



IRB InvIT Fund

Q2 FY-22 Earnings Conference Call – Edited Transcript 25th October 2021

Moderator:

Good morning ladies and gentlemen, welcome to the IRB InvIT Fund call hosted by the company for discussing the financial results for Q2 FY22. 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 will be 45 minutes and any queries left unanswered after the call can be subsequently mailed to the management for adequate response and resolution. Please note that this conference is being recorded.

I now handover the conference to Mr. Menon to give you an overview of the significant development during the quarter. Thank you and over to you sir.

Vinod K Menon:

A very good morning to all. I am Vinod K. Menon. I would like to welcome all the investors and analysts on this call. Hope you have reviewed our detailed numbers as well as the presentation. As you know, we are distributing Rs. 2.20 per unit as against Rs. 1.80 per unit than last quarter. In spite of the recent second wave of pandemic, the economy seems to have embarked on the recovery path with most sectors recording improved performance. We have seen gradually revival in the toll numbers on the backdrop of improved economic recovery, increased pace of vaccination, and decline in the fresh COVID-19 cases. Improved economic activities in the second quarter of the ongoing fiscal year will spur growth momentum for the road sector in the coming quarters. We have observed that the festive season has started on a good note and we have started witnessing an uptick in the traffic movement already, providing comfort and traction for the coming quarters. The bounce back in the toll collection is evident from the recovery in the passenger vehicles and the commercial vehicles, reflecting on the slide 15 of the corporate presentation.

Across the projects, we have witnessed approximately 21.5% growth Y-o-Y for Q2 FY22, after excluding Pathankot-Amritsar project, where tolling is temporarily halted due to the farmers' protest. For the portfolio, the numbers would have been much stronger had this Pathankot-Amritsar project also contributed to the receipts. Due to the ongoing farmers' protest, tolling for the project has been halted since last October beginning. In line with NHAI circular and the provisions of the Concession Agreement, the Company has filed for compensation with NHAI. The claim is currently under review with NHAI headquarters and expected to be received shortly. Our per day collections have improved to over Rs. 4.5 crores for the quarter ended

September 2021. Even without any contribution from Amritsar Pathankot project as compared to Rs. 4.04 crores per day for the quarter ended September 2020.

We have received toll rate revision in Jaipur-Deoli, Pathankot-Amritsar, Tumkur-Chitradurga and Talegaon-Amravati Projects at the rate 3.9% applicable from April 1st, 2021. Bharuch-Surat rate revision was to the tune of 7.9% applicable from July 1st, 2021. Surat-Dahisar and MVR rate revision applicable from September 1st, 2021 was to the tune of 1.31% and 7.9% respectively. With a 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 Q1. With respect to the addition of assets to our InvIT, one of the sponsor assets is expected to be completed shortly. Thereafter, this hybrid annuity model asset would be eligible for transfer to the InvIT subject to requisite approvals.

Considering the previous year trend, the second half of the fiscal year seems to be promising, leading towards strong generation of cash flows, which along with the compensation for Amritsar-Pathankot project on account of the farmers' protest will lead to a higher distribution for FY22 than Rs. 8.5 per unit undertaken for FY21.

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

Rushabh Gandhi:

Thank you sir. I would to present the financial analysis for the current quarter with the corresponding quarter of previous year. The total consolidated income for the current quarter has increased to Rs. 328 crores from Rs. 296 crores in the corresponding quarter of the previous year i.e. September 20. The consolidated toll revenue for the current quarter has increased to Rs. 313 crores from Rs. 288 crores in the corresponding quarter of previous year. EBITDA has increased to Rs. 269 crores in the current quarter from Rs. 239 crores in the corresponding quarter of previous year. Interest costs, which includes the interest on premium deferment for the current quarter September 21 has decreased to Rs. 36 crores from Rs. 37 in September 20.

Depreciation for the current quarter has increased to Rs. 156 crores from Rs. 153 crores in the corresponding quarter of the previous year. The profit after tax for the current quarter has increased to Rs. 73 crores as compared to Rs. 49 crores in the corresponding quarter of the previous year.

I will now request the moderator to open the session for Q&A.

Moderator:

Thank you very much, Sir. Ladies and gentlemen, we will now begin the question and answer session. The first question is from the line of Dheeraj Dave from Samvad Financial. Please go ahead.

Dheeraj Dave: Thanks a lot for the interest distribution. Sir one question I had basically is, what is the kind of repair expenditure we need to do, major CAPEX as well as routine CAPEX kind of it? Is there something which you can give some indication about road repair on all our assets put together?

