

IRB Infrastructure Developers Limited
Transcript of Earnings Conference Call
February 14, 2023

Moderator: Good morning ladies and gentlemen. Welcome to the IRB Infrastructure Developers Conference Call for discussing the unaudited Financial Results for the quarter ended December 31, 2022 and recent developments. We have with us on the call today - Mr. Virendra Mhaikar, Mr. Dhananjay Joshi, Mr. Anil Yadav, Mr. Mehul Patel, Ms. Poonam Nishal and Mr. Tushar Kawedia and Mr. Jose Tamariz from Cintra. 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. 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. 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 now request Mr. Anil Yadav to give you an overview of the significant developments during the quarter. Thank you and over to you sir.

Anil Yadav: Thank you. Good morning, everyone. I welcome all the investor and analysts on the quarterly concall. Hope you have all been able to go through our detailed numbers as well as the presentation release. As part of our business strategy, we are continuously enhancing our returns to leverage optimization. We are pleased to inform you that another subsidiary of IRB Infrastructure Trust i.e. Udaipur Tollway Limited has allotted unlisted rated redeemable non-convertible debenture aggregating to INR 7 billion on private placement basis to eligible investor on December 29, 2022. The initially proceeds from refinancing has been utilized for part takeout financing for the existing project loans, which will provide significant savings of INR 100 million annually, aided by the fixed rate of interest of 8.9% per annum for next five years. This is in further debt refinancing of INR 21 billion for two projects, i.e. Solapur - Yedeshi and Yedeshi - Aurangabad, completed by us in last quarter. We will continue this strategy of leverage optimization for other projects in the group.

Sale of VK1 HAM project to the Public InvIT has been concluded in this quarter and we have been received consideration of INR 3.4 billion which is close to 1.2 times to book. Net debt to equity on consolidated basis is less than

0.8:1 as on December 31, 2022, CRISIL has upgraded the rating of the Company by couple of Notch. This has led change in the rating category of IRB from A to AA -. Post receipt of appointed date, the execution of Ganga Expressway project is progressing in line with the schedule. Recently, we have received the appointed date for the Chittoor - Thachur HAM project on January 24, 2023 and thereby all the projects have now received the appointed date and execution is going on. This project will also provide meaningful contribution to the construction revenue in the coming quarters.

As can be witnessed in our monthly disclosure of the toll collection, the robust growth is observed in Mumbai - Pune and Ahmedabad - Vadodara project wherein Mumbai - Pune has reported INR 10.6 billion for nine months FY23 from INR 8.9 billion i.e. ~ 20% growth, whereas Ahmedabad - Vadodara has reported INR 4.75 billion for nine months FY23 from INR 3.8 billion i.e. ~ 24% revenue growth on a year on year basis. For 10 assets of private InvIT, we have witnessed growth in toll collection from INR 8.5 billion for nine months FY22 to INR 15.4 billion for nine months FY23 i.e. 81% growth on a year on year basis. The growth was led by achievement of COD in couple of projects, traffic growth and tariff hikes. The order book of the company now stands at INR 191 billion, which provides strong revenue visibility for next 2-3 years. Bidding calendar is quite robust and lots of projects are lined up over the coming months. Considering the same the company is targeting to add INR 6,000 to 8,000 crores worth of order, over next few months. Now I will request Tushar to provide financial analysis for December 22. Over to you Tushar.

Tushar Kawedia:

Thank you, Sir. I will now take you through the financial analysis for Q3 FY23 versus Q3 FY22. The total consolidated income for Q3 FY23 has increased to Rs. 1,570 crores from Rs. 1,498 crores, up by 5%. The consolidated toll revenues for Q3 FY23 have increased to Rs. 554 crores as against Rs. 507 crores, up by 9%. The consolidated construction revenue for Q3 FY23 has increased to Rs. 1,017 crores from Rs. 991 crores, up by 3%. EBITDA for Q3 FY23 decreased to Rs. 801 crores from 957 crores, down by 16%. This is on account of one time income booked for the last year. Interest cost has decreased to Rs. 367 crores in Q3 FY23 from Rs. 547 crores, down by 33%. Depreciation has increased to Rs. 215 crores in Q3 FY23 from Rs.192 crores increased by 12%. PBT has remained unchanged at Rs. 218 crores in Q3FY23 as compared to Q3FY22. PAT after share of loss from JV (JV loss of Rs. 13 crores) has

increased to Rs. 141 crores in Q3FY23 as against Rs.73 crores (JV loss of Rs. 96 crores) in Q3FY22, PAT increased by almost 94%. And cash profit has increased to Rs.369 crores in Q3 FY23 from Rs.361 crores in Q3FY22 increased by 2%.

