



IRB InvIT Fund
Q2 FY-23 Earnings Conference Call – Edited Transcript
October 18, 2022

Moderator: Good evening, ladies and gentlemen. Welcome to the IRB InvIT Call hosted by the Company for discussing the financial results for Q2 FY23. We have with us today on the call Mr. Vinod K Menon, Mr. Anil Yadav, Mr. Rushabh Gandhi and Ms. Swapna Vengurlekar from IRB InvIT team. As a reminder, all participant lines will be in the listen only mode. After the opening remarks by the management, there will be a question and answer session. Please note that the duration of the call would be 45 minutes and any queries left unanswered after the call can be subsequently mailed to the management for adequate response and resolution. Please note that this conference is being recorded. I now request Mr. Menon to give you an overview of the significant development during the quarter. Thank you and over to you, sir.

Management: Thank you. Good afternoon, everyone. I would like to welcome all the investors and analysts on this call. Hope you have received the detailed numbers as well as the presentation. During the quarter ended September 22, Omalur – Salem project has received tariff rate revision of ~ 15%, which was effective from 1st September 2022. As compared to the corresponding quarter of the previous year we have received 19% growth in the toll revenue on a like to like basis i.e. excluding Bharuch Surat, Surat Dahisar and Pathankot Amritsar projects. September quarter being monsoon quarter is generally softer on traffic side as compared to the other quarters of the year. Pathankot Amritsar project has witnessed softening of the traffic primarily because of the monsoon. Historically we have witnessed a very robust growth in the second half of the year. With respect to Tumkur Chitradurga project, the Hon'ble Arbitral Tribunal in their interim award has removed the existing embargo on the operation of the escrow account and permitted withdrawals towards taxes, O&M payment and debt servicing and also allowed withdrawals for the payment of premium/revenue share to the NHAI. Moreover, the Hon'ble Tribunal has also permitted operation of the escrow account to continue as per waterfall mechanism provided in the escrow agreement. With respect to compensation of the farmers' agitation for Amritsar Pathankot project, the Company has received interim relief of Rs. 36 crores from NHAI.



The Company is under discussion with the NHAI for the balance amount. With respect to Vadodara Kim HAM asset addition to our InvIT, the resolution for acquisition of VK1 project is approved by 99.99% of the votes in the favor of the resolution, 93% of institutional unitholders have casted their votes. On behalf of the Board and the Management, I would like to thank all the unitholders for casting their votes. We express our sincere gratitude for extending the wholehearted support to the above mentioned acquisition. We expect to complete the transaction in all respect very soon.

Considering the previous year trend, the second-half of the fiscal seems to be promising and leading to strong generation of cash flow. Considering the upcoming festive season, we have started witnessing uptick in the traffic movement already, providing the comfort and traction for the coming quarter. Now I will request Mr. Rushabh Gandhi to take you through the financial performance for the quarter. Over to you, Rushabh.

Management:

Thank you, Sir. I would like to present the financial analysis for the quarter ended September 22. The total consolidated income for the quarter ended September 22 declined to Rs. 203 crores from Rs. 328 crores in the corresponding quarter of previous year. The consolidated toll revenue for the quarter ended September 22 declined to Rs. 199 crores from Rs. 313 crores in the corresponding quarter of previous year. This was basically due to handing over of two assets i.e. Bharuch – Surat and Surat – Dahisar project on completion of their respective concession period. EBITDA for the quarter ended September 22, stood at Rs. 164 crores from Rs. 269 crores in the corresponding quarter of previous year. Interest cost, which includes interest on premium deferment for the current quarter stood at Rs. 36 crores as compared to Rs. 36 crores in the corresponding quarter of previous year. Depreciation for the current quarter has reduced to Rs. 53 crores from Rs. 156 crores in the corresponding quarter of previous year. Profit after tax for the current quarter stood at Rs. 74 crores as compared to Rs. 73 crores in the corresponding quarter of previous year. I would 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 Mohit Kumar from DAM Capital. Please go ahead.

Mohit Kumar: Good evening sir and congratulations on good set of numbers especially maintaining the DPU as the quarter one. So my first question to you is on the DPU for the fiscal year 23. Are we keeping the guidance of Rs. 8 for the entire fiscal? Is that the number which we should look at?

