for example, currently, the situation at the border is complex. So in case there is any damage caused to the highway, does the concession agreement also covers that cost? Or would that come out of the Trust's pockets or something?

Management: I can assure you that the concession agreement has clear provisions for damage coverage. If damage occurs, it will be addressed according to these provisions. We also have insurance coverage, and any insurance payouts will be deducted from the compensation amount. The remaining amount will be compensated accordingly. So, there are adequate provisions in place.

Dhvaneet Savla: Thank you very much sir and all the best for your coming quarters.

Moderator: Thank you. We have our next question from the line of Prashanthi from Wealth First. Please go ahead.

Prashanthi: Yes. We are from Wealth First, and the basic question is, in the presentation, you are showing that there is a revenue CAGR growth of 13%, which is not being registered in the distribution, number one. Number two, on the ₹85 billion new acquisition, what we are trying to do? ₹38 billion shown as a loan. And then what is your plan for the balance ₹47 billion? And the third one is borrowing is proposed at 8.9% and whereas the market rate for borrowing for all the AAA rating entities, market borrowing rate is at around 7.3%. So, what is the necessity of actually going for the bank loan at 8.9%?

Management: The revenue CAGR of 13% is computed for the period FY22 to Q3FY25. However, we have handed back two projects to the Authority upon completion of their respective Concession period. Coming to the cost of debt, the current cost of debt is linked to the MCLR rate.

We've seen two bank rate cuts by the RBI, and going forward, MCLR rates should decrease, benefiting the Trust. Historically, in October a couple of years ago, we saw interest rates as low as 7.25%.

Regarding the ₹85 billion opportunity, this represents the total enterprise value of the three assets. With a net debt of ₹36 billion, the differential would be the equity value, as per the valuation report by KPMG.

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

Saurav: Okay. So I have a couple of questions. So, this is the third year where the DPU is constant at ₹8.00 per unit. I understand endeavor from management that they want to keep it steady. But by when we can see any improvement in DPU? That's one. Second is, like, we have now got a revised non-binding agreement, right, from our sponsor. What are the time lines to close this transaction if we go ahead? Because as I understood, the initial was like 6 to 9 months. We looking at equity dilution to raise amount of money to fund this transaction? So those are my 2 questions.

Management: Saurav, regarding payout, you've seen improvement in toll collection, but we've also increased liability payouts for Tumkur Chitradurga due to premium payments and growing liabilities as per the agreement. With the M.V.R. project's life ending post-FY 2026, we aim to maintain payout stability. Considering these factors, we've set the payout at ₹8.00 per unit, distributing over 95% of cash generated to unit holders.

The current opportunity involves 3 assets, with a target transaction timeline of 2-3 months. This reduced size will facilitate a quicker transaction closure. The acquisition will be funded through debt and equity, with a significant portion likely being equity due to the existing ₹36 billion debt and ₹49-50 billion will be total equity consideration which can get funded through debt and equity.

Saurav: So, when can we see improvement, right? I mean, is there any timelines in Management's mind that you will be seeing improvement in DPU?

Management: I think that we will be able to share post the asset acquisition.

Saurav: Okay. Sorry, one follow-up question and a small follow-up for second. So you said that it would be an equity dilution. The instrument for this, has the Management finalized that, like whether it will be a rights issue or qualified placement or that will be decided closer to the transaction?

Management: That will be decided closer to the transaction.

Moderator: Thank you. We have our next question from the line of Mr. Vibhu Sharma, an Individual Investor.

Vibhu Sharma: So, my question was in regard to the presentation that was given out yesterday where the number of assets that the Private InvIT is offering to the Public InvIT has reduced from 5 to 3. So I don't know if it is possible for you to divulge more information on this. Why have the number of assets reduced? And my second part would be, is the management looking out for assets outside of the sponsored assets that might be available for the Public InvIT to be purchased by them?

Management: Sure. So, with regard to the offer from Private InvIT, so initially in the month of November, they offered 5 assets and recognizing the opportunities, they revised the offer from 5 to 3. So now we have received a revised non-binding offer from them for 3 assets.

This revised offer will benefit us in two key ways. One, it has reduced the overall size. The enterprise value for 5 assets was approx. Rs. 15,000 crores. Now it has been reduced to Rs. 8,500 crores. And it is similar to our current enterprise value of the Public InvIT, and the other benefit would be the increase in life.

So, the Public InvIT's current weighted average life is close to 14 years and Concession life for M.V.R. is going end in a couple of years. The 3 assets under the non-binding offers have a weighted average life exceeding 20 years. So it will increase the overall life. If we consider the acquired assets in our portfolio, then the post acquisition's weighted average life would be close to 17 years. And this acquisition will also fulfill the investment criteria of the minimum assets life of 15 years for certain classes of investors, like pension fund, insurance companies.

