



IRB Infrastructure Developers Limited

Q2 FY24 Earnings Conference Call

30th October 2023; 5 P.M. IST

Moderator:

Gentlemen, welcome to the IRB Infrastructure Developers Conference call for discussing the financial results for the quarter ended Sept 30, 2023, along with recent developments.

We have with us on the call today, Mr. Virendra Mhaiskar; Mr. Dhananjay Joshi; Mr. Sudhir Hoshing; Mr. Anil Yadav; Mr. Mehul Patel; Mr. Tushar Kawedia; Mr. R.S. Sharma and Mr. Amitabh Murarka.

As a reminder, all participant lines will be in the listen only mode and after the opening remarks by the management, there will be a question-and-answer session. Please note that the duration of the call would be 45 minutes and any queries left unanswered after the call can be subsequently mailed to the management for adequate response and resolution. Please note that this conference is being recorded.

I now request Mr. Yadav to give you an overview of the significant developments during the quarter. Thank you and over to you, Sir.

Mr. Anil Yadav:

Good evening, everyone. I welcome all the investor and analysts to our earnings call for Q2 FY23. Hope you all have been able to go through our detailed number as well as presentation which were released yesterday.

I will briefly cover the key highlights for the quarter. Maiden distribution from the Private InvIT, which will reflect in the cash flow in Q3 and new project wins.

We are pleased to inform that IRB Golkonda Expressway Private Limited, the SPV incorporated to implement the prestigious Hyderabad Outer Ring Rd (HORR) project, has received appointed from the Hyderabad Metropolitan Development Authority (HMDA) and commence the toll collection on the project from August 12, 2023. The SPV has paid upfront concession fee of Rs. 7380 crores to the HMDA. For equity for HORR, the trust has raised Rs. 2862 crore through rights issue from IRB and GIC affiliates to fund the equity for HORR project in the ratio of 51:49.



The Samakhiyali Tollway Private Limited has achieved the financial closure for the project comprising of Upgradation to Six Lane with paved Shoulder of NH-27 from Samakhiyali to Santalpur section in Gujarat. The consortium of Lender has extended a debt support of Rs. 1446 crores for the project. On achievement of this financial closure, all the projects are financially closed. We expect to receive the appointed date for the project very soon.

IRB Infrastructure Trust (the Trust) has received a sanction of Rs. 6390 crores towards refinancing SPV level debt for 5 of its project SPVs, namely Kaithal Tollway Limited, IRB Westcoast Tollway Limited, Kishangarh Gulabpura Tollway Limited, AE Tollway Limited and IRB Hapur Moradabad Tollway Limited of the above, the trust has already drawn 2417 crores to refinance the SPV level debt of 2 of its SPV, i.e., Kaithal Tollway Limited and IRB Westcoast Tollway Limited. Upstreaming of the project level debt to InvIT will significantly improve the cash flow for the unitholder - given the back ended amortisation, optimization of the tax and the lower interest rate due to pooling of the cash flow from the completed products at the trust level.

The silent features for the refinancing, the interest rate has reduced from 9.7% to 8.60% that is the saving of 110 basis points and saving in the amortisation during next five years, the earlier amortisation was 23.6% revised amortisation is 8.5% which leads to almost 15% saving in the amortisation of debt of Rs. 6400 crores. So that translates roughly Rs. 1000 crores for the next 5 years.

On the toll collection front, Mumbai Pune and Ahmedabad Vadodara, per day toll collection has improved from Rs. 6.25 crores for the quarter ended September 30, 2023, as compared to Rs. 5.3 crores per day for the quarter ended September 30, 2022, growth of 20%.

For Private InvIT, the per day toll collection has improved to Rs. 6.83 crores for the quarter ended September 30, 2023, as compared to Rs. 5.43 crores per day for quarter ended September 30, 2022, a growth of 25%. Increase in toll collection is on account of tariff revision, increase in traffic and addition of the IRB Golconda Expressway Private Limited.

The order book for the company stands to 32,700 crs. Within this, EPC order book is roughly Rs. 7,500 crores providing good revenue visibility for next two to two and half years for the construction segment and further bolstered by the three years executable O&M order book close to Rs. 2500 to 3000 crores. This order book does not include order of TOT 12 which

is expected to add roughly Rs. 600 crores on EPC side and around Rs.3,300 crores on O&M side. EPC order book of TOT 12 would include the initial Capex that will get executed in year 1 itself.

Now coming with respect to the upcoming opportunity, we believe that the mode of award will change significantly, and BOT pie award will increase significantly. We expect the NHAI should be able to do additional 3000 kilometres in this financial year and out of which 40% will be on BOT. We will participate in BOT, TOT and HAM in the same order of the preference.

There is list of 46 TOT projects on the website of NHAI with a total kilometre more than 2600 which will come for the bidding in near future.

Considering the debt prepayment out of the preferential allotment, our console net debt to equity is reduced from 2.25:1 to less than 1:1 in last two years. We are well capitalised, to tap the upcoming opportunities which will consist of 40% of BOT along with our partner GIC affiliates.