Now I request moderator to open the session for question and answers.

Moderator: Thank you very much. We'll now begin the question and answer session. First question is from the line of Mohit Kumar from Dam Capital. Please go ahead.

Mohit Kumar: So my first question is on the Mumbai - Pune expressway. Can you confirm that the traffic growth in Mumbai - Pune for Q2 and Q3 was 10% and 7% is that number right? And are we up for traffic revision from April 1, 2023? Is that understanding correct?

Management: Mumbai - Pune as I have discussed in my opening commentary, the traffic growth for nine months was around 20% and for Q2 and Q3 was 10% and 7% on YOY. Now with respect to Mumbai - Pune, yes you are correct, tariff revision is due from 1st of April. On Mumbai – Pune the rate revision happens after every three years. The next tariff revision will be effective from 1st April 2023. This will be the last revision on Expressway i.e. @18% and with respect to NH-4, the tariff revision is @ 16% and which will continue because that is as per NH policy. In terms of the traffic break up, roughly 75% revenue is from Expressway and 25% is on NH4.

Mohit Kumar: So the second question on the EPC execution for the entire fiscal. What is the number we should make in? I think we have done INR 900 crores which is slightly on the lower side for this quarter.

Management: As you are aware that we got the appointed date for Ganga in the last quarter only. Now, execution will be pick up pace from Q4 onwards. Further, we have also received the appointed date for Chittoor - Thachur project in this quarter. From Q4, the EPC revenue will further improve and on whole year basis, we should be able to reach EPC revenue of Rs.4500 crores for whole year.

Mohit Kumar: Understood. Lastly, on the opportunity side, when you said you want to add INR 60 to 80 billion of order in Q4, are they HAM contracts or are there some opportunities from BOT or TOT?

Management: Mohit Ji, the contribution will come from the HAM and BOT both put together, as of now, there is 1 BOT project for which we have already been submitted bid and there are lot of HAM project also coming for the Bid. So, the additional order book may be mix of BOT and HAM.

Moderator: Thank you. Next question is from line of Teena Virmani from Kotak Securities. Please go ahead.

Teena Virmani: Hi Sir, my question is related to ordering. You've mentioned that you're expecting around INR 60 to 80 billion of orders. So far, ordering has not been that great, particularly from the sector, and even for most of the listed players. So what gives you confidence that almost INR 60-80 billion will come within this year? Or do you expect any kind of slippage of order in close to next year? And how is the overall big pipeline looking to you? Both from HAM as well as BOT.

Management: You are correct that this year we have not seen significant ordering in last ten months. But if you look at last three years, the order bidding was back ended towards the end of the financial year. We believe this will continue in this financial year also. And if you look at the bidding calendar in terms of NHAI portal, there are four to five bids are lined up in single day also. So probably we expect by end of March there will be lot of ordering happening. And we believe that there will be a good order traction till end of March.

Management: Just to add, you're right. Some of these projects could spill over to the next year as well i.e the beginning of next year. So to that extent, there could be some overlap. Otherwise we are talking about INR 60 to 80 billion opportunity within the line of project itself.

Teena Virmani: And what is the size of total projects which NHAI has lined up, maybe around INR 40,000 – 50,000 crores?

Management: Roughly that much.

Teena Virmani: And my second question is related to the scale up in revenue for the Ganga Expressway and even Palsit - Dankuni, so now we have seen it is getting reflected in the numbers also, how do you see it in terms of the next year, scale up in revenues from both these projects.

