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Ladies and gentlemen, welcome to the IRB Infrastructure Developers conference call hosted by the company for the unaudited financial results for Q2 FY '19. We have with us today: Mr. Virendra Mhaiskar, Mr. Sudhir Hoshing, Mr. Anil Yadav, Mr. Mehul Patel and Ms. Poonam Nishal on the call. After the opening remarks by the management, there will be a question-and-answer session.

I would now request Mr. Virendra Mhaiskar to give you an overview of the significant development during the quarter. Thank you, and over to you, sir.

Virendra D. Mhaiskar, IRB Infrastructure Developers Limited - Chairman & MD [2]

Hello. A very warm welcome to all of you. I would like to welcome all the investors and analysts on this con call. I hope you have been able to go through our detailed numbers as well as the presentation by now. Many banks are already under corrective action plan, even in Q1 of FY '19. And then more turmoil surfaced in second quarter as we saw some largest financial institutions slug into default or receive stern warnings from RBI for noncompliance on various accounts. In the backdrop of such situations, achieving financial closure for INR 70,000 crores worth of road project seemed like a difficult task for the sector. Overall, roughly 40%, 50% of the projects awarded in FY '18 have now achieved financial closure. But most of them have achieved the closure below their quoted bid project cost. Amidst such difficult environment, IRB has been able to complete the financial closure for all their 3 HAM projects at the bid project cost from a mix of banks and NBFCs at 9.75% rate of interest and a debt/equity ratio of 80/20 for the non-grant cost, reaffirming our strategy of 10% to 12% PAT margin with 11% to 12% equity IRR on the total bid project cost. Financing discussions for Hapur Project 2 are at an advanced level and should be getting closed over the coming months.

Work execution is progressing in line with expectations for us. It being a monsoon quarter, there was a bit of -- it was a bit on the softer side. All 3 Rajasthan projects are in full swing, and Karwar-Kundapur as well as Yedeshi - Aurangabad are now approaching completion. Construction for the HAM projects will start within the current quarter. We have completed construction for the Sindhudurg Airport and have conducted a test flight last month. We expect the airport to be operational before end of this fiscal.

Toll collection numbers are promising as well, especially considering that this was a monsoon quarter, and we had 8 days of transporters' strike. Even with this, over 13% growth has been witnessed in Ahmedabad - Vadodara and Kaithal - Rajasthan projects, reflecting the potential we have in these projects. Completion of ROB in Kaithal - Rajasthan project has led to robust traffic growth for the project. And after the completion of the adjacent sections of Ambala - Kaithal, we expect much more stronger numbers for this project.

In Agra-Etawah, we have a unique situation where temporary impact of low tariff implemented on Lucknow Expressway is there. But this is getting accentuated due to ongoing construction works on the 20-kilometer bypass switch and few flyovers at busy junction along our projects that are blocking the vehicle movement significantly. All this will get streamlined as construction progresses, allowing smooth traffic movement. We have seen a similar jump in Kaithal-Rajasthan as well after completion of major structure work. Diverted -- traffic diversion created due to Mumbra bypass repair work has ended towards the end of September, and we are starting to see traffic movement returning to the project impacted.

Recently, CRISIL has also initiated a rating on IRB Infra with a A+ positive outlook, and we have had similar ratings from Fitch India ratings in the past as well. We expect second half of the year to see meaningful awarding activity, as was as the case last year in -- as was the case in last year. Q3 will have a second TOT bidding followed by awarding of the projects on EPC HAM basis in Q4. NHAI has lined up over INR 70,000 crores worth of projects for bidding, which should get awarded before the code of conduct sets in, is our view. We will continue with our focused growth strategy and selectively bid for HAM projects as well as TOT as done earlier.

I will now request Anil to give an overview of the financial performance. Over to you, Anil.

Anil D. Yadav, IRB Infrastructure Developers Limited - Group Chief Finance Officer [3]

Thank you, sir. I will present the financial analysis of Q2 of FY '19 versus Q2 of FY '18. Total consolidated income for Q2 of FY '19 has increased to INR 1,485 crores from INR 1,242 crores for Q2 of FY '18, registering growth of 20%. The consolidated toll revenue for Q2 of FY '19 has increased to 494 crores from 371 crores for Q2 of FY '18, registering growth of 33%. Consolidated construction revenue for Q2 of FY '19 has increased to 938 crores from INR 828 crores in Q2 of FY '18, registering growth of 13%.

EBITDA for Q2 of FY '19 increased to 723 crores from 615 crores in Q2 of FY '18, registering growth of 18%.

Interest cost has also increased to 272 crores in Q2 of FY '19 from 235 crores in Q2 of FY '18 due to projects like the S - Y BOT project and Kaithal - Rajasthan project has started their operation, and now interest is charged to the P&L account.

Depreciation has increased to INR 137 crores in Q2 of FY '19 from INR 126 crores in Q2 of FY '18. PBT, excluding extraordinary income, has increased to INR 314 crores in Q2 of FY '19 from INR 254 crores in Q2 of FY '18, registering growth of 24%.

PAT, excluding extraordinary income, has increased to INR 173 crores in Q2 of FY '19 from INR 131 crores in Q2 of FY '18, registering growth of 32%.