Now moving to the maiden distribution from the Private InvIT

The Board of Private InvIT has approved maiden distribution of Rs. 155 crores for half year ended September 2023 for FY24. This will reflect in the cash flow of IRB in Q3 of FY24. Further, the large portion of the distribution is in form of capital repayment and the same will lead to tax saving for the IRB. We expect distribution from Private InvIT will continue in future as well.

Now moving to the new project win

We are pleased to announce that Private InvIT has emerged as preferred bidder for TOT 12 of NHAI. We have also received the letter of award from NHAI. The project was bided through our Private InvIT where IRB owns 51% and 49% by GIC. Brief detail on the project:

The project is spread over 316 kilometres stretch between Lalitpur in Uttar Pradesh and the Lakhnadon in Madhya Pradesh. Project marks entry in the state of Madhya Pradesh that is 12th Indian State for the group. The project entails tolling and operation and maintenance activity on 316 kilometre stretch, and revenue linked Concession period of 20 years.

Project includes the initial Capex of Rs. 576 crores and O&M opportunity of roughly Rs. 3300 crores to come to IRB infra being a project manager for IRB Infrastructure Trust.

With this win, the IRB is group's market share in TOT space increases to ~ 42%. The Company will make upfront payment of Rs. 4428 crores to NHAI upon achieving the financial closure. The project to be cash positive from year one.

The strong order book position provides high visibility for the construction segment and is supported by the favourable trends in the toll revenues. We have started Hyderabad ORR project from August and expect to start Samakhiali projects soon. These projects will contribute to toll collection as well as in construction revenue. Full impact of the same will be visible from Q3 and Q4. Typically, we have observed H2 is better in terms of toll collections and construction as well. The distribution from Private InvIT will add to the cash flow of IRB. These factors give us confidence for the healthy performance in Q3 and Q4 of this financial year.

Now I will request Tushar to cover the financial highlights for Q2.

Tushar Kawedia:

Thank you, Sir. I'll take you through the financial analysis for Q2 FY24 versus Q2 FY23.

The total consolidated income for Q2FY24 has increased to Rs. 1875 crores from Rs. 1439 crores for Q2FY23, increased by 30%.

The construction revenues for Q2FY24 have increased to Rs. 1286 crores from Rs. 944 crores in Q2FY23, an increase of 36%.

The consolidated toll revenues for Q2 FY24 have increased to Rs. 588 crores from Rs. 494 crores for Q2FY23, increased by 19%

EBITDA has increased to Rs. 924 crores for Q2FY24 from 761 crores for Q2FY23, an increase of 21%.

Interest costs increased to Rs. 435 crores in Q2FY24 as against Rs. 389 crores in Q2FY23 increased by 12%.

Depreciation have increased to Rs. 233 crores in Q2FY24 from 192 crores in Q2FY23 increased by 21%.

PBT has increased to Rs. 257 crores in Q2FY24 from Rs. 180 crores in Q2FY23, an increase of 43%.

Profit after tax after share from JV has increased to Rs. 96 crores in Q2FY24 from Rs. 85 crores in in Q2FY23, increased by 12%.

Cash profit has increased to Rs. 404 crores in Q2FY24 as against 302 crores in Q2FY23, an increase of 34%.

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. The first question is from the line of Alok Deora from Motilal Oswal. Please go ahead.
- Alok Deora:** Good evening, Sir. Just had a couple of questions. First on this project pipeline you mentioned in your comment that BOT proportion will increase. Could you just highlight what we are looking at in because till date as invited is the ordering has been pretty slow. So just some indication on what we could expect in the next 2-3 months.
- Management:** So, our sense is that I mean you are very right that the bidding on EPC and HAM also has been very slow and from whatever insight we could get in terms of the project pipeline, almost Rs. 80-85 thousand crores worth of projects are likely to be bid out before December and of that our understanding is that at least 40 to 45% of those will be on BOT basis.
- Alok Deora:** Sure. The projects which we have bid for on tolling bases which are already live tenders are there for this BOT toll projects which we have already paid for.
- Management:** No, at the moment there is none.
- Alok Deora:** Got it. Just one last question, this associates the loss has increased Q on Q basis. So how do we see that moving ahead in coming quarters?
- Management:** Alok, if you look at the associate loss, there is a fair valuation loss of approximately 80 crores. If we adjust for the same, I think the losses were in the line of the previous quarter itself. If you adjust for the non-cash which is fair valuation loss and if you adjust that the losses are in line with the previous quarter.
- Alok Deora:** Got it. Just last question. So, any change in the guidance on the construction, growth for this year or we largely maintain our guidance for the execution side?
- Management:** We largely maintain our guidance for this financial year. We believe that Q3 and Q4 will be better in terms of execution, hence we maintain our guidance.
- Moderator:** Next question is from the line of Prem Khurana from Anand Rathi. Please go ahead.