Management: Yes, we would like to continue with our guidance of distributing Rs. 8 per unit for this financial year to the unitholders.

Mohit Kumar: On the acquisition side, what is the status of the debt tie up and if you have tied up the debt, what are the kind of interest rates you will be paying on the debt?

Management: Interest rates are in line with our expectation in relation to the acquisition debt. Debt tie up is already done and we will be closing this transaction very soon. Interest rate on acquisition debt will be roughly 8.25% to 8.50%.

Mohit Kumar: And I assume this debt will be close to 9 billion. So will it give us sufficient room to increase our DPU over the next year say 12-18 month?

Management: There will be debt at SPV level and Trust level. The debt at Project SPV level and interest rate for this debt will be close to 7.5% to 7.6%, quantum of which is close to Rs. 9.55 billion. The acquisition debt of ~ Rs. 200 crores will be at Trust level, interest rate for which will be ~ 8.4% and the principal repayment will be back-ended.

The interest receipt on annuity for the VK1 project is also linked to RBI bank rate, which has increased and so we will be eligible for higher interest on the outstanding annuities. Accordingly, the overall distribution should also improve and on per annum basis, we expect to add ~ Rs. 0.50 to 0.60 paisa per unit from this project itself for FY2024.

- Mohit Kumar:** What is the future outlook on the next set of acquisition? Is it possible to share some tentative timelines and are you looking to acquire one or two assets over next 12 to 24 months is that a fair assumption?
- Management:** I think Mohit, after this acquisition also, we will still have debt capacity of ~ Rs. 3,500 crores and with that kind of debt capacity, we can try to add two or three assets and we will be looking for the third party assets and our intent is to at least add two assets over time span of 12 to 24 months.
- Moderator:** Thank you. The next question is from the line of Dheeraj from Samvad Financial Services LLP. Please go ahead.
- Dheeraj:** My question is why the distribution we will get this time is at 90%? Are we looking at saving the 10% NDCF for new projects acquisition? Can you throw some light on these?
- Management:** I think as we have talked about in past also that we will be making a 90% distribution which is mandated by the SEBI. And as we have also taken unitholders' approval that we will be funding part equity for the new acquisition through our retained accruals, whatever we have retained so far considering that we will be utilizing that money for the acquisition purpose and going forward depending upon as guided of Rs.8 distribution p.a., depending upon the cash flow available, we will try to distribute between 90% to 95%.
- Dheeraj:** And sir if you can give us broad outline basically what was the total cost, how much is internally funded, what is the new debt which we are taking if you have something means basically your AGM notice did provide for that. But if you can just run with the latest figure. How much is the total enterprise value we are funding? What is the debt which was there already on the project and how much additional debt we are taking? So if we can just update us it could be helpful.
- Management:** Yeah, so as provided in the resolution, total debt was Rs. 9.55 billion i.e. Rs. 955 crores and equity value was Rs. 342 crores and Enterprise value was Rs. 1,297 crores. Rs. 955 crores would be the debt at SPV level and Rs. 342 crores is the acquisition price. And the acquisition price will be funded partly through debt by the trust itself i.e. little less than Rs. 200 crores and balance

Rs. 150 odd crores will get funded through retained internal accruals. This acquisition funding will be done shortly.

Moderator: Thank you. The next question is from the line of Satinder Singh from EON Investments, please go ahead.

Satinder Singh: Congratulations on yet another stable quarter and also for your successful approval of the acquisition process. Mr. Menon, so one question on Talegaon-Amravati so well, I understand the monsoon impact, OK. But if we do year on year comparison for the same quarter and if we exclude the increase in the annual tariff by 10%, it seems to be about a 10% drop on the multi axis vehicles for Talegaon-Amravati and about 1.5% fall in overall traffic. Any material reasons for this, overall the other projects are doing very fine. So if there's any cause for concern on this or it is business as usual and you expect this to bounce back again?

Management: Talegaon Amravati project was explained in earlier calls as well. There are some restriction for Nagpur entry due to the ongoing metro works, so that restrictions are still going on. So we expect that restrictions to uplift by December end. So considering that and because of monsoon quarter also, the traffic is softer in case of Talegaon project.

