

Conference Call Q3FY15 Results

February 5, 2015; 4.00 P.M.

Moderator: Good afternoon ladies and gentlemen. Welcome to the IRB Infrastructure Developers Conference Call hosted by company for the unaudited financial results for Q3 FY15. We have with us today Mr. Virendra Mhaikar – Chairman and Managing Director, Mr. Anil Yadav – Group Chief Financial Officer, Mr. Dhananjay Joshi – CEO Realty & Airport and Head Corporate Finance, Mr. Madhav Kale – Head Corporate Strategic Planning and Mr. Mehul Patel – Group Company Secretary on the call. After the opening remarks by the management there will be a question & answer session. As a reminder all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call please signal an operator by pressing * then 0 on your touchtone phone. Please note that this conference is being recorded. I would now request Mr. Mhaikar to give you an overview of the significant development during the quarter.

Virendra Mhaikar Good evening to all of you. I would like to welcome you all on this conference call for the results update. Regarding the business on construction front we had four projects which were under implementation during the quarter. Construction on Ahmedabad-Baroda and Goa-Kundapur project have largely contributed to the construction revenue. Even Solapur-Yedeshi has seen some uptick in terms of having started. During the quarter construction revenue has increased by 8% in Q3 of FY15 as compared to the trailing quarter. Construction segment operating EBITDA has remained more or less at the same level around 30% during the quarter. The order book of the company now stands at around Rs. 11,000 crores of which Rs. 9100 is to be executed over the next three to four years. On the tolling front in several key projects we have observed double digit traffic growth. These factors along with the uptick due to tariff which was due in several projects we have seen very good growth in the toll revenue during the quarter and we believe that increased momentum in the economic activity will translate into higher growth in future. Average cost of debt during the quarter remains close to 11.25% and net debt equity stands at around 2.86:1. Process of achieving financial closure for Yedeshi-Aurangabad project will be completed shortly. The remaining project i.e. Kaithal and Mumbai-Pune phase II will also achieve the closure before end of this fiscal. In case the banks reduce their base rate in line with RBI's measures of reduction in interest rate the company will stand to benefit by such reduction. On the basis of annual pre-qualification criteria we stand qualified for a large number of projects and we will participate depending on the visibility and returns being offered on the projects going forward. Now I would like to request Anil Yadav to give the financial details for the quarter.

Anil Yadav Thank you sir. I will present the financial analysis Q3 of FY15 versus Q3 of FY14 consolidated accounts. Total consolidated income for Q3 of FY15 stands at Rs. 993 crores from Rs. 906 crores registering a growth of 10% over Q3 of FY14. The consolidated toll revenue for Q3 of FY15 has gone up to Rs. 483 crores from Rs. 315 crores registering growth of 53%. While consolidated construction revenue Q3 of FY15 stands at Rs. 510 crores from Rs. 591 crores, a decline of 14%. EBITDA for Q3 of FY15 has gone up to Rs. 585 crores from Rs. 464 crores registering a growth of 26% over Q3 of FY14. Interest costs have increased by 16% to Rs. 237 crores in Q3 of FY15 from Rs. 204 crores in Q3 of FY14. Depreciation has also gone up to Rs. 179 crores in Q3 of FY15 from Rs. 112 crores in Q3 of FY14. PBT has also gone up to Rs. 169 crores in Q3 of FY15 from Rs. 147 in Q3 of FY14 registering a growth of 15%. Post minority interest PAT for Q3 of FY15 stands at Rs. 133 crores as compared to Rs. 109 crores for Q3 of FY14 registering a growth of 22%. Now I will open the session for question and answer.

Moderator: Thank you very much sir. We will now begin the question and answer session. Anyone who wishes to ask a question may press * and 1 on their touchtone telephone. If you wish to remove yourself from the question queue you may press * and 2. Participants are requested to use handsets while asking a question. We will wait for a moment while the question queue assembles. Our first question is from the line of Devang Patel from ILFS, please go ahead.

Devang Patel Hi sir, Firstly I needed some clarity on the press release on point 2a & 2b where the numbers in point 2b do not match up to the number in point a unlike in the second quarter. So the question is, is there any previous quarter number clubbed in the Q3 numbers?