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

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Questions and Answers

Operator [1]

(Operator Instructions) The first question is from the line of the Vibhor Singhal from PhillipCapital.

Vibhor Singhal, PhillipCapital (India) Pvt. Ltd., Research Division - VP & Lead Analyst of Infrastructure and IT Services [2]

So my question was basically on the macro situation at this point of time. I mean, if you see right now, I mean, since April this year, NHAI has hardly awarded 400 to 500 kilometers of road orders. And given that we have an election -- central election next year, we might not see that kind of [sporting] awards that we saw in the months of February and March this year. So I mean, given that -- given your industry of expertise and that you are constantly meeting those guys, what do you think could be the reasonable number that NHAI could end up awarding this year? And do you think that could be an impediment for companies like us in terms of our growth, maybe not for next year but maybe for a couple of years down the line?

Virendra D. Mhaikar, IRB Infrastructure Developers Limited - Chairman & MD [3]

Vibhor, if you see the trend for last few years and how things have panned out, I think bulking of bidding activity is not something new for the sector. If we look at the situation, the reason why we believe NHAI would have delayed this award activity is because of the pending financial closure. Significant amount of bidding and awards happened in the Q4 of FY '18. And with so many projects yet to achieve financial closure, they have been postponing this. But if you look at the NHAI website, you will find a host of projects which are up for bidding, but they have been just postponing the resubmission date. So my sense is that with now, they are starting to see the financial closures happening, they would start the bidding activity on these projects is what our sense is. So as I said, we would start in a nimble manner, the bidding activity to come in Q3 and gather pace in Q4, as we have seen in the last year as well. And that is our guess. And if that happens, we should also be able to pick up our share of wins in those list of projects is what we believe.

Vibhor Singhal, PhillipCapital (India) Pvt. Ltd., Research Division - VP & Lead Analyst of Infrastructure and IT Services [4]

And you don't see an impact of impending central elections in the Q4 order award this year, that they might not be able to award as much in Feb and March this year?

Virendra D. Mhaishkar, IRB Infrastructure Developers Limited - Chairman & MD [5]

No. So elections would have a damper impact in terms of code of conduct kicking in only towards later part of Q4. But the state elections, I don't think, are going to play any dampener because technically, that is not something which will hold the project award as far as NHAI is concerned. So my sense is that it should not play as a big impediment. Yes, some hurdles would certainly be there. But I think if they start well in time, it can still be achieved.

Vibhor Singhal, PhillipCapital (India) Pvt. Ltd., Research Division - VP & Lead Analyst of Infrastructure and IT Services [6]

Sure, sir. A related question, maybe, sir, on the financial closures, as you mentioned that yes, it was very difficult, given the so many -- 11 banks were under PCA. We managed to close all our projects. That's a great achievement. Not many other developers have been able to do it. What do you see the situation right now? So my sense is that let's say, tomorrow, if NHAI starts awarding projects, this year, also, they were looking for at least 30% to 40% percentage of projects on the HAM basis. If those many projects are again awarded on HAM projects, does the banking sector right now, as per your interactions with them, have the appetite right now, especially with the given turmoil that is going with the NBFCs related to the IL&FS thing, do you -- does the banking sector have the appetite now to fund the 30% to 40%, kind of, HAM projects which might be awarded this year?

Virendra D. Mhaishkar, IRB Infrastructure Developers Limited - Chairman & MD [7]

So Vibhor, if I have to answer you on the specific grammar, you use right now, my answer is no. But if I have to look at the bidding time line and the financial closure time line which would become available post that, I think, certainly, it is a doable act because as we keep reading in the paper, a lot of banks who are under PCA have submitted their turnaround plans. Government has also reiterated that they are now looking at infusing capital to these banks. And that, I think, was the biggest impediment in the whole activity in picking up because whichever bank we have been talking to, they have all been saying that they are having enough liquidity and funds to deploy in terms of credit growth. But capital was their chief constraint. So if the government addresses that capital infusion requirement of these banks, then I'm pretty sure that this number can go up, and sufficient amount of funds will become available for the sector going forward.

Vibhor Singhal, PhillipCapital (India) Pvt. Ltd., Research Division - VP & Lead Analyst of Infrastructure and IT Services [8]

Sure, sir. That's great to hear. Also, sir, just lastly, on the financial closures that we have achieved. Is there a condition put by the banks in the financial closure for these projects that the entire equity has to be put upfront? Or will it be on a proportionate basis?

Virendra D. Mhaiskar, IRB Infrastructure Developers Limited - Chairman & MD [9]

No, there is no such condition. It would be in a proportionate basis. Around 50% of the equity will be brought in upfront, and the balance equity will be brought in on a pro rata basis as has been the case in the past.

Operator [10]

(Operator Instructions) The next question is from the line of Ashish Shah from IDFC Securities.

Ashish Shah, IDFC Securities Limited, Research Division - Analyst [11]

First question is on the impact of the closure, the traffic diversion which happened at Mumbra. So now that traffic is now restored to normalcy, can you probably try and quantify how much is incremental toll that we are likely to see or, let's say, if I take an approximate number in Q2, how much is that we would've lost, and which we can potentially get back? Because the...