As an Investment Manager, our goals are to align with this revision. Asset addition to the InvIT will make it perpetual as our aim is to generate sustainable payout, coupled with long-term growth, ensuring stability and returns over an extended period. And the second part will be the steady payout. So our aim is to expand the InvIT through strategic asset addition, while ensuring a steady payout to unitholders, providing them consistent and long-term value. This revised offer supports our objective, creating a win-win situation for all the stakeholders.

Management: Though the offer reduced from 5 to 3 assets, we'll still have the right of first offer/refusal when the Private InvIT decides to sell. Over 1.5-2 years, we expect a total opportunity of 9 assets.

Regarding third-party assets, we continuously evaluate opportunities. The management has already assessed over 30 assets. We'll continue evaluating third-party assets as opportunities arise. Currently, many potential assets have been acquired by funds, and secondary market transactions have decreased over the past year. However, we'll definitely consider third-party assets whenever opportunities emerge.

Vibhu Sharma: Okay. So just one follow-up. I am sure that other reasons would not be entirely available to the shareholders of the Public InvIT. In the earlier presentation it says that the portfolio average residual life will increase from 14 years to 19 years. And now in the newer presentation, with the decreased assets, it says that it will increase from 14 to 17 years. So apart from the decreased cost of the assets that we would be acquiring, if we acquire those assets, the number of weighted average life is also going down. And apart from that, there would not be too much to look into this is what you are saying.

Management: Yes, those assets will likely become available for evaluation again in the future, presenting opportunities. When acquired, they'll further extend the InvIT's life. Our goal, through consistent asset additions, is to make this InvIT perpetual.

Moderator: Thank you. We have a follow-up question from the line of Prashanthi from Wealth First. Please go ahead.

Prashanthi: Yes. Basically, we had asked a question, but the line got cut. I just wanted to impress upon this borrowing at 8.9% from the bank. When the AAA institutions are able to raise the rates around 7.25% to 7.50%?

Management: Over the past 1-1.5 years, MCLR rates increased, impacting us due to our floating-rate debt linked to MCLR. However, with interest rates now decreasing, this will benefit the Trust. The management opted for a floating rate, and with MCLR around 8.5%, adding a 30-40 basis point spread brings it to 8.8-8.9%. Following the RBI's 50 basis point rate cut, further reductions will automatically benefit us.

Prashanthi: Okay. One follow-on question. On the Rs. 47 billion, what we have shown as a deficit for the new asset acquisition. We are looking at actually raising the equity, which means basically issuing new units, if you issue the units under the current market price, which is to discount to the NAV, will it not affect the entire organization assets? While we appreciate that you are trying to do the acquisition for elongating the maturity and then making it perpetual. So what is the impact on that by selling the units at a discount to the NAV?

Management: The enterprise value of the Private InvIT assets is ₹85 billion, with a net debt of ₹36 billion. The valuation was conducted by KPMG. The acquisition's debt and equity structure will depend on our evaluation and discussions with potential investors, determining the optimal mix for the Public InvIT.

Prashanthi: I know in the presentation; you have mentioned that Rs. 38 billion is supposed to be the debt out of the Rs. 85 billion. I'm asking about that what is mentioned in the presentation.

Management: Yes, the target assets currently have ₹38 billion in debt. This is the existing project debt, not the post-acquisition debt level. The acquisition value is approximately ₹48-50 billion, which will be funded through a combination of debt and equity.

Prashanthi: So even then, because our feeling is not going to permit the entire amount to be raised as a debt. There will be definitely, I assume that there will be equity dilution, right?

Management: Yes, we've confirmed that equity dilution will occur since the acquisition can't be fully debt-funded. The extent of equity dilution will be determined through discussions with investors, and the pricing will be guided by SEBI-driven formulas.

Prashanthi: I know. That's not what I am asking. Basically, anyway we are at steep discount. If you're going to be around the market price, then there will be too much disadvantages for the existing unitholders, right?

Management: Existing investors will benefit from the elongated asset life. InvITs that make asset additions typically see capital appreciation, unlike those that don't. Let's look at our own InvIT: adding an asset previously led to significant price improvement. We believe asset additions will increase life, overall payouts, and may lead to capital appreciation for unit holders.

Prashanthi: So I fully agree with you that I think we are all doing the additions because we want to increase the DPU. What I am saying is at the current discounted prices, if a new investor comes, they will get a major advantage compared to the existing investors. We are holding at Rs. 102 at the unit price. So I'm asking about that.

Management: Yes, existing investors always have the opportunity to add units if they believe the current price is at a discount.

Prashanthi: That is actually in case we have more capacity. I am talking about, basically, you know what I am asking about it, right? By selling a unit at a discounted value, who is going to get benefited? That's what I'm trying to ask you

Management: We believe this will be a win-win situation for both current and prospective investors. The decision will ultimately be made by the unit holders, following evaluation and recommendation by the management and board.