Management: On Execution front, basically, Ganga has started last quarter and now execution is in full swing in this quarter. We expect the further growth in EPC execution in Q4. This will continue till the next two years because Ganga anyways, we have to execute the INR 5,000 crores of EPC order 10 -12 quarters. If I divide by 12 quarters, then also that translates roughly INR 500 to 600 crores of revenue per quarter coming from the Ganga.

Teena Virmani: And Palsit - Dankuni?

Management: Palsit - Dankuni should be in range of INR 200 to 250 crores of revenue on per quarter basis.

Teena Virmani: Ok. So overall in terms of EPC revenues? There be any kind of lowering down of the guidance on the EPC revenue side for the company or not that the orders are mostly back ended? So even if something comes in say March or April, it won't be reflected in the revenues again for the next 6 to 9 months. So, how do you see overall EPC revenues going forward?

Management: This year, we may reach EPC revenue of roughly INR 4,500 crores and next financial year, we'll be doing INR 5,000 crores of EPC revenue with the existing order book and further this order book is excluding GST. Earlier, we used to report revenue including the GST and from this financial year, the revenue is getting reported excluding the GST. If we will gross up in line with last year that would translate to INR 5,700 to 5,800 crore of EPC revenue. So, as of now, we are not lowering down the EPC revenue estimate. We have the visibility for next 2 years with the existing order book.

Teena Virmani: And in terms of your debt on consolidated basis, it will be good if you can share the breakup for both MIPL and standalone.

Management: So our debt at Mumbai - Pune is INR 6,000 crores and Ahmedabad - Vadodara is at INR 2,900 crores and at the standalone IRB level plus MRM including our working capital, it's close to INR 4,100 crores.

Teena Virmani: This Rs. 4,100 is net debt.

Management: No, this is gross debt. Net debt in Construction segment (Standalone plus EPC) is close to Rs.1,500. On consolidated basis, net debt is close to INR 10,100 crores and gross debt is at INR 13,260 crores.

Teena Virmani: OK. Because you have repaid this one of the debt during last year?

Management: Yes.

Teena Virmani: My last question is related to toll collection that would it be possible for you to quantify, I know it's a little difficult to quantify the adjusted toll collection growth for the projects since the toll rates were determined by the COD for 4 laning to 6 laning and completion of these projects, so would it be possible for you to quantify what has been the adjusted toll collection growth at the private InvIT portfolio?

Management: In Mumbai - Pune, there was no tariff hike and last nine months, we have seen almost 20% growth on the Mumbai – Pune on backdrop of Traffic growth. In Private InvIT, as you rightly mentioned, different project has got completed at different times. But there also we have seen a high single digit traffic growth on a portfolio basis. Some of the projects has even delivered double digit traffic growth. If you look at Solapur - Yedeshi and Yedeshi - Aurangabad, those projects were operational few years back, still traffic growth was almost double digit on both the projects, for 9 months of this year.

Teena Virmani: This is the traffic growth.

Management: Traffic growth, I'm talking about.

Teena Virmani: And how is the sustainable number looking in terms of the traffic growth for these projects?

Management: I think the base has now already got corrected and we expect the traffic growth should be in range of 5% to 6% for the FY24. And I think the similar 5% will be the tariff revision based on the provisional WPI numbers.

Moderator: Thank you. Next question is from the line of Parikshit Kandpal from HDFC Securities. Please go ahead.

Parikshit Kandpal: My first question is on what is the total value of the bids yet to be opened where we have submitted?

Management: We have submitted the bids for some projects but as per policy of the Company, we shall share the data, once we will become L1 bidder.

Parikshit Kandpal: Is there any change in Mumbai - Pune Expressway in terms of tariff hike because we said this will be the last tariff hike, which we will observe.

Management: You are asking on tariff front?

Parikshit Kandpal: So the tariff hike, so this was only one tariff hike, which was applicable on this.

Management: So next is due in April 23, which will be just in couple of months.

Parikshit Kandpal: That'll be about how much, 20%.

Management: As stated above, 18% on expressway and 16% on NH4 from April 1, 2023.