Virendra D. Mhaiskar, IRB Infrastructure Developers Limited - Chairman & MD [12]

So I think one of the plaza which was quite badly hit as a part of this diversion has already recovered around 10 to -- somewhere between 10 lakh and 15 lakh. And going forward, as soon as the balance restrictions of some no-entry will still prevail [for a few hours], as that goes away, I think the entire 20 lakhs can be [referred] comfortably.

Ashish Shah, IDFC Securities Limited, Research Division - Analyst [13]

So probably, partly in Q3, partly in Q4, we could expect a 20 lakh bump-up in the toll?

Virendra D. Mhaiskar, IRB Infrastructure Developers Limited - Chairman & MD [14]

That's correct. That's correct.

Ashish Shah, IDFC Securities Limited, Research Division - Analyst [15]

Sure. So, secondly, we have one of the projects where the grant from the NHAI is still pending, the Yedeshi - Aurangabad project where to -- from what I've seen, the grant has still not come. So any particular reason why that has been held up?

Virendra D. Mhaikar, IRB Infrastructure Developers Limited - Chairman & MD [16]

No, there is no particular reason. As the work progresses, now the entire equity has already been brought in. So my sense is that, some grant is likely to be received in Q3 itself. And the balance once we are nearing PCOD. That's how -- I mean, that's how they have been typically doing. Even if you track Solapur - Yedeshi, you would notice that when we were close to the PCOD, the balance grant was released by them. So we expect a similar trend to continue in this case also. Otherwise, there is no particular reason why that has not been disbursed.

Ashish Shah, IDFC Securities Limited, Research Division - Analyst [17]

So let's say, between Q4 of '19 and early next year, you will probably expect the entire, some 550-odd crores of grant which is pending to be received? Would that be correct?

Virendra D. Mhaikar, IRB Infrastructure Developers Limited - Chairman & MD [18]

550 crores is not pending. I think some 100 crores, 115 crores is balanced. And my sense is close to 100 crores is what we would expect in Q3, and the balance close to PCOD.

Ashish Shah, IDFC Securities Limited, Research Division - Analyst [19]

Sure, sorry. In terms of the EPC business, how much would be your target now for the year in terms of the turnover?

Virendra D. Mhaikar, IRB Infrastructure Developers Limited - Chairman & MD [20]

I didn't get the question. Can you repeat the question?

Ashish Shah, IDFC Securities Limited, Research Division - Analyst [21]

No, I'm just saying, what is the EPC turnover that we expect the for the year, FY '19 now? Given the progress of the closures and where the status stands as of date, what would be our target for the EPC revenue for the year?

Virendra D. Mhaiskar, IRB Infrastructure Developers Limited - Chairman & MD [22]

Approximately 45 million for this year.

Operator [23]

(Operator Instructions) The next question is from the line of Viral Shah from Emkay Global.

Viral K. Shah, Emkay Global Financial Services Ltd., Research Division - Research Analyst [24]

Sir, couple of questions. One, in terms of order inflow guidance, are we confident of achieving 7,000 crores to 8,000 crores of order inflow guidance for the year as a whole?

Virendra D. Mhaiskar, IRB Infrastructure Developers Limited - Chairman & MD [25]

Subject to the bidding happening, yes.

Viral K. Shah, Emkay Global Financial Services Ltd., Research Division - Research Analyst [26]

Okay. Fair enough, sir. And secondly, sir, in terms of one large project, that is BOT Hapur Moradabad, when can we expect the financial closure to take place?

Virendra D. Mhaiskar, IRB Infrastructure Developers Limited - Chairman & MD [27]

Unlike these HAM projects where we have only 4 months to achieve closure, BOTs have 6 months financial closure period. It is progressing extremely well. And I think before end of this calendar year, we should have the closures announced. Much before that, but I'm just giving an outer limit.

Viral K. Shah, Emkay Global Financial Services Ltd., Research Division - Research Analyst [28]

Fine. Fair enough, sir. So by 3Q, you can expect the financial closure to [bid on,] right?

Virendra D. Mhaiskar, IRB Infrastructure Developers Limited - Chairman & MD [29]

After that, there is no project where financial closure is pending.

Viral K. Shah, Emkay Global Financial Services Ltd., Research Division - Research Analyst [30]

Okay. Fair enough, sir. And finally, what is the status on the land development on all these 4 projects where the construction has to be started? Land development...

Virendra D. Mhaiskar, IRB Infrastructure Developers Limited - Chairman & MD [31]

The HAM projects, I think, 80%, 90% land is already in place. And unless it is close to 100%, we are not going to start the, or take the appointed date. So we are very clear about that. And only then will we start. So we expect the construction to commence later part of this quarter. And then because we have to be very careful about this aspect, considering the fact that construction has to be completed in 2 years' period, so we would like to have maximum land being made available when we start the construction.

Viral K. Shah, Emkay Global Financial Services Ltd., Research Division - Research Analyst [32]

Okay. And in terms of...

Virendra D. Mhaiskar, IRB Infrastructure Developers Limited - Chairman & MD [33]

Hapur Moradabad, I don't see an issue because it is a 6-laning project. So you can comfortably start the project. There is not much issue of land on Hapur Moradabad.