Management: Our interest aligns with maximizing value for unit holders. New investors will conduct their own due diligence and must agree on the price.

Prashanthi: Okay. One sincere request is, first, let it be offered to the existing unitholders, in case, actually, they want to engage in the enhanced equity.

Management: We take note of your suggestions. Thank you.

Moderator: Thank you. We have a next question from the line of Mr. Rajiv Malhotra from HCPL Parts Co. Please go ahead.

Rajiv Malhotra: I think nice sets of results. May I address one question as politely as I can? You have been trying to tell us that due to various reasons, the unit price needs to go up, and they've not gone up or gone down because of addition. I think the major point is you have to be more transparent to the unitholders. Exactly 4 to 5 months ago, you got an offer from the Private InvIT, which is not too far off from IRB management. And now it has gone to 3. The question is, did you say no? I mean, what I am trying to say is that did they withdraw or do you say no because it could not be financed?

Management: I think Mr. Rushabh's reply covers it well. Given the 5-5.5 month lapse, they've revised the offer. The Private InvIT's original timeline was 6 months, so the offer would've expired mid-May anyway. This is a win-win situation. Importantly, future assets will be offered to the Public InvIT.

Rajiv Malhotra: Your answer is well appreciated, sir, as the holder of these units for over half a decade and with other similar holders of this unit. The problem of the price going down is not only new assets, etc. Everybody is just looking at IRR, okay? And we have been trying to reach out earlier also that our model, computer modeling, our Excel modeling showed that taking those 5 assets was almost nearly impossible. Taking these 3 is also all right and I think you have the same responsibility to IRB Infra and to Mr. Mhaiskar family also.

Management: The Private InvIT is managed by IRB along with two prominent investors: Ferrovial, a US-listed company, and a Sovereign Wealth Fund. They have representation on the Investment Manager's Board. Decision-making isn't IRB's sole prerogative; Its done by all three parties. For the Public InvIT, the decision will be made by a majority of minority stakeholders, with IRB not voting. Unit holders will decide whether the InvIT expires in 13.5 to 14 years or continues to grow.

Rajiv Malhotra: Thank you for that. Lastly, the suggestion by a couple of the other investors was quite valid. Whenever you do decide, please be fair to tell us the process in between and try to come out with the rights issue. That is the only way this unit price will increase over time. Otherwise, we have seen what is happening. So I mean, that's my humble suggestion to you. Please try to make this as a rights issue. When you give it as a rights issue, the price discount or premium to the market price is very little role in it.

Management: our suggestion is well taken, but we've received conflicting feedback from unit holders. Some unitholders want the additional capital issuance at a premium, while others may prefer a right issue. Typically, rights issues are priced at market value or a discount. We'll consider all unit holder inputs, acting in fiduciary capacity, and make decisions based on minority unit holder approval.

Moderator: Thank you. We have our next question from the line of Mr. Ashwini Agarwal from Demeter Advisors LLP. Please go ahead.

Ashwini Agarwal: One question. The 3 assets that have been offered to you are based on the traffic projections and the underlying revenues, what kind of project IRRs are you looking at?

Management: I think the IRR, which will translate to the Public InvIT will be 13.5% to 14%.

Ashwini Agarwal: And 13.5% to 14% would be on an unlevered basis. So, would you lever it up?

Management: It will be on the levered basis. Unlevered basis, it will be around 12 to 12.5%.

Ashwini Agarwal: Okay. So 12 to 12.5% on an unlevered basis. Okay. And these are all revenue-earning projects. So, there is no project which has still to be completed, their work is to be completed or anything like that.

Management: Yes, sir. All are revenue-generating assets with a track record of toll collection.

Ashwini Agarwal: And if I may ask, I mean, obviously, there has been a lot of discussion around this, and I support that. But see, rights issue is nondilutive in nature. So the pricing is immaterial, whether you price a rights issue at Rs.10 or at Rs. 100, it doesn't make any difference and if some shareholders don't want to take up the rights, a third-party investor can choose to pick up those rights. So rather than operate on a preferential basis to a third party, my strong recommendation would be to consider a rights issue first. And the rejects from the rights can be offered to a third party. So that way shareholders at least have the opportunity to participate. Whether they choose to participate or not is up to each individual investors. So that's just a comment.

The second thing I wanted to ask you is that the NAV dropped from 98-odd to 95-odd between September and March. I'm assuming this is just kind of a time catch-up because one of your projects is coming close to its end of life. Would that be correct? Or is there some other element in it?