Management: With regard to the road repair, generally after five years or six years, we are required to do a major maintenance. If we look at the life horizon of asset over 15 years concession, Operation and maintenance expenses are around 12-15% p.a. of the total collection. Since we have entered into the fixed price contract with Project Manager for a period of 10 years, our 10 years O&M price is fixed. The valuation report uploaded by the Company on our website consists of the O&M expense details for each project.

Dheeraj Dave: But if you can give some ballpark numbers of all our six assets; again, it can be average of three years or something, whatever you feel.

Management: We had our total toll revenue for this quarter of around Rs. 326 crores and EBITDA was around Rs. 270 crores. This results into operation and maintenance cost of ~ Rs. 50 – Rs. 60 crores.

Dheeraj Dave: And this would be every quarter kind of it?

Management: Yes, for this financial year.

Dheeraj Dave: Secondly sir, we had said in the notes to account. In the Amritsar-Pathankot, we recognize the claim of Rs. 80.21 crores in six months ended September 30th. So have we received cash for same or is the same thing which you given your opening remarks that you have already initiated. So is the accrual booking or is it the cash received, Rs. 80.21 crores income which we had booked? This is point 5 on page 5 of financial results.

Management: Yes. I would like to draw your attention, the toll collection for Amritsar-Pathankot was suspended since October 2020 due to ongoing farmer agitation and till the last quarter, we have not booked any income and during the end of the last quarter, NHAI has issued a circular stating that this event will fall under indirect political event. As defined in the concession agreement, we are eligible for 50% of interest and O&M as reimbursement and extension in the concession period, so as to keep the Company NPV neutral because of this loss.

Dheeraj Dave: That is the amount which you have considered, right? Rs. 80 crores is 50% of interest and O&M, right, that is what is it considered?

Management: Yes.

Dheeraj Dave: Sir, we have given secured advances around Rs. 154 crores during six months to IRBIDL and received back Rs. 148 crores. They are doing project maintenance work, but any specific reason to extend the loan?

Management: There is no loan extended per se. In some of the projects, periodic maintenance is ongoing in the current year. In order to mobilize the sites, it is the normal business practice in the construction industry to extend the mobilization advance and sometimes mobilization advance is provided interest free. But in our case, it is secured against the material and we charge 10% interest on the same. As and when the billing starts, the same is recovered and this is the consistent practice over the period of time, from last 3 or 4 years since the Trust listing. This is a general business phenomenon for any construction company.

Dheeraj Dave: Okay, thanks a lot. Wish you all the best, and sir we will request if we can increase the distribution. Because I believe that you are still looking for Surat-Dahisar things to stabilize, but I would request if you can increase the distribution whenever it come.

Moderator: Thank you. Our next question is from the line of Satinder Bedi from Eon Investments. Please go ahead.

Satinder Bedi: I have got two questions, one related to the Pathankot-Amritsar project and the other is about Jaipur-Deoli and one suggestion thereafter. So regarding Pathankot-Amritsar, so what we see is that in Q1, the income booked was Rs. 70 crores, whereas, in this quarter, income booked is only about Rs. 10 crores. I understand that Rs. 70 crores is from October onwards. So we are talking about typically three quarters getting booked there, okay. But this Rs. 10 crores does not seem to be for full quarter. So we want to understand on the basis of the composition formula. What is the quarterly run rate which is expected? Regarding the formula, so is it 100% of interest plus 50% of O&M? Or is it 100% of interest plus 50% of O&M over the insurance cover. If you can clarify a bit on this also. So is this Rs. 80 crores received or not received? And if not received, is this a part of the Rs. 94 crores of loan cash income which is getting issued? And if it has not been received, then how is the interest of Rs. 70 crores which has been paid by PA to the trust, how is that been financed? This whole claim will be in the borrowings of PA from the trust otherwise. So that is regarding the PA.

Management: To address your question with regard to the Amritsar-Pathankot, as you rightly mentioned during the last quarter, we have recognized for almost 9 to 10 months income. And this quarter it was only for three months. And before the closure of the Toll Plaza, Amritsar-Pathankot was collecting close to Rs. 35 to Rs. 36 lakhs per day. So that was translating to Rs. 10 to Rs. 11 crores of collection per month. And on a quarterly basis that translates to Rs. 30 to Rs. 35 crores of collection. But the compensation is not linked with the

collection, and compensation is 50% of interest and O&M costs. And with regard to the compensation, so far we have not received the compensation. That is as our CEO has already explained, that is pending at highest level at NHAI. We are expecting to hear from them very soon.