Viral K. Shah, Emkay Global Financial Services Ltd., Research Division - Research Analyst [34]

Fair enough, sir. And then finally, in terms of financial closure for Hapur Moradabad , are we looking at the similar terms what we had in HAM? Or there has been some change there in terms of financial closures?

Virendra D. Mhaiskar, IRB Infrastructure Developers Limited - Chairman & MD [35]

No. In terms of interest cost, I don't think there would be a much different interest cost. But in terms of debt-equity ratio, as you know, BOT projects are far and few, and banks have been more conservative in the past, funding them in terms of the D-Ratio. So we expect the D-Ratio to be more softer than what is there in for HAM projects. And considering that, that's how the structure for BOT would be.

Viral K. Shah, Emkay Global Financial Services Ltd., Research Division - Research Analyst [36]

Okay. So that means that it could be the range of 60/40 or 65/35? Or sir, close to the range of 70...

Virendra D. Mhaiskar, IRB Infrastructure Developers Limited - Chairman & MD [37]

Close to 60/40 is what I would say. Because again, the NHAI TPC and the actual TPC becomes an issue for bank, and they would tend to go by NHAI TPC. So naturally, it would turn out to around in the region of 60/40 kind of stuff.

Viral K. Shah, Emkay Global Financial Services Ltd., Research Division - Research Analyst [38]

Fair enough, sir. So basically, by fourth quarter, you would -- all the [financial closures] to start contributing to the [construction income]. Is the understanding correct?

Virendra D. Mhaiskar, IRB Infrastructure Developers Limited - Chairman & MD [39]

Yes, yes.

Operator [40]

The next question is from the line of Parikshit Kandpal from HDFC Securities.

Parikshit D. Kandpal, HDFC Securities Limited, Research Division - Research Analyst [41]

Hello?

Virendra D. Mhaiskar, IRB Infrastructure Developers Limited - Chairman & MD [42]

Yes.

Parikshit D. Kandpal, HDFC Securities Limited, Research Division - Research Analyst [43]

Sir, this CRISIL rating we have got initiated, so how does it change things for us? I mean...

Virendra D. Mhaiskar, IRB Infrastructure Developers Limited - Chairman & MD [44]

See, I think Fitch already had been having IRB rated at A+. But Fitch has -- Fitch had a stable outlook on IRB. Whereas now CRISIL has initiated A+ with a positive outlook. So this is the differentiation between the 2 ratings. Certainly, today, the major point that matters in the difficult financial environment is, most banks, today, are not wanting to touch projects of corporates who don't have an A rating. So the first question these days when we go to banks for financial closure, what we hear is, "What is the company's rating?" So if the rating is anything below A, they are not even wanting to look at the proposal. So this certainly plays a crucial role as a starting point for the banks to look at the financing proposal. So yes, it does matter a lot.

Parikshit D. Kandpal, HDFC Securities Limited, Research Division - Research Analyst [45]

But will it help us to further reduce our -- I mean, get better terms in terms of, like, interest cost or financial closure cost?

Virendra D. Mhaikar, IRB Infrastructure Developers Limited - Chairman & MD [46]

Interest cost is certainly, again, linked to the rating. But I'm saying, for many banks today, if you are not rated at A and above, it is a no-go. They are just not wanting to look at a -- because the market is flooded with proposals. And well, they have a limited capital and a limited ability to lend, they are wanting to prioritize that lending to A+ clients. So naturally, A and above is getting a precedence over the others when it comes to funding projects. And that also has certainly helped IRB to achieve the closures in time.

Parikshit D. Kandpal, HDFC Securities Limited, Research Division - Research Analyst [47]

Okay. So now coming to these 3 HAMs where we have closed the [-- assume] is done. So who are the banks and the NBFCs here, sir, if you can name?

Virendra D. Mhaikar, IRB Infrastructure Developers Limited - Chairman & MD [48]

Two of the projects, there is a lending finance. One is [Bella Finance] and [CNB.]

Parikshit D. Kandpal, HDFC Securities Limited, Research Division - Research Analyst [49]

Okay. Basically, my point was that these NBFCs will be able to honor their commitments at least. I mean, we have seen the recent liquidity crunch. So I think these bigger NBFCs should be able to meet their commitment, right?

Virendra D. Mhaikar, IRB Infrastructure Developers Limited - Chairman & MD [50]

Yes. Yes, yes, we don't expect an issue in terms of their ability to fund. They have -- it's a hard underwriting, and we are getting very, very comforting signals from all the NBFCs who have funded this, or agreed to fund, this project.

Parikshit D. Kandpal, HDFC Securities Limited, Research Division - Research Analyst [51]

Okay. Sir, now on this HAM projects, once they move into execution, you have said that 12% is what the margins at the back level you are looking at. So now since the FC has been done, the costs have been finalized, so what could be the EBITDA margins you will be making on this now? I mean, any color on that?

Virendra D. Mhaskar, IRB Infrastructure Developers Limited - Chairman & MD [52]

The -- yes, in HAM project, we will have around 17% to 18% EBITDA margin. And BOT will have a similar margin.