Parikshit Kandpal: That will be the last tariff hike.

Management: Yes, that will be the last tariff hike on Expressway, but NH4 will increase by 16% every third year will continue.

Parikshit Kandpal: And question on this taxation and the return on capital and will there be any impact on the private InvIT eventually when private which starts distributing return of capital to the Parent and investors, so how's the taxation happen there?

Management: It was the understanding that if Investor buy a unit which has the cost of ₹100 till he receive ₹100, there will not be any taxation on repayment. But with the amendment in the budget, it looks like that there will be a taxation if there is a repayment of capital. Redemption of unit, one will get the benefit of the cost of acquisition. But I understand that the different InvITs are representing through their body at different forums, and I think probably the clarity should emerge within a quarter or two. However, as explained earlier, in next one or two years, there will be hardly any repayment that will be happening from the Public InvIT. In Private InvIT, the repayment was not due for another next 5 to 10 years, so as such, there will no impact from Private InvIT in immediate future. But as mentioned earlier, various associations are representing the case and maybe we can have clarification in the coming months.

Parikshit Kandpal: But just to understand, the current context after the changed amendment and suppose if it continues, so then how will the taxation happen now? So if the

Private InvIT distributes the dividend, so it is up from this SPVs to the trust to the IRB level, and then IRB distributes it to its shareholders so how will be the taxation now?

Management: As envisaged, Private Invit is expected to pay only interest in near future. There is no change in taxation related to interest payment. The dividend is neither taxable at InvIT level nor at Sponsors level if SPVs is under old tax regime. No change in dividend also.

Parikshit Kandpal: So everything is passed through so, but the IRB will be paying the taxes and then after that it will be maybe if it declares the dividend, it will go to the shareholders of IRB. So there won't be any tax incident on the shareholders of IRB. Those absorption of this taxation by IRB.

Management: Yes, the regulation was clear even before this amendment, dividend is not taxable to unitholders of Invit if SPV is under old tax regime.

Parikshit Kandpal: But then there was a change, right? That dividend will be taxable in the hands of the investors who receive it. So here in this case, it won't be applicable.

Management: For Dividend as stated earlier, if the SPV is following the old tax regime, the dividend will not be taxable. If SPV is following the new regime, dividend will be taxable. In reality, private InvIT most of the SPV's are eligible for 80IA or 35AD deduction under Income Tax Act, 1961. These deductions are available under old regime only, considering that we will be continuing with the old provision. Hence, the dividend received by IRB will not be taxable in the hands of IRB.

Parikshit Kandpal: And neither in the hands of the investors who will pass through the dividend too?

Management: Pass through is only available for SPV, Invit and investors of Invit i.e. unitholders.

Moderator: Thank you. Next question is on line of Prem Khurana from Anand Rathi. Please go ahead.

Prem Khurana: So I want to understand, when you talk about the INR 6000 to 8000 odd crores rupees of order addition. So we time and again identify that our preferred mode

is BOT mode and then TOT and then HAM. So this INR 6,000 to 8,000 crores, would you be able to break it down into how much are we targeting in terms of BOT? And also if you could help us understand the pipeline or the prospects pipeline that you talk about from the NHAI, how many of these would be OK to? So I think you said you work bid for one project on BOT side, but if you look at the entire pipeline as of today, how many would be on BOT, how many TOT and the balance I'm assuming it would be hybrid or EPC if you could help us understand the mix that you're targeting.

Management: So, I think what we are discussing here is the EPC book. So whether it comes from your BOT or TOT or HAM, the EPC piece of that would be in the range of Rs.6000 to Rs.8000 crores is what we are seeing. Now the breakup can change depending dynamically on what we win, what we don't win. But the EPC among the three of them together should be in the range of Rs.6000 to Rs.8000 crores.

Prem Khurana: OK, so we are indifferent. I mean, as long as we are able to manage EPC and we are able to generate the kind of IRR that we generate on these. OK. And the second question was on the equity required. So how much would be the equity balance that we do infuse in all these assets? I mean the hybrids and the Ganga? And if you could give the year wise breakup?