Anil Yadav We have given break up of payment to NHAI for Revenue share and for Premium. Para 2(a) of Press release contains details of payment to NHAI for Revenue share and para 2(b) of press release contains details payment to NHAI for premium and also amortization. In last quarter, payment to NHAI for Revenue share and premium payment was clubbed.

Devang Patel Okay. And the premium that has accrued every quarter this should more or less be a linear number across quarters except for the Ahmedabad-Vadodara project. Is that correct because in Q2 the premium accrued was Rs. 96 crores and in Q3 the premium accrued is Rs. 68 crores.

Virendra Mhaiskar Yes in case of premium but revenue share changes as per changes in revenue.

Devang Patel Sir when I look at the EBITDA margins for the BOT segment, those seems to have come down a bit. If there is any exceptional or you can explain this little bit of decline in the EBITDA margins?

Anil Yadav This is due to renewal expenses on the Bharuch-Surat project.

Devang Patel Sir, in this Yedeshi-Aurangabad and Rajasthan-Kaithal projects the concession agreements were signed in June, so if the financial closure was to happen within six months those dates have passed. So is it normal to get some extension for financial closure since the appointed date has not come yet?

Virendra Mhaiskar That is correct. There were some conditions precedents which were also to be achieved by NHAI which were delayed and hence lenders want a bit more clarity on those. So that is the reason why we have seen a bit of delay and to our understanding we should be able to achieve the closure shortly as most of those issues have got resolved.

Moderator Our next question is from the line of Amit Sinha from Macquarie, please go ahead.

Amit Sinha Sir my first question is on the traffic growth, what would you describe such a strong traffic growth across your portfolio?

Virendra Mhaiskar I think the first reason is certainly the uptick in the economic activities and as we have always said that our portfolio is primarily in the western half of the country which contributes much higher to the GDP. So even when the portfolio slowed down we slowed down quite with a lag. And on the uptick side as the economic activity starts to pick up naturally the first signs of revival and first push on the growth is bound to be seen in this particular corridor. And that is the reason why we believe we have seen good growth across projects in terms of volume growth. Even what we hear from other connected areas is that the port traffic has moved up substantially and that is what is naturally reflected in the road volume pick up.

Amit Sinha Okay. So have you seen any traffic from railway to roads?

Virendra Mhaiskar No, no I am not saying any shift from railways to roads or anything. I am saying over a general economic pick-up, as we always say it is linked to GDP growth. So if the GDP is starting to show uptick and the economic activity is picking up it is natural that it will translate into volume growth.

Amit Sinha Secondly on the Pathankot-Amritsar Road, basically the numbers which you showed was for how many days of traffic?

Virendra Mhaiskar See on an average we are doing presently around close to Rs. 25 lakh a day which is a bit lower than what we had originally estimated.

Amit Sinha	Okay. And what number you would basically give?
Virendra Mhaiskar	We were considering close to Rs. 30 lakhs but presently we are doing almost Rs. 25 lakhs close to that.
Amit Sinha	Okay sir. And in the construction business what is the timeline for the financial closure of the rest of the new projects?
Virendra Mhaiskar	We expect Yedeshi-Aurangabad to achieve closure first because it is in the advanced stage and followed by Kaithal and Mumbai-Pune before end of this fiscal.
Moderator	Our next question is from the line of Shravan Shroff from Karvy Stock Broking, please go ahead.
Shravan Shroff	Sir, breakup of other income?
Anil Yadav	Rs. 25 crores in construction and Rs. 4 crores in BOT.
Shravan Shroff	Okay. And breakup of EPC revenue?
Management	Project wise?
Shravan Shroff	Yeah.
Anil Yadav	Your Ahmedabad-Vadodara project has contributed roughly Rs. 160 crores. Your SY BOT close to Rs. 100 crores of revenue and close to Rs. 220 crores of revenue from the KK project.
Shravan Shroff	Ahmedabad-Baroda roughly around 89% is completed?
Virendra Mhaiskar	Yes.
Shravan Shroff	So in terms of the COD are we achieving COD before December 15?
Virendra Mhaiskar	Most likely yes.
Shravan Shroff	So may be a quarter earlier?
Management	Likely yes.
Shravan Shroff	Okay. And sir can I have the consolidated debt broken into BOT and standalone?
Anil Yadav	The total debt for the group is roughly Rs. 12450 crores and that between projects basically roughly close to Rs. 9500 crores is on the SPV company and balance Rs. 1000 crores odd will be in form of Over Draft and balance will be the short term and medium term loan at the parent company.
Shravan Shroff	And in terms of cash consolidated and standalone?
Anil Yadav	Consolidated cash is close to Rs. 1350 crores, close to Rs. 1100 crores is on a standalone and construction company and balance Rs. 250 crores is on the BOT company.
Shravan Shroff	And sir in terms of the equity investment since Q2 FY15 how much we have invested in Q3 and 9 Mths FY15 if I say project wise Ahmedabad or Goa-Kundarpur?