Parikshit D. Kandpal, HDFC Securities Limited, Research Division - Research Analyst [53]

Okay. And have you already, like, this HAM project will be executed inhouse, or we're looking at subcontracting it? And have the -- we have already finalized the subcontractors for these projects?

Virendra D. Mhaskar, IRB Infrastructure Developers Limited - Chairman & MD [54]

Two projects we are doing inhouse. One project is already subcontracted to LNT.

Parikshit D. Kandpal, HDFC Securities Limited, Research Division - Research Analyst [55]

Okay, okay. And sir, your stand-alone results, there is another income which is like very high during this quarter. So it's almost like 130 crores versus last quarter, like sequentially, it was 35. So any particular reason why it is so high during this quarter?

Anil D. Yadav, IRB Infrastructure Developers Limited - Group Chief Finance Officer [56]

See, stand-alone, basically, whenever we pay, last quarter, we have paid a dividend from the company. And similar kind of dividend company has received from the subsidiary company. And based on the index, dividend is accounted as and when received. That dividend, whatever was received from the subsidiary, got accounted in this quarter, and which gets eliminated while doing the consolidation.

Parikshit D. Kandpal, HDFC Securities Limited, Research Division - Research Analyst [57]

Which was the subsidiary, I mean, which has paid?

Anil D. Yadav, IRB Infrastructure Developers Limited - Group Chief Finance Officer [58]

Modern Road Makers has paid the dividend.

Parikshit D. Kandpal, HDFC Securities Limited, Research Division - Research Analyst [59]

Okay, okay. And sir, if you can the breakup of the other income and BOT and the stand-alone construction?

Anil D. Yadav, IRB Infrastructure Developers Limited - Group Chief Finance Officer [60]

Yes. Construction, other income for this quarter was roughly 26 crores, and toll was 27 crores.

Parikshit D. Kandpal, HDFC Securities Limited, Research Division - Research Analyst [61]

Okay. And stand-alone gross debt and cash levels, if you can give, sir?

Anil D. Yadav, IRB Infrastructure Developers Limited - Group Chief Finance Officer [62]

Yes, stand-alone cash will be at roughly 1,200-odd crores, and gross debt will be roughly 3,000-odd crores.

Parikshit D. Kandpal, HDFC Securities Limited, Research Division - Research Analyst [63]

And what would be the consolidated cash? If you could just..

Anil D. Yadav, IRB Infrastructure Developers Limited - Group Chief Finance Officer [64]

Consolidated cash is close to 15 -- INR 140 crores.

Parikshit D. Kandpal, HDFC Securities Limited, Research Division - Research Analyst [65]

Sir, this Ahmedabad - Vadodara project continues to do well, so I mean, what is changing there? I mean, we have seen sequentially in last quarter, the numbers were good. This quarter also, the numbers are good. So what is happening there, if you can just highlight?

Virendra D. Mhaikar, IRB Infrastructure Developers Limited - Chairman & MD [66]

In Ahmedabad - Vadodara, we have initiated conciliation. So that's one method available before one -- sorry, I missed the question. You are asking about the toll collection or the litigation part?

Parikshit D. Kandpal, HDFC Securities Limited, Research Division - Research Analyst [67]

No, no. Ahmedabad's toll collection has been improving. I mean, so...

Virendra D. Mhaskar, IRB Infrastructure Developers Limited - Chairman & MD [68]

Yes. Toll collection has...

Parikshit D. Kandpal, HDFC Securities Limited, Research Division - Research Analyst [69]

Both the things, yes, if you can...

Virendra D. Mhaskar, IRB Infrastructure Developers Limited - Chairman & MD [70]

So toll collection has been improving. We have recorded 30%, 20% kind of revenue growth on that project. On the pending claims that we have with NHA, we've already triggered the conciliation process, which one can go through before getting into arbitration in cases that remains unsolved. So our sense is that the things have progressed well, and we are hopeful of a resolution on that sooner than later now.

Parikshit D. Kandpal, HDFC Securities Limited, Research Division - Research Analyst [71]

Sir, my question is, why is the traffic increasing? I mean, what is the changing on the ground? So the numbers are...

Virendra D. Mhaskar, IRB Infrastructure Developers Limited - Chairman & MD [72]

So what is happening is, yes, the project missed its base revenue because of diversion of traffic. But it's an economically a very strong corridor. And certainly, with growth picking up all around, the corridor is visibly showing good the, new pickup. So that is the reason why, quarter-after-quarter, the growth has been very, very strong. So now the base remained impacted because of diversion of traffic that happened. But overall, economy on that part of region is doing well. So yes, we have seen quarter-after-quarter good growth picking up on the corridor.

Operator [73]

The next question is from the line of Inderjeet Bhatia from Macquarie.

Inderjeet Singh Bhatia, Macquarie Research - Head of Research [74]

One very straightforward question. You talked about INR 70,000 crores potential orders from NHAI in the second half. If you think if the government were to miss, or NHAI were to miss, do you think it's more because of inability or not a lack of preparedness from NHAI side? Or do you think that there are enough participants available to take these kind of orders, especially on the HAM side, given that so many of them are struggling on financial closure?