Management: Yeah, this year close to INR 200 crores of equity, next financial year close to INR 700 crores of equity and in FY25 little less than INR 200 cores of equity is required, this is for the existing projects.

Prem Khurana: And this is our share, right. I mean in Ganga we would put in half.

Management: For Ganga, we will put in 51% and GIC will put 49%.

Prem Khurana: And just one last question. The bookkeeping sort of. So when I look around numbers for. Last few quarters on EPC side, that tax factor seems to be on the higher side. Where do you see this number to settle down? Because it's in excess of 35 odd percent. I mean, why would this number be so high? Are there any 1 offs in this tax that you report so. I think second quarter was 40%, in third quarter, it is around 35%?

Management: In Second Quarter of FY 2023, there was some deferred tax asset derecognized which was one time kind of impact for VK1 and which is not continuing in this

quarter. So that has led one time impact on taxation. Holding company earns interest from subsidiaries on loan extended. At consolidated level, income get excluded but tax remains which leads to higher tax rate around 30% .

Moderator: Thank you. Next question is from the line of Rohit Natarajan from Antique Stock please.

Rohit Natarajan: So we are given to understand that Hyderabad ORR details should be out any time, any color on that. Did you participate in it or when do you expect that to be concluded?

Management: I don't think, the bid date has not come yet.

Rohit Natarajan: It was said that by Jan weekend, I mean Jan last week will be out any extension.

Management: I think that it was postponed, if I remember right.

Rohit Natarajan: OK, so is this in your cards as such?

Management: As per policy of the company, will not be able to disclose that at this point.

Rohit Natarajan: The TOT packages. Any update on that part? Because after the last one bundle, any clarity, any guidance on the new TOT packages that could be there or will NHAI resort to InvIT route?

Management: Again, that's for NHAI to decide whatever TOT now we will evaluate and decide our course on it, but very difficult for me to say what InvIT, they would do.

Rohit Natarajan: Sir, any guidance on the state highway opportunities in the form of BOT?

Management: We keep evaluating, we believe there would be some opportunities that can come on BOT as well. So like Ganga was a state BOT project and it appears to be very attractive proposition. So we participated in that. So any such opportunity comes in, we will definitely evaluate that as well.

Rohit Natarajan: So nothing on card as at this point in time as we discussed.

Management: No.

Moderator: Thank you. Next question is on Nikhil Abhyankar from Dam Capital. Please go ahead.

Nikhil Abhyankar: If you look at private InvIT assets, they have started doing way lot better over the years. So is there any chance of higher dividend in the coming quarters or say next year?

Management: So private InvIT you will appreciate that majority of the projects have got completed in the last 6 to 9 months and those projects are now in the stabilization phase and in the coming years we have also refinanced three of the project pushing back the amortization. And increasing the cash relief given this trend, certainly from next year, there would be some good possibility to have a pay out from the private InvIT both the partners.

Nikhil Abhyankar: No guidance associated, Sir.

Management: See it's all also incumbent on how the projects perform, what tariffs increase we get, how much more refinancing gets done and how fast. But yes, I mean on the numbers, maybe I can give you a guidance on, I mean can give you the guidance on how the numbers look, but certainly that looks to be doable thing for the next financial year. I think we are giving the monthly revenue, for December month, we have done our revenue of INR 195 crores. If I take the revenue close to INR 200 crores of revenue from the private InvIT side. For next financial, that translates roughly INR 2,400 crores. And if I assume roughly 7% growth because this is the latest number then the revenue translates to INR 2,550 crores of Revenue, INR 750 crores is NHAI share. INR 1,800 crores will be the net revenue for the private InvIT and around INR 200 crores is the O&M expenditure roughly, INR 1,600 crores will be EBITDA. Against the INR 1,600 crores of EBITDA, there is a debt of roughly INR 10,000 crores. we have interest cost is close to 9%-9.5% i.e. average cost of debt. There will be a surplus available and that surplus can get distributed.

Nikhil Abhyankar: And sir of the INR 5,000 crore EPC revenue guidance for next year, how much will Ganga contribute?