Anil Yadav Yeah, I will provide you the breakup of the equity invested up to December. In Ahmedabad-Vadodara we have invested close to Rs. 400 crore, Goa-Kundapur close to Rs. 35 crores, Solapur-Yedeshi close to Rs. 195 crores. That is the overall equity investment till December.

Shravan Shroff So now the how much the requirement has reduced from Rs. 3200 crores as on Q2 FY15?

Anil Yadav From Rs. 3200 crores for the next three years the equity requirement is roughly close to Rs. 2200 crores and plus Rs. 300-400 crores in next quarter, so roughly Rs. 2500 to Rs. 2600 crores will be equity required till FY18.

Shravan Shroff Okay. And in terms of this fourth quarter how much likely are we planning to invest?

Anil Yadav Approximately close to Rs. 300-400 crores.

Shravan Shroff Sir in terms of overall if we look at the traffic growth then in terms of the portfolio level, can we say it will be around 10-12% traffic growth?

Virendra Mhaiskar Approximately 11% kind of growth which we have seen in this quarter.

Shravan Shroff And in terms of toll revision, can we have major toll hikes in this quarter?

Anil Yadav There was no toll hike in any of the toll plaza in this quarter.

Shravan Shroff And in this quarter is there any likely coming?

Management No.

Moderator Our next question is from the line of Nitin Arora from Emkay Global, please go ahead.

Nitin Arora Just wanted to understand that on a sequential basis the depreciation though have not increased, I mean that has mildly decreased only Rs. 179 crores, so any particular reason for that because we have capitalized Amritsar-Pathankot also.

Anil Yadav But one month's amortization for Amritsar pathankot project will not be significant. If you look at the interest, interest has gone up by Rs. 10 crores because of the capitalization of Amritsar-Pathankot. But because revenue of Amritsar pathankot project has just started and amortization is done on the basis of the revenue pattern, the amortization does not significantly contribute in the initial years.

Nitin Arora Sir can you give us a little sense only on one project which is Mumbai-Pune which has seen a volume growth of about 16%. Do you think it is sustainable or was there any one-off traffic because you have mentioned earlier in the conference calls also October-December has been good for Mumbai-Pune, but this time it is quite surprising.

Virendra Mhaiskar No, I think overall economic pickup is the prime reason because if we look at Ahmedabad-Baroda also we have seen almost 25% volume growth. Whether this is sustainable or not on an ongoing basis is something which we will have to look. We cannot comment on that today but I think overall all the large projects we have seen something like this where 10% to 15% volume growth has been witnessed.

Nitin Arora In terms of the sustainable construction revenue any particular number you want to give us that in the FY15 because it gets a little back-ended now towards the FY16. So in the last quarter any particular uptick can we see from let us say Solapur-Yedeshi?

Virendra Mhaiskar Yes, Solapur-Yedeshi should pick up. We should be able to start something on Yedeshi-Aurangabad as well. So we expect the number to improve from where it is presently.

Nitin Arora Sir just last question, I just missed a number if you can give it for standalone debt and MRM debt and same for cash as well.

Anil Yadav As stated above.

Moderator Next question is from the line of Atul Tiwari from CitiGroup, please go ahead.

Atul Tiwari Sir my question is on Note 2b and 2a also, so this Rs. 68 odd crores is basically the revenue share for Surat-Dahisar.

Anil Yadav Revenue share for Surat-Dahisar and MVR project.

Atul Tiwari Yeah, but largely it will be Surat-Dahisar project. And sir this amortization of about Rs. 32.4 crores is a part of depreciation and amortization expenses, right?

Anil Yadav Yeah.