Virendra D. Mhaiskar, IRB Infrastructure Developers Limited - Chairman & MD [75]

So if we look at the names who have been able to achieve the financial closure, you will see the usual suspects who have been long-standing in the sector. They are the ones who have been able to the closure. So they would certainly have more appetite for projects to come in the near future. The new entrants who had been trying their luck in a haphazard manner, they're the ones who are stuck. And the probably will continue to face headwinds because of rating issues, balance issues, execution issues and so on and so forth. But in terms of the ability of the sector to absorb those new orders, I think that certainly, to a full extent, is possible. Yes, with the lower competition pricing can improve a bit from here on. Aggression can go down. And the orders will certainly get absorbed within the corridor, within the sector, is what we feel in -- if -- I mean, considering the time lines that we are talking about.

Inderjeet Singh Bhatia, Macquarie Research - Head of Research [76]

Okay. Based on your experience, is NHAI comfortable awarding projects in this field 4, 5 bidders kind of turnup rather than seeing typically that list of 10, 15 bidders which always kind of come?

Virendra D. Mhaiskar, IRB Infrastructure Developers Limited - Chairman & MD [77]

I think NHAI would not have any issue with regard to reduced number of bidders or increased number of bidders because we have to keep one thing in mind, this is all electronic bidding, and there is no prequalification here. So we really don't know how many will put in a bid for any particular bid, whether there will be only 3 bids, 5 bids or 20 bids. So this is not a post-qualification exercise. And hence, so long as more than 3 bids are received, I think NHAI would be comfortable enough to go ahead and award the project.

Operator [78]

Next question is from the line of Nilesh Bhaiya from Macquarie.

Nilesh Bhaiya, Macquarie Research - Analyst [79]

Just wanted to get a confirmation on the margins that you guided. 17% to 18% was on HAM projects. And on BOT, you also mentioned the same margin, 17% to 18%?

Anil D. Yadav, IRB Infrastructure Developers Limited - Group Chief Finance Officer [80]

BOT, we have talked about similar kind of margin what we used to have, around 25% to 27% margin on the BOT projects.

Nilesh Bhaiya, Macquarie Research - Analyst [81]

On the BOT projects, yes, okay. Second question is on this [A-V T] project, the Ahmedabad - Vadodara project. So obviously, this project had a premium deferment. So I'm -- so I understand that we have filed the claims, et cetera. But in the immediate -- so is there a cashout from financing that we need to do for this project right now, or is still the premium is getting deferred for long?

Anil D. Yadav, IRB Infrastructure Developers Limited - Group Chief Finance Officer [82]

With respect to Ahmedabad - Vadodara, since we have got a rate of interest revised from 11.5% to 9.5%, we are almost -- we've got a saving of roughly 70-odd crores. And last year, shortfall was close to 120 crores to 130 crores. Roughly, now the shortfall will be in the range of 60 crores to 70 crores.

Nilesh Bhaiya, Macquarie Research - Analyst [83]

So the 60 crores to 70 crores needs to be financed by IRB?

Anil D. Yadav, IRB Infrastructure Developers Limited - Group Chief Finance Officer [84]

Yes.

Nilesh Bhaiya, Macquarie Research - Analyst [85]

Okay. And another, so if you can just update me on the Kolhapur claims as well? If -- I think we were expecting some payments there.

Anil D. Yadav, IRB Infrastructure Developers Limited - Group Chief Finance Officer [86]

Yes, so on Kolhapur, the total amount that was to be received was 475-odd crores, out of which 150 crores, now more, has been received end of September quarter. So the cumulative amount that we have now received stands at 400 crores, and 75-odd crores remains to be received, which we are hopeful to receive in the Q3 of this year.

Operator [87]

The next question is from the line of Shravan Shah from Dolat Capital.

Shravan Shah, Dolat Capital Market Pvt. Ltd., Research Division - Senior Analyst [88]

Sir, just wanted a clarification. On presentation Page #24, you have given an equity commitment breakout for FY '19, '20, '21. So regarding 3 HAM projects, I am just calculating the total, if I add the 3 years total, that number is differing from the Page #20 where you have given the total equity requirement for the individual 3 projects.

Virendra D. Mhaikar, IRB Infrastructure Developers Limited - Chairman & MD [89]

What is the difference?

Shravan Shah, Dolat Capital Market Pvt. Ltd., Research Division - Senior Analyst [90]

Sir, so the difference is, if I total the FY '19, '20, '21 breakout given on Page #24 is lower than what is required as per Page #20.

Anil D. Yadav, IRB Infrastructure Developers Limited - Group Chief Finance Officer [91]

Page #20 includes the DSRA also. So there would have been a marginal difference because of the -- as some banks have [prescribed a] DSRA. So because of the DSRA, there will be a marginal difference of 30 crores, 40 crores, not more than that.

Shravan Shah, Dolat Capital Market Pvt. Ltd., Research Division - Senior Analyst [92]

In the first project, that is Puducherry, the difference is 50 crores. In the next project, the difference is close to 85 crores. And in the third project also 75 crores odd difference is there. So what is the actual equity requirement for these 3 HAM projects? Given on Page #20 is the one, and -- or is it on the 24 page?