Satinder Bedi: How has this been then funded? Because Rs. 70 crores of interest has been paid to the Trust, and it forms the part of the Trust income. Only Tumkur-Chitradurga interest income is not included, okay, that is cash not received. But Rs. 70 crores has been received as part of the cash in the Trust. So how has that been financed once you are not getting the money without changing the loan from the Trust to the SPV?

Management: With respect to the funding of the interest cost, Tumkur-Chitradurga is not getting funded because there is embargo on the escrow account itself. But in Pathankot Amritsar project, there is no embargo on the escrow account and whatever the other SPVs are generating as surplus, those are extended as short term loan to the Pathankot Amritsar project, and the Pathankot is paying their interest.

Satinder Bedi: Regarding Jaipur-Deoli, the EBITDA as a percentage of total income seems to be much lower than for other typical projects. So if you could kindly explain as to what is causing this leakage from the total income to EBITDA? Is it only that there was some abnormal maintenance with time or whatever?

Management: I don't think so that, all the projects are not comparable. For example, Surat-Dahisar is 240 kilometers, and that toll collection on per quarter basis is roughly Rs. 190 to Rs. 200 crore. But in Jaipur-Deoli, it is a 144 kilometers and the toll collection is only Rs. 17 crores per quarter. But we are required to maintain the entire stretch of 144 Kilometers. So the PCU on the Jaipur-Deoli as compared to some of the other projects are on the lower side. Further, Surat-Dahisar and some of the other projects like IDAA are matured projects. So there the PCU has already increased. So in the Jaipur-Deoli also, when we reach to the fag end of the concession, at that time the % EBITDA of Jaipur-Deoli also will increase.

Satinder Bedi: Jaipur-Deoli seems to be struggling. The traffic is lower than it was 4 years ago. So even pre-COVID, we have not come back to those levels. So what your sense of new challenges that the projects is facing? And how do you see that recovering going forward?

Management: In case of Jaipur-Deoli project, if I will compare September 19 with September 21, we have seen a double digit kind of growth. So each year the growth was 6 to 7% on the project corridor. Definitely before the September 19 itself because of some mining restriction, there was a lower traffic on Jaipur-Deoli. For that, the project is eligible to get five years extension in

concession period. And gradually, the mines are starting now and we expect the toll collection to further improve in future.

Moderator: Thank you. Next question is on the line of Shreyansh Mehta from Shree Capital. Please go ahead.

Shreyansh Mehta: This is about Baruch-Surat and Surat-Dahisar section. Firstly the time period which is mentioned in the presentation is up to May or June, 2022. Just wanted to know is there any anticipated extension to that or this is the final as on date?

Management: This end date provided is after considering the anticipated extension of concession period.

Shreyansh Mehta: Secondly, in this price revision which has come along, there is a huge difference between these two sections of the toll roads. One for Baruch-Surat it is about 7.8% revision that we have got, and Surat-Dahisar we have got just about 1.3%. Can you explain such huge difference between the two?

Management: In case of Surat-Dahisar, as per Concession agreement, the WPI is linked to the average for the entire year and whereas in case of Bharuch-Surat and MVR, WPI is linked to the month of March. So towards the end of the previous year, WPI has increased, so we have got a healthy revision for MVR and Bharuch-Surat. But Surat-Dahisar being average for the entire year, there the rate revision was on a lower side.

Shreyansh Mehta: And obviously the rate revisions happen only once in a year. The next revision will come only after a year. Is that correct?

Management: Yes, correct.

Shreyansh Mehta: Lastly on both these sections, there is very little debt remaining, and hence I was wondering in what form or how the repayment from these two sections to the company will change in the time to come, and how it will correspondingly affect the distribution to shareholders or unit holders, in form of whether it will be interest, capital repayment or dividend, especially the money which will be flowing from these two sections? The outstanding debt is Rs. 34 and Rs. 20 crores respectively. Hence, when this toll flow which continues to come in up to the date of handing over or end of concession period, the toll collection which will be coming on these two sections will get transferred to the Trust, obviously first as a part of outstanding debt, which will be repaid and then subsequent or significant amount which is surplus. Will come to the trust as just income, is that correct understanding? And then will that affect the nature of distribution to the unit holders?

Management: You are absolutely correct. So, whatever the distribution will happen post the interest and the capital repayment, that will be in the form of dividend which will be to the extent of the Profit generated in those two SPVs.

Shreyansh Mehta: And since these two SPVs are possibly contributing the highest, more than 50% of our total revenue at this point of time, can we expect some part of next distribution as dividends?