Management: Definitely, you are right. So one of the reasons as explained, with regard to falling in M.V.R. Enterprise value (EV) and the other part is the tariff revision. So earlier, it was estimated that the tariff revision of around 4.5% to 5%, but we have received the tariff revision of close to 3.5%. So these 2 impacts have reduced the NAV.

Ashwini Agarwal: So the tariff revision, what is the basis of that? You have to apply to NHAI each year and then the NHAI agrees to a certain tariff revision or how does it work?

Management: 3% of the amount is fixed, while the remaining portion is linked to the Wholesale Price Index (WPI) of the previous December. We submit calculations to the independent engineer appointed by NHAI, and the process is automated. If we don't receive any feedback, we can implement changes from April 1.

Ashwini Agarwal: So a low WPI would basically result in lower incremental tariffs for you. So in the NAV calculation, what kind of WPI is being resumed by the valuation agency?

Management: Historically, over the past 5 years, WPI averaged around 5%, reflected in tariff revisions. For future projections, the valuer has assumed a WPI of 4.5-4.75%.

Management: The discount rate typically moves in line with WPI. Lower WPI would lead to a decrease in discounting costs. With recent rate reductions by RBI, G-sec rates have decreased, which should lower discounting costs. Although the impact is minor for this quarter, we expect reduction in WACC due to declining G-sec rates. Ideally, these factors should go hand in hand.

Ashwini Agarwal: Okay. Sir, one last question from me. That - the roughly Rs. 4,500 or Rs. 4,700 crores, whatever is the net investment required from the Public InvIT, that will be a mix of debt and equity. Any broad indication of how much debt are you proposing to take because you have a lot of headroom given that debt to assets is only at 0.3 and you can go up to 1 time?

Management: Yes, sir. You are absolutely correct, sir. Our intention is to go our debt to the value of assets between 45% to 49%. And we will try to keep as closer to 1:1 debt-equity.

Moderator: Thank you. We have our next question from the line of Mr. R.D. Khanna from Swadeshi Raiment Private Limited. Please go ahead.

R.D. Khanna: My question is with regard to the repayment of capital. You are repaying capital at the rate of Rs. 2.00 per year. With this average life of 14 years, the reduction of capital would be Rs. 28. Whereas our investment today stands about at the market value, let's say, Rs. 60. How are we ensuring that after the payment of the interest, the capital which we will be holding will be repaid towards in full or at a loss? This is my question.

Management: The IRR calculation assumes full capital recovery and is based on that premise. When we launched the public issuance in 2018, the expected IRR was around 11.65%, factoring in the Rs. 102 payout to unitholders. With the current price decrease, the IRR would likely have improved. IRR reflects returns on investment after recovering the initial investment.

R.D. Khanna: That is an income which gets taxed. But this way, my capital, I will be losing having huge capital loss. You reduce interest. You pay me, return my capital. But how are you ensuring that unitholders capital will be safe? You will be suffering a huge loss. Our capital is lost.

Management: Sir, Its driven by SEBI regulations.

R.D. Khanna: Because it is very clear, you will be returning Rs. 28 even though today's market is Rs. 55. I would suffer a loss of Rs. 20. How will you compensate this capital loss?

Management: Sir, how you are at capital loss?

R.D. Khanna: You reduce my interest today onwards. But at least, my capital should be protected.

Management: Sir, it's not the case. The number calculated by you may not be appropriate.

R.D. Khanna: You please let me know my only criteria is I make that and actually lost income. But my capital should remain protected.

Management: Sir, we've handed over only two projects so far, with M.V.R. nearing handover. As projects approach handover, capital repayment occurs. The distribution form isn't determined by the company; SEBI regulations dictate that the distribution form to unitholders mirrors the form of distribution from SPV to InvIT. We pass on the generated distributions to unitholders without alteration. With four assets having longer lifespans, we'll see consistent capital repayment as they near their end-of-life. These distributions, whether interest, dividend, or capital, are driven by regulatory requirements, not the Investment Manager.

R.D. Khanna: Right, sir. My only question is it may be regulated by SEBI, but at least when you are giving fair value, I am unnecessarily get paid. You may actually request SEBI that you need to tell the reason that people are losing their capital. And SEBI is so open. If you will point out already capital is not lost, they will certainly advise you.

Management: Noted.

R.D. Khanna: Finally, I have told you my problem. I should not lose my capital. You are the best person to decide. I may get less income. It is the route before you decide these procedures taken by you because we do have a capital opportunity.

Moderator: Sorry to interrupt. We are post the time of the call. We will close the call now.

Ladies and gentlemen, any queries left unanswered after the call can be subsequently mailed to the management for adequate response and resolution and I would now like to hand the conference over to the management for closing comments. Over to you, sir.

Swapna Arya: Thank you for joining on this call. We appreciate your participation. If you have any further questions, please feel free to reach out to us. Thank you, once again, and have a great weekend.

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