Anil D. Yadav, IRB Infrastructure Developers Limited - Group Chief Finance Officer [93]

The equity requirement given on Page #20 is updated. You can take that particular one.

Shravan Shah, Dolat Capital Market Pvt. Ltd., Research Division - Senior Analyst [94]

And second, continuing to...

Anil D. Yadav, IRB Infrastructure Developers Limited - Group Chief Finance Officer [95]

And other thing you have to keep in mind, this HAM project part may get extended to the next financial year also.

Shravan Shah, Dolat Capital Market Pvt. Ltd., Research Division - Senior Analyst [96]

Part may get -- are you saying that the equity to be infused in the next year, you are saying?

Anil D. Yadav, IRB Infrastructure Developers Limited - Group Chief Finance Officer [97]

Yes, FY '22.

Shravan Shah, Dolat Capital Market Pvt. Ltd., Research Division - Senior Analyst [98]

FY '22 also. But we initially said in the call that 50% equity has to be infused upfront, so that has to be in FY '19, am I right?

Anil D. Yadav, IRB Infrastructure Developers Limited - Group Chief Finance Officer [99]

Yes. Yes.

Shravan Shah, Dolat Capital Market Pvt. Ltd., Research Division - Senior Analyst [100]

Because if I take that thing also into consideration, then also this FY '19, '20, '21 breakout is significantly different because FY '19 number is much, much lower.

Anil D. Yadav, IRB Infrastructure Developers Limited - Group Chief Finance Officer [101]

Yes. What happens, first, you put your 50% equity. Thereafter, the entire portion of -- 50% portion of the debt will come. And thereafter, debt equity going pro rata basis. You have to consider in that way. Basically, it's not that you have brought in 50% equity. And thereafter, you had to bring in pro rata of the debt. Thereafter, 50% debt will come, and then the debt equity will start on a pro rata basis.

Shravan Shah, Dolat Capital Market Pvt. Ltd., Research Division - Senior Analyst [102]

Sir, I understood. So I will consider the Page #20 equity number and also, the 50% of that to be infused in FY '19, am I right?

Anil D. Yadav, IRB Infrastructure Developers Limited - Group Chief Finance Officer [103]

Yes.

Shravan Shah, Dolat Capital Market Pvt. Ltd., Research Division - Senior Analyst [104]

Okay. And second thing is, sir, in both projects that is Puducherry and Poondiyankuppam, that TPC, which is the FC done on TPC, is higher than the BPC, why is it so?

Virendra D. Mhaikar, IRB Infrastructure Developers Limited - Chairman & MD [105]

Because of difference of DSRA.

Shravan Shah, Dolat Capital Market Pvt. Ltd., Research Division - Senior Analyst [106]

Okay, because we have seen in other companies' FC, their usually FC is 10% to 15% lower than the BPC. So if I -- correct me if I wrong, normally, if the TPC should be lower than the -- 10% to 15% lower than the BPC, then only we will be able to having a 10% to 15% or 16% IRR. If -- in your case, the TPC is higher than the BPCs, the IRR should be in the range of 5% to 7%?

Anil D. Yadav, IRB Infrastructure Developers Limited - Group Chief Finance Officer [107]

Basically, it will refer the earlier conversation of Mr. Mhaikar. He has clearly articulated that if you are doing your financial closure below your BPC, then your -- margin construction margin can be a [put a quotient mark.] And this is the BPC on which -- on basis of which we have bid for the project. So basically, IRR will be in -- as we have guided in past, IRR will be in range of 11% to 13%. And we will be generating 10% PAT on this BPC.

Virendra D. Mhaikar, IRB Infrastructure Developers Limited - Chairman & MD [108]

I would like to add a bit here. This is a very interesting question, and this impacts the whole sector. So what I would like to add here is that, what is a HAM project? It is a deferred EPC to my mind. So what you're bidding for is the lowest cost that which will execute the work for NHAI. So my question to you is that, if have bid for a project, and I have quoted my initial year construction cost, my endeavor would be to quote the lowest price, so as to win the contract. Why would I give a discount to the bank after I have bid on the project in the range of 10%, 15%, 20%, when I'm working on a 10% margin? It clearly shows that somewhere the financing or the model that these guys have worked on has gone wrong. And that is the reason now they have to take in on their chin and reduce their BPC and agree to the bank to work at a lower price. It is not the norm of the industry to work at a 15%, 20% below BPC. That is wrong. If I have quoted at BPC, I should get my funding at BPC. But because of abnormally low O&M expense, that most guys have factored in their working, and the bank is now asking them the right questions, asking them to provide for the right number for O&M execution. These IRRs are now going to into negative territory for most of them, which is forcing them to reduce the BPC, create fund or a subsidy, which can take care of the O&M requirement in the future. That is the reason why these guys are offering 15%, 20% discount. So my simple logic is, if they are closing their projects at any percentage discount to the BPC that much profitability from the construction side is gone. You cannot -- it's not some kind of a magic act somebody can do on this. If the construction -- if the BPC has been reduced, it's very simple that they are taking it on the chin and their construction margin is not going to get realized. I'm willing to challenge anybody in the sector that they should openly give their numbers with regard to what is the BPC at which they are achieving the closure. How much is going to be the equity? How much is going to be the grant from NHAI? And how much is the debt they are securing? I can clearly say the most are getting their FCs done below BPC, which clearly means they're not going to make any money on that project as far as the construction effort is concerned. Am I clear?