Management: Yes, probably in this year, we will pay some dividend.

Moderator: Next question is from the line of Rushabh Shredalal from Pravin Ratilal Share and Broker, Please go ahead.

Rushabh Shredalal: First question pertaining to the new asset acquisition that you have been talking about for the last two or three quarters. So one, you have already said that one of the sponsor assets will be received. So, just wanted to understand what kind of impact will it have on the distribution once this asset is received. And I am sure that once Surat-Dahisar and Bharuch-Surat go away, I think there will be a big hit on our distribution. So how do you actually plan to cope up that hit, and ensure that we at least pay a distribution of close to Rs. 7.5 to Rs. 8.00 per unit as distribution? What is exactly the thought of the management on the acquisition of this new asset? Because I think we have been talking about this acquisition for quite some time now. And as far as the investor community is concerned, we have not really received any kind of updates on what the management is planning to do. So if you can clarify the situation that is my first question.

Management: As we have discussed in previous calls also, because of the COVID we were not able to acquire any of the assets. We were also not certain that how the things will pan out post the COVID scenario. So, considering that we have not acquired any Toll Assets. As one of the sponsor assets is HAM asset will be offered where we have a clarity that fixed revenue will be coming from the NHAI, we are planning to acquire that particular asset subject to unit holders' approval. Now coming to the distribution, even after this Surat-Dahisar and Bharuch-Surat goes off, considering now there is spurt in the traffic, we expect that the revenue will grow in range of around 11 to 12%. These two assets are with us for another almost for 6 to 8 months. Post handing over of these assets and we expect to pay a minimum Rs. 7.00 to Rs. 8.00 per unit p.a..

Rushabh Shredalal: Just like to know a clarification from your end that you have said that these assets will be there in our portfolio for coming year. But if I read the investor presentation, they say that April and May 22. So I think we have just two quarters from where we will be getting the revenue from Surat-Dahisar and Baruch-Surat. So I think after two quarters and one of our projects is not generating a single rupee of revenue for a considerable period of time i.e.

Pathankot-Amritsar. So I really fail to understand that what kind of a traffic growth, will it be really able to compensate for the 55 to 60% of the distribution that is coming just from the two assets? Also what about the other assets that you have been planning to acquire? Because I think our debt-equity ratio is pretty low. I think we can even get debts at very cheap levels for a company like you which have a Triple A rated. I think you can get that at a very cheaper level. So what exactly are you planning on acquiring new assets? That's what I want to understand.

Management:

There will be some retention amount by the end of this financial year which will help in pay out in the next financial year. With regard to exact how the cash flow will pan out, I will request you to go through the valuation report, which is done by the independent valuer. And from there you can make out what is the cash flow we are generating and work out surplus available for payment to the unit holder. Further, you rightly mentioned that our debt is only 20 - 25% of the EV, and we have another room for around Rs. 4,500 crores to raise and acquire the assets. So our thought process is to at least add one or two assets every year, probably considering HAM assets, these are low-risk assets. Post transfer of Surat Dahisar and Bharuch Surat project, we will have 5 assets where the weighted average life of assets will be around 15 to 16 years. So we will get a growth also coming out of this 5 assets i.e benefit of recovery in economy and plus we will acquire another 4 or 5 HAM assets over the period of next 2 to 3 years so that it will be a blended portfolio where we will be getting a fixed kind of annuity from the HAM assets and the growth will be coming from the toll assets.

Rushabh Sharedalal: No, that is true and I understand that. But what I am trying to say is that we have been talking about acquiring 4 to 5 HAM assets in the coming 2 to 3 years for quite some time now. So, as on date, any asset that you have been actually anticipating to get in your portfolio, and at what stage of the process are we in the process of getting those assets? And what is your actual method of bringing new assets and analyzing them before bringing new assets into the portfolio? So where are we actually, since last 4 years we have not added a single asset in our portfolio. Where we are actually in acquiring those assets, at what stage is it? Let us say you have selected three or four assets then at what stage will they actually come in our portfolio?

Management:

In last 4 years, we have only added one Amritsar-Pathankot project to the portfolio. And, because last 2 years there was hardly any activity on the M&A side, and we were also not certain what the impact of the COVID will happen on the overall economy and even on the road projects. In fact in the past we have discussed that we had evaluated some of the toll assets also, and because those were not meeting our criteria regarding the past growth which was not adequate. Hence we were not able to add those assets to the portfolio. And whenever we want to add, our thought process is that the asset should not be yield destructive to the unit holder. So for that, HAM asset will be the

ideal asset to add where you typically get a fixed payout over the entire concession period, accordingly in the initial year also, there will not be a cash leakage from the Trust level. We have one asset from sponsor which will be ready by within a couple of months and that will be available for our evaluation and post our evaluation, we will put forth for the voting to the unit holder.