Satinder Singh: OK, so these were not there in the same quarter last year.

Management: Your observation is correct. Last year same quarter, this kind of strict restriction were not there. Typically, the restriction is on plying of the heavy vehicles. Light vehicles and other vehicles ply over regularly, but there is restriction in movement of the heavy vehicles because of the restrictions.

Satinder Singh: OK that helps. On our borrowing of Rs. 1,300-1,400 crores, what is the net debt that we currently have at the trust level? What is the current rate? Repo going up to 5.90%, is all of that built into our current rate.

Management: Basically, our current rate of interest is 7.95% but earlier it was 7.25%. So if we consider the average rate for the current year, it will be close to 7.6%.

- Satinder Singh:** OK. And the 7.95% remains now stable for the next one year or does it go up with the immediate recent increase in repo or the future repo at least for the next 12 months?
- Management:** It will remain constant for the next six months and post six months, there will be another rate reset.
- Satinder Singh:** So normally we undergo valuation exercise at the end of September, and in March. So has the valuation exercise being undertaken already because the report is not available in Public domain.
- Management:** Sure, so valuation exercise is under process. We'll be uploading the valuation report in a couple of days along with NAV as on Sept, 2022.
- Satinder Singh:** OK, you mentioned that Tumkur – Chitradurga has received interim award. So is there anything still stuck at least? Or is all the money flowing through in waterfall mechanism now? And there's no money getting stuck there for the moment?
- Management:** Yes, embargo has been lifted by the Hon'ble Arbitral tribunal, so whatever is the sanity has returned to the operations of the escrow account. It will as per the waterfall mechanism as prescribed in concession agreement.
- Satinder Singh:** OK. And finally on the Pathankot Amritsar Project, so we talk of interim relief of about Rs. 36 crores. Our claim was about Rs. 80 crores. So, it is there any difference of opinion that has caused this interim relief. So what's the basis of this entirely please?
- Management:** Difference of opinion is there, but it will be resolved in the Conciliation process.
- Moderator:** Thank you. The next question is from the line of Dhvaneet Savla. He is an individual investor. Please go ahead.
- Dhvaneet Savla:** I have a single question and it's with regard to the VK1 project. I just wanted to know that when will we start seeing proper measurable revenues coming in from VK1 project and when will it start getting reflected in our DPU and

secondly on the cost of the project given the current interested scenario, is there any issues which we can foresee while raising funding for this particular project in terms of the cost of project being escalated than what we had previously imagined.

Management: Numbers for VK1 will start reflecting from the Q3 of this current financial year and as we have talked about that, this will improve the payout by Rs. 0.50 per unit on per annum basis roughly. Considering for six months, considering the cash flow, I think ~ Rs. 15 crores should add to the cash flow and now with regard to the second question, I think with respect to VK1, there is no cost escalation as such. Whatever the revenue as per project documents, that is already freezed and we will be getting inflows in the form of annuity. Along with the annuities, we will also receive interest thereon at bank rate plus 300 bps which has also improved by 100 basis points from when we have started the process. So now considering that rate, the interest which we will be getting from the NHAI is 9.15% and that will definitely improve the IRR for the VK1 project.

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

Saurabh Chhatre: I got two questions, first is that how much will be the total cash on books at trust level after this acquisition is funded.

Management: One should consider the cash post acquisition of VK1 project and the current payout because whatever the cash will be lying as on 30th September part of that will get paid to the unitholders. Post distribution payment to the unitholder and the acquisition of VK1, we will have a surplus cash of roughly Rs. 40 crores which may be available either for future acquisition or may be used for the distribution to the unitholders.

Saurabh Chhatre: OK. And none of this would be earmarked, right?

Management: We also have DSRA of Rs. 50 crores. So the total cash will be more than Rs. 90-95 crores and since those Rs. 50 crores has earmarked which is towards the debt that we had taken. We have not included that amount. Rs. 40 crore

amount is free amount which will be either available for distribution or for acquisition of the new asset.

Saurabh Chhatre: OK. Thank you, the second question is as I understand like from management that from VK1, we can expect that there will be Rs. 0.50 increase in DPU and considering the effect, the DPU will be available from Q3 of this quarter, so the initial at the beginning of the year we had like Rs. 8 rupees DPU as the expectation. So can we expect now 8.25 or is like that 8 rupees was considering this Rs. 0.25 per unit?