Management: Ganga will be executed over the period of next 2 1/2 years and roughly 500 to 600 per quarter kind of execution will be happening on Ganga to complete the

project within balance 2 1/2 years. So I think roughly INR 500 to 600 crores of execution will be coming from Ganga.

Nikhil Abhyankar: And the last question, any update on Ahmedabad – Vadodara arbitration?

Management: On Ahmedabad – Vadodara, arbitration has moved forward and it is in the final stage is what I can say at the moment, but still at least three to four months of work balance.

Moderator: Thank you. Next question is from the line of Alok Deora from Motilal Oswal. Please go ahead.

Alok Deora: Just had couple of questions. First on we have been since last few quarters now we have been talking about some toll projects also coming through from NHAI side considering their stretched finances. But still, we don't see too many of toll projects in the pipeline. So what's the view here because? Apart from two or three projects here and there, we are not really seeing a toll projects coming in any significant way.

Management: So if I'm right, I think they announced the total number of BOT products that got built on NHAI and this year was at least I think 3. So, one got cancelled, one was awarded to 1 developer and the third one is in the bidding stage. So three projects, they announced and I think as they are also seeing improved participation, we continue to believe that the number will keep going up. I mean, I agree that it is at its minimal possible today. So the only way forward from here can be up.

Alok Deora: And also in HAM projects, they were looking to reduce the equity contribution but in some of the other calls from other contractors, we understand that that is not happening anytime soon now, any update from your side?

Management: No, that appears to be the case.

Alok Deora: Any reason, Sir, for that?

Management: I don't know. They might be having enough money, so they don't need to cut it out. So for a developer like us, it's a great thing that if they are doing more money, that's good.

Alok Deora: No, I think the idea was to reduce the competition.

Management: One thing I'm observing this year is the competition seems to have tamed down a bit because last year, you will remember there was no bid bond required to be given along with each of the bid. Whereas this year, there is a 1% bid bond required to be given alongside bid, and when you have so many bids happening in close proximity, certainly everybody tries to have his own priority list basis which they bid. So the number of participants in each bid has certainly come down. So unlike what we used to see 20-25 people in each project, now the number tends to range between 5 to 10.

Alok Deora: Sure. Just a last question. So the interest cost has come down to around INR 370 or 365 crores for Q3. So what would be the run rate going ahead? Could it be at similar number only? Or could we see further reduction here?

Management: So this quarter what you have seen is the number post repayment of debt, which we did in the fourth quarter of FY22 and in next quarter what you will see would be more comparable number where the debt reduction impact would be there from the first quarter of next year then there will not be much difference because the repayment of debt has happened in the fourth quarter last year.

Management: No, but I think if you ask me directionally. You will see that consolidated debt in IRB will continue to keep going down because if I look at the debt profile in IRB, you have debt sitting in the Mumbai - Pune Asset, Ahmedabad - Baroda, both the repayment is happening in a strong manner. HAM debt uplifting that would happen will be minimal because only to the extent of 40% of the project size distributed over two years and secondly, the holding company debt also is going down. So the way forward consolidated IRB debt will continue to come down as we move forward. It is certainly not going up for sure.

Moderator: Thank you. Thank you. Next follow up question is from the line of Nikhil Abhyankar from DAM Capital. Please go ahead.

Nikhil Abhyankar: So have you booked profits for VK1 transfer, so it comes out around somewhere 50 plus crores?

Management: VK1, there is a profit on standalone because the investment was recorded at book value. And in consolidated, because the HAM project accounting is done

on the basis of IND AS where one has to account for the receivable from the NHAI upfront. Considering that, there was no impact on PAT on the consolidated accounts, but there was a gain of INR 50 plus crores in standalone as you mentioned.

Moderator: Thank you very much. I now have the conference over to Mr. Virendra Mhaiskar for closing comments.

Virendra Mhaiskar: Thanks all of you for taking time out and it's the result season, but really appreciate all of you finding time and joining us to discuss the prospects of the company in the quarter gone by and picture how it is visible at the moment in terms of business visibility going forward and look forward to see you all again during the next quarter. Have a great day ahead. Thank you.

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