Rushabh Sharedalal: But apart from that sponsor asset, are there any other assets in the pipeline that you are evaluating and that may come into the portfolio by April or May of 2022, or is there no such plan at the moment?

Management: On timely basis, we are evaluating the third party assets also. But most of the assets were only till the drawing board. And none of the assets have reached to a conclusion where we can put forth for the board approval. The moment we reach to that particular level, then only we will be able to share much details on the same.

Rushabh Sharedalal: Just one small question pertaining to your compensation that you expect to receive from NHAI for Amritsar-Pathankot. I am sure you must have internally discussed on some kind of amount that you expect to receive. So what would that compensation amount be?

Management: I think that is already at NHAI level. Once we get a final confirmation from the NHAI, we will be able share the amount.

Rushabh Sharedalal: Your numbers are improving, but what I feel is that, there are pension funds that are investing into other InvITs. So I think what we need to do is, if we have such a good business plan in hand, we need to actually try and acquire more assets and become more aggressive. So that such big institutions can invest in our InvIT also. That is a small request from my-self to the management. I am sure you will consider it.

Management: Definitely, we will consider it. And just to share with you, from the 3 or 4 years of listing, we have evaluated more than 10 to 15 assets. We have evaluated some of the toll projects and in that the last 2-3 years growth was not adequate, some projects were having some other challenges and we thought let us not compromise return to the unit holder. That was one of the main reasons why we have not added the asset. HAM asset has started getting completed. Even the third party assets were also on advanced stages of completion. Within the next couple of years, almost 40 to 50 HAM assets will get completed from the third parties also. So that will be the time when the Trust should aggressively look to acquire the HAM assets. Because there was some or other issue with the traffic growth and other areas, due to which we have not acquired the toll assets.

Rushabh Sharedalal: So even after the assets - Surat-Dahisar and Bharuch-Surat go away, will you be able to distribute Rs. 7 per unit the distribution considering the growth that you have seen? I think your valuation reports state that, but will you actually be able to do it?

Management: On the 11-12% kind of assumptions of revenue growth, we should be able to do that.

Moderator: Next question is from the line of Dhwaneet C an individual investor. Please go ahead.

Dhwaneet C: My first question is with regards to the distribution. I think till now, for this current year we have done around Rs. 4 of distribution. I wanted to know by the end of this year how much kind of distributions are we aiming? And I know obviously it can't be something in line with what it was in 2019 that is where would we reach. Secondly, I was going through the presentation, I can see that you have maintained that the concession period is ending is based on our expectations. Can you tell us that by when these dates can be actually known for that, for example, the Amritsar-Pathankot we assume that there would be an extension of a year. So by when can we an exact idea of how much extension and how much compensation are we getting on that?

Management: I think we have talked about projected distribution for this financial year. As in the last quarter con-call, we have said that we will try to better the payout what we did in FY21, in FY22. With regard to the extension of the concession period, based on the concession agreement, we are eligible for 20% extension in the concession period, if we are not able to meet the target traffic on the target traffic date. And based on that, we have considered the extension because in Amritsar-Pathankot project, already the target traffic date is over, and IE had already conducted that survey. And based on the survey count, we are eligible for extension in concession period.

Dhwaneet C: But this is 20% of the extension after the event ends. Currently the event is still progressing, the route is still not operational, right?

Management: Route is operational, toll collection is stopped.

Dhwaneet C: Okay, so that is still considered as an exceptional event, right?

Management: Yes. Additional extension will be available and the cash compensation, as we have discussed in earlier question also.

Dhwaneet C: Thank you and all the best for the coming quarters. Hopefully for me and all the other unit holders you can do a much better unit distribution compared to last quarters, all the best.

Moderator: Thank you very much. Ladies and gentlemen, due to time constraint that was the last question. I now hand over the conference to Mr. Menon for closing comments, over to you sir.

Vinod K Menon: Thank you all the analysts and investors on today's call. It was indeed a fruitful discussion, really appreciate.

Moderator: Thank you very much members of management. Ladies and gentlemen, this concludes your conference call for today. We thank you for your participation and for using Researchbytes Conferencing Services. You may disconnect your lines now. Thank you and have a great day.