Management: I think as of now we are only guiding for Rs.8 per unit distribution for FY23 and as explained earlier, the second-half typically is better in terms of revenue collection. If we collect more than what we have in envisaged, then definitely we can think about increasing the distribution, but it will be difficult to comment on that as of now. I think probably once we cross the Q3, we can discuss in more detail whether we can increase Rs. 8 or not, but as of now we expect to pay Rs. 8 per unit for the current financial year.

Saurabh Chhatre: One last question. I can see that more than 95% of your toll collection is happening with fast tags, so are we as a company taking any measures to have those 5% as well in fast tags as I understand it will add to more efficiency. So are we taking any steps for the same?

Management: Yeah, we are taking the steps but sometime what happens people do not have appropriate balance in their fast tags and there are other challenges as well. In case of overloading, we have to collect in cash from the users of road. But our endeavor is that we should reach 100% collection through fast tags so that we can reduce some manpower.

Saurabh Chhatre: All OK, so it is not technology challenges, actually user's challenge that we are talking about our digital infrastructure is in place to have 100% transactions, but it is more of the reasons that you mentioned, which is actually at a user side and not at trust side.

Management: Yes, yes. So I think if user can be more disciplined, we can reach 100% level.

Moderator: Thank you. The next question is from the line of Prashtanti Duburi from Wealth First Advisors. Please go ahead.

Prashtanti Duburi: I have one question in the valuation report that you were provided last time, there about the Omalur Namakkal project, the structure of the project is based on an old toll policy because of which the monthly pass is very less attractive and the contribution, the revenue contribution from monthly pass is less and the highest component of revenue contribution comes from single journey. Is there a way that you can change the policy or is it the standard that it is followed in that project? Can you explain that?

Management: The policy cannot be changed; it is as per the toll policy at the time of signing of the Concession agreement so that will remain the same.

Prashtanti Duburi: And the second question is regarding the Pathankot - Amritsar project. So in the valuation report, since you've given some forecast revenue numbers and the forecast for FY23 was about the toll revenue is about 170 crores and if we take the half year forecast will be somewhere about Rs. 85 crores and of which we collected about Rs. 76 crores. So are we expecting about 10% more increase in toll revenue in the next half? Is it indeed due to monsoon or is there any other factor that is impacting the crash in the toll revenue collection in Pathankot Amritsar project.

Management: The first half is typically impacted by the monsoon. And because of this festive season coming in second-half Diwali and post that New Year another festival, typically the second-half revenue is much better. Typically, we see a combination of 45%-55% percent in some of the projects or 48-52 percent kind of 48 % in first half and 52 % in second-half, that kind of revenue is expected. And if that holds true for this financial year as well, we should be able to collect that kind revenue from Pathankot – Amritsar.

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

Janish Shah: My question is more on a broader base. Basically the toll tariffs basically are linked to the inflations and how do we read the toll growth, I mean they saying in terms of tariffs going ahead. And I mean saying how many of our

projects already have attracted or has passed on this toll tariff provision and how are we placed when we're looking at from let's say next year or two years from now, how are the projects stacked up for the tariff provisions if you can just give us some idea about.

Management:

I will dissect your question in probably 3 parts. With respect to the tariff policy for the project. Four of our projects have tariff revisions which happens on 1st of April and it is 3% fixed + 40% linked to the WPI. And the one project is 100% linked with the WPI which is Omalur Salem project that is the only project which is linked with the WPI entirely and the effective date is from 1st of September. Now, if we talk about the WPI if you look at last past 3-4 years WPI was on the lower side and some year, it was negative also. So now we are seeing some kind of catch up effect in the WPI and because of that, this year we have got around 10% tariff revision for the project which was 3% fixed + 40% of WPI and MVR was directly linked with the WPI and there we got close to ~ 15% kind of tariff revision. Now for the coming year as well, the tariff revision for the 4 projects will be due for revision on 1st April 2023, probably we may see around 6% to 7% kind of tariff revision considering the WPI is on the higher side.