Atul Tiwari And sir what will be the total amount due to NHA in the quarter had this rescheduling not happened assuming the original bid premium and the 5% escalation per year.

Anil Yadav That we can calculate and get back to you but based on this premium deferment total amount due is more or less Rs. 46-47 crores.

Atul Tiwari Okay, based on this premium deferment, yeah so that has been disclosed obviously. So that is very clear, Rs. 46 crores.

Moderator Our next question is from the line of Vibhor Singhal from Philip Capital, please go ahead.

Vibhor Singhal I had a couple of questions. Firstly sir regarding the robust toll growth, traffic growth that we have seen across the portfolio. So is it also attributable to some part of the penalty that we are levying on the overloading vehicle that is being done across the country?

Virendra Mhaikar No, I do think penalties have to do anything with this. This is purely because of growth in the economic activity.

Vibhor Singhal And sir can I get the COD date for the Amritsar-Pathankot, the date we started tolling it from?

Anil Yadav Around end of November 2014.

Vibhor Singhal So we just tolled for one month in this?

Management Yeah.

Vibhor Singhal Okay, fair enough. And also sir in the EPC segment I mean I know this question has been asked before but I just wanted to elaborate on that. So now that we have the order book, I mean we already started execution on Solapur-Yedeshi as well and looking to financial close the Yedeshi-Aurangabad within the next few weeks as you said. So the fourth quarter revenue should we be expecting a significant jump on a YoY and QoQ basis and hence the sustainable revenue going forward as well in FY16?

Virendra Mhaikar I cannot give you guidance in terms of what kind of – significant or not but yes, it should improve from where it is today.

Vibhor Singhal And sir lastly on the overall NHA pipeline, I mean could you just discuss as to how exactly are we seeing and when do you expect the significant number of BOT projects to start coming in

because it has been quite a lull for the last couple of quarters and we have not seen any activity from NHAI on that front.

- Virendra Mhaiskar** See as far as IRB is concerned we have penciled in a number of around 300 km order increase for this year and in fact we will now be closing the year with at least 400 plus number. So in terms of the order book growth we have achieved what we had targeted. With regard to NHAI bidding out of projects, if you go to their website you will see a significant number of projects which are now up at the RFP stage. So I believe going forward the order pipeline looks quite promising.
- Vibhor Singhal** Any comment on whether they will be able to probably achieve the target that they have for this year around Rs. 5000 km?
- Virendra Mhaiskar** Too early to say anything.
- Moderator** Our next question is from the line of Lokesh Garg from Credit Suisse, please go ahead.
- Lokesh Garg** Just extended Vibhor question, basically are you at a stage where you are actually actively evaluating some bids and you are sort of submitting in next 15 to 20 days because at least timelines on website seem to suggest so, but actually that is not happening.
- Virendra Mhaiskar** Yes, we are evaluating certain bit but depending on their viability we will decide whether to bid for those or not. You are right there are certain bids upcoming before 31st of March and we will take an appropriate call on those.
- Lokesh Garg** So you basically expect some submissions would happen, whether you win it or not and all that is a separate issue, right, some submissions will happen.
- Virendra Mhaiskar** That is correct.
- Lokesh Garg** Other thing I wanted to find out is that obviously traffic growth has been good but lots of projects in the past had suffered from ban on mining activity and all that. Not entirely all those problems are solved, right. So in spite of that we are seeing this traffic growth.
- Virendra Mhaiskar** That is correct.
- Lokesh Garg** My third question relates to basically RBI has allowed refinancing scheme for projects wherein you could actually exchange the duration of repayment of loans. Are you in talks with bankers to get this benefit for yourself in certain project?
- Virendra Mhaiskar** Not presently. See I will explain you why not because that scheme which you are mentioning says that if you are undergoing that particular scheme then the MPV of the loan has to remain same. So if you extend the tenure of the loan your pricing is bound to go up. So logically what we would like to do given the balance sheet strength is we would like to wait for the rates to come down, the resets to happen, the interest rate to move lower after which if we apply for those schemes then we will be able to really extract good benefit out of that scheme.
- Lokesh Garg** Yeah, but rates coming down is not like a 3-month process, it is a 2-year process. So you will actually rather wait for rates to come down before you actually go ahead.
- Virendra Mhaiskar** At least for some more time because Lokesh if you see the operational project portfolio the interest rate already today is at 10.5%.
- Moderator** Our next question is from the line of Ashutosh Narkar from HSBC, please go ahead.