Shravan Shah, Dolat Capital Market Pvt. Ltd., Research Division - Senior Analyst [109]

Definitely, sir. But sir, you have opened so many contract questions and definitely, you have challenged to the industry. But as per my understanding, when you have rightly said, when somebody bids like any developer or any contractor bids for the HAM projects, whatever the BPC he quotes, there are 2 things that one has to quote: BP construction cost and the O&M. So when you quote, you first have to model it that with this, whatever the NPV I get, it should achieve my targeted IRR and the bank's requirement of DSRA. So if that is met, then your TPC should be lower than the BPC. It is not that I should quote the lowest construction cost when I get. When I am quoting, I am also considering the required IRR, whether it's a 14%, 16%, whether I can quote a lower O&M and a higher construction cost, or I can quote a higher construction costs and lower construction cost and higher O&M. So whatever way you quote the 2 numbers, ultimately, your aim is to get the desired required IRR, whether it's 14% to 16%, whatever a developer needs and the -- what the bank requires to do the funding. So maybe I am wrong. This is what -- my understanding.

Virendra D. Mhaikar, IRB Infrastructure Developers Limited - Chairman & MD [110]

I think there is some disconnect in your calculation for sure. I don't think any HAM project is being bid on an equity return of 16%, 18%. That is very, very unlikely. That can be a kindly -- that can be the kind of IRR, including the construction margin. I don't think the excluding the construction margin on the gross equity that one is investing on that SPV. Somebody's making 16% IRR, I don't think that is a right understanding. Yes, if you say, my construction profit being redeployed on the SPV to be netted out and net equity only used to be considered for working on IRR, then we also would be able to show 18%, 20% IRR on these projects, maybe in excess of 20%. But if I have to calculate the gross equity that we are putting on the project, then the IRRs are likely to be in the range of 11%, 12% for most projects. I am not aware of a higher IRR being earned by somebody in the sector. As regards with the IRR calculation, lowering the construction cost, having higher O&M, all the logic whatever you talked about and balancing the IRR, I understand that very well. But the point is, we have not seen any project where somebody has quoted a very, very comfortable O&M and reduced his construction costs. Hence, if that be the case, then if the construction cost is already low, then why would he give up a further rebate of 20% on that, is also un-understandable. So by any logic, if there is a reduction in the BPC quoted, then certainly, there is something wrong that has happened as far as the bidding goes. And he's taking a knock on his chin. We can discuss this 2 years later also. I'm willing to bet on this.

Shravan Shah, Dolat Capital Market Pvt. Ltd., Research Division - Senior Analyst [111]

Definitely, definitely, sir. So as per your understanding, I think, most of the projects are definitely would be in trouble and definitely the financier would be in much more in trouble. Thank you for your explanation.

Virendra D. Mhaikar, IRB Infrastructure Developers Limited - Chairman & MD [112]

Okay.

Operator [113]

The next question is from the line of Viral Shah from Emkay Global.

Viral K. Shah, Emkay Global Financial Services Ltd., Research Division - Research Analyst [114]

Just a follow-up question, sir. Could you tell us what has been the key contribution of the projects during the quarter in terms of construction income?

Anil D. Yadav, IRB Infrastructure Developers Limited - Group Chief Finance Officer [115]

We had a revenue of, Karwar-Kundapur, 100 crores; Agra-Etawah, 175 crores; [US BOT], 150 crores; CG TPL, 200 crores; and KG, 100 to 140 crores; [Udaipur] was 70 crores; and Sindhudurg Airport was 53 crores.

Operator [116]

Next question is from the line of [Kunal Singh] from B & K Securities.

Unidentified Analyst, [117]

And sorry, sir, if this question was already answered. I logged in a little late. I just wanted to know, on the HAM projects that we have closed with NBFCs like [LND and Bella], what is the cost of funding they are offering right now?

Anil D. Yadav, IRB Infrastructure Developers Limited - Group Chief Finance Officer [118]

It's less than 10%.

Unidentified Analyst, [119]

Okay. And is similar to what we have modeled in our initial assumption? Or it is significantly different? And how does it impact our IRR?

Anil D. Yadav, IRB Infrastructure Developers Limited - Group Chief Finance Officer [120]

So basically, we have modeled 9.5%. And there, the NHAI payment is also bank rate plus 300 basis points. Bank rate has also moved by 25 basis points, and our cost of funding has also increased by 25 basis points. So the answer is, it will not have an impact on IRR.

Operator [121]

Ladies and gentlemen, that was the last question. I now hand the conference over to Mr. Virendra Mhaikar for closing comments.

Virendra D. Mhaikar, IRB Infrastructure Developers Limited - Chairman & MD [122]

We would like to thank all the participants for getting on this call, and would look forward to have you again to discuss the third quarter results when we decide to have the call at the end of the next board meeting. And wish you all a very happy Diwali, and prosperous new year ahead. Thank you.

Operator [123]

Thank you very much, 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. Thank you, and have a great evening.