Janish Shah:

OK, but this revision happens annually or like I guess it's like a three years' kind of a reset.

Management:

So basically the revision is already mentioned in the contract and there is predetermined formula provided in the contract and it happens annually on the date which is provided in the contract. So that is the 1st April every year for our four projects and 1st September for Omalur Salem project.

Janish Shah:

OK. So maybe if I have missed in some data, so for the first half whatever the toll collection growth we have like I mean saying how we attribute it to the volume and value like a break up, can we have a pricing increase and the volume increase on the overall portfolio? Right. I mean, leave apart the projects which have already gone out, the continuing project please.

Management:

Yes, so if I can dissect project wise. For the Tumkur – Chitradurga, total revenue is up by around 18%. Out of that 10% was on account of tariff increase

and around 8% - 8.25% was on account of traffic. For MVR project, the total uptick is around 21% from last September, but the tariff revision has happened from 1st of September. So only one-month impact is there in terms of the tariff is concerned. So in MVR, traffic growth will be around 14% to 15%. And with respect to Jaipur – Deoli project, the traffic increase will be around 17% as the overall revenue increase was ~ 27%. And as we have discussed Talegaon -Amravati because of some traffic restriction, the traffic is on a lower side and if we reduce the tariff number, the traffic growth will be on negative side only.

Janish Shah: The DPU which we're talking about of Rs. 8 for full year, so can we consider this like a sustainable kind of cash flow. I mean on the existing project which will drive this DPU going ahead, is that what should we take it?

Management: We can take into consideration the independent valuation reports available in public domain which provides the future cashflows from each of the projects and DPU for the future years can be derived from the same.

Janish Shah: No, no, I'm just saying, I understand that. My question is that the current cash flows are not building any kind of a one off kind, I mean saying it's a more recurring kind of a cash flow from the existing business. Can we take it for future calculation of the DPU is that what? Should we consider?

Management: Yes, that's true.

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

Dheeraj: So just one suggestion is not a question. Basically if it is possible, if you can put down like the other groups of InvIT, they do put forward a slide on how much is total debt and how is to be paid and how much of it is fixed and floating, it would really appreciate us to take understanding of the cash flow. So just one suggestion in future, if it is possible if you can provide because the things are moving now. It was not so important a couple of years back, but now the way interest rates are revising and the revision is going on. Basically if you can provide some weighted average cost and like what is the

repayment schedule? It would be appreciated. Just one suggestion, I wish you all the best.

Management: Yes, thanks for your suggestion. We are including the cost of debt I think in the presentation. But, as you suggested by we will try to include detailed information. Now there will be debt at the SPV level also and Trust also. We will try to provide more break up on that. It will be better to understand for the investors and analysts.

Moderator: Thank you. The next question is from the line of Neeraj Khandekar from Prospero Tree. Please go ahead.

Neeraj Khandekar: I have one question regarding the Pathankot - Amritsar toll, the total revenue is declined by 20% quarter on quarter because of monsoon or volume uptick because of illegal sand mining in Punjab.

Management: I think one thing we have to understand, typically there during the monsoon season, mining is very negligible. So considering that we feel that it's a more of a monsoon effect. We will have to look at the future quarters as well.

Neeraj Khandekar: And one more question we are planning to add two more assets within one year, right?

Management: Yeah, we have plan to at least I add couple of assets within a span of one to two years.

Neeraj Khandekar: This addition would be out of borrowing or from Internal accruals.

Management: I think the entire acquisition may not be possible through internal accruals because we don't want to use the unitholders' money to acquire the assets and it will probably be funded largely through trust.

Neeraj Khandekar: OK. And what is the expected debt to equity ratio.

Management: I think we are allowed to borrow till up to 1:1 debt equity and today the trust is AAA rated.



Moderator: As there are no further questions from the participants, I would now like to hand the conference over to the management for closing comments.

Management: Thanks to all the participants in today's call. Looking forward to hear from you again very soon. I'd like to also wish you all a very happy Diwali and take care. Thanks.

Moderator: Thank you, Sir. Ladies and gentlemen, this concludes your conference for today. We thank you for your participation and for using researchbytes its conferencing services. You may please disconnect your lines now. Thank you and have a great day.