Ashutosh Narkar	Sorry for repeating the question again on the toll growth, what we have seen in a couple of other factors like consumer demand because business momentum picking up consumers kind of picked up initially and kind of dived down. In our case in the toll rate is it possible to kind of qualitatively comment whether if the growth primarily is coming from either passenger or freight and which one is kind of looking strong which can give us an idea about what you think how this growth rate will continue.
Virendra Mhaiskar	See one it is across the sectors. I cannot say that it is only MAVs or heavy motor vehicle but it is across the portfolio I would say, LCV, LMV as well as the truck bus category has shown good growth, #1. #2, last two quarters also have shown signs of good improvement means the third quarter we have seen it only go up. So how long will that last is very difficult to predict but if the economic activity continues to remain robust then there is a good hope that it should continue the same way.
Ashutosh Narkar	And the second question is on the liability repricing, you said that is roughly around 10.5% but for the incremental loans are we seeing any renegotiation because a couple of projects are delayed on the financial closure we would get better pricing?
Virendra Mhaiskar	Cannot say that today. Once we achieve the closure we will let you know about it but if you slice up the loan portfolio the under-construction projects are priced somewhere between 11.5% to 12% and the operational projects are having an average interest rate close to 10.5%.
Ashutosh Narkar	So in your recent discussions it has not come down below 12% as yet?
Management	No, not yet.
Moderator	Our next question is from the line of Rita Tahil Ramani from Edelweiss, please go ahead.
Parvez	Sir one thing that I wanted to ask obviously traffic growth has been phenomenal but with inflation trending down what is the kind of toll rate hike that we expect would probably happen in April or let us say July next year?
Virendra Mhaiskar	See most of the projects today have a 3% fixed and 40% linkage to inflation. So even with the lowered down inflation on an average inflation basis we should be able to do 5-5.5% tariff improvement in the coming year.
Anil Yadav	And next year tariff revenues will be basically based on the average WPI in FY15.
Parvez	Second thing, if we look at the equity requirement that we have I think from our internal accruals over the next three years there may still be some shortfall left or maybe we will break even on that but then what is our growth plan with regards to future projects?
Virendra Mhaiskar	No our understanding is that this existing set of projects which we have won will be able to fund the equity out of internal accruals. This is on the assumption that we will be able to roll over the short term loans that we presently have. And on that basis I do not see any problem funding the projects on the basis of internal accruals.
Parvez	And what about future projects then sir?
Virendra Mhaiskar	We have taken an enabling resolution for raising up to Rs. 1500 crores. Considering whatever visibility we see in terms of new bids coming up we will take a call at appropriate time.
Parvez	And does the annual target of getting say 300-400 km of every year still stand?
Virendra Mhaiskar	Yes.

Moderator Our next question is from the line of Chokalingam Narayan from Deutsche Bank, please go ahead.

Chokalingam Narayan Just wanted to get your thoughts on the state level projects pipeline, if you can give a color on that which states are active and where are you looking at?

Virendra Mhaikar We have not seen many state projects coming up for bidding.

Chokalingam Narayan So there is not too much activity there.

Virendra Mhaikar No, not to our knowledge.

Chokalingam Narayan Okay, and even in Maharashtra they were talking about the trans-harbor link, so any movement on that?

Virendra Mhaikar We have not seen it as yet.

Chokalingam Narayan And next year do you think the BOT projects pipeline is likely to be as strong or the stall projects coming back for bidding? Your thoughts on that?

Virendra Mhaikar I think that is already visible on the NHAI website. Most stalled projects are getting rebid. They are repackaging it by breaking it down into little smaller projects and they are clogging up for bidding one after the other.

Chokalingam Narayan So you expect that entire thing to start coming back slowly?

Virendra Mhaikar That is right.

Virendra Mhaikar I think we can close this call now. Thank you everyone for being on the call and asking clarity about the numbers. Thank you once again all of you.

Moderator Thank you very much. Thank you sir. Ladies & gentlemen this concludes your conference call. Thank you for joining us and you may now disconnect your lines.