Prem Khurana:

Sir, congratulations on the new TOT project. So, I had three questions. One was essentially when I look at this refinancing that you spoke about in your opening remarks, I think we've earlier done similar sort of exercises for Solapur Yadeshi. So, when you say, I mean we have been approved Rs. 6400 crore of refinancing for five years. And would these Solapur Yadeshi this year received also be a part of this or I mean these are new 5 SPVs when you've been able to manage this refinancing?

Management:

Solapur Yedeshi, Yedeshi Aurangabad and Udaipur Shamlaji project as you rightly mentioned, we have done last time itself. This time there new five project includes Kaithal Tollway Limited, IRB Westcoast Tollway Limited, Kishangarh Gulabpura Tollway Limited, AE Tollway Limited and IRB Hapur Moradabad Tollway Limited.

Prem Khurana:

So, I mean the amortisation, the benefit that we have. So essentially when you will get to have some excess cash flows now to be able to deploy. So would that be a fair assumption I mean the equity requirement that you need or like I mean if you want to go and bid for some of these projects through Private InvIT given the fact that we've been able to push our amortisation now and there will be some sort of free cash flow generation that I mean for some of these new projects that you paid and you won't be required to put in money from your pocket and you could upstream this money from SPVs and fund a part of the growth needs that you have or were there some mismatches?

Management:

So principally you are right. So, either you take the distribution and redeploy back as equity, or you deploy the money directly from it. But technically you are right that no new money from IRB would be required.

Prem Khurana:

OK, sure. And so when we've done this fundraising from Bricklayers and GIC and the preferential allotment, I think you've given us a sense that, I mean the money that you have, you'd be able to go and pay for some 20,000 crore worth of new orders and with these two large TOT in the Hyderabad ORR where in the equity requirement all around 2800 crore and this new TOT now plus Samakhiyali and Ganga before that. So how much the more? Would you believe and you'd be able to go in bid without any incremental fund raise or any asset monetization? I mean, how much of that 200 odd billion you would believe this ROEs used I mean and then the balance is what you'd be able to pay. Unless you will decide and show on some of these assets again.

Management:

Yes. So, with respect to the existing project including Hyderabad, Equity is already funded and the projects which are ongoing including the

Samakhiyali and Ganga, the IRB share of equity roughly Rs. 636 crores and out of which Rs. 414 crores will be spent in this financial year and roughly Rs. 222 crores will be spent in next financial year i.e., FY25.

With respect to Hyderabad ORR, we have taken some additional debt and use that as an equity. We have a cash balance of around Rs. 2300-2500 crore and that cash can be used for the funding the new equity requirement and Hyderabad also our equity share was roughly Rs. 1400 crores plus as the balance was brought in by the financial partner GIC. Further, this project is to be executed through Private InvIT, hence, our Equity requirement will be only 51% and 49% will be brought in by GIC.

Considering the large cash balance plus distribution also started coming from the private InvIT and surplus from Mumbai Pune of Rs. 500 to 600 cr, can be used for funding the equity requirement.

Prem Khurana:

OK. And so how much would be the equity requirement?

Management:

So, to summarise, equity requirement excluding the TOT 12 is Rs. 636 crores and out of that 414 crores will be required in this financial year and Rs. 222 crores will be required in FY25.

Prem Khurana:

I was asking for equity that you would need to infuse in the hybrid annuity. So, there are three hybrids, I mean the 636 crore is for some Samakhiyali and Ganga right. The three hybrid we also need some money.

Management:

636 crores including all. The HAM project will require roughly Rs. 192 crores of equity and balance roughly Rs. 440 odd crores will be required in the Samakhiyali and Ganga.

Prem Khurana:

OK, sure. And on this maiden distribution, I think you said this is mostly capital reduction, right? So, there won't be any tax implication till the time, and you've covered more than 4000 odd crore what you've invested. But how about the accounting treatment? It won't reflect the part of the P&L, will only be a balance sheet item where an item you would get to have this money and this will be adjusted against the investments that you show in Private InvIT, right. So, it won't impact my P&L to the extent it is capital reduction.

Management:

Yes, you are absolutely correct. Only interest will reflect through P&L. Capital reduction will get reduced from investment.

- Prem Khurana:** And these 155 crores doesn't have any interest component or it's only capital reduction for the time being?
- Management:** Yeah, it includes around Rs. 45 crores of interest and balance towards capital repayment.
- Moderator:** Thank you. Next question is from Gleno William, individual investor. Please go ahead.
- Investor:** Sir, considering now just continuing from the previous question where you see we will have enough cash flow for the equity part. Can we take the latest quarter interest cost as the continuing number for the next 6 to 12 months or there will be incremental debt coming in and it will still go up. And does there is any interest reset for that and also there will be some more impact on the interest cost?
- Management:** Yeah. you're right on the interest front. The number you are seeing on the Q2 as interest cost, will remain at similar level for next 6 to 12 months. As we discussed about the disbursement for under construction assets will go on till the execution goes on, so there will be slight increase on account of that part for HAM assets.
- However, on the rate, the reset has already been done in the SPV's like Mumbai- Pune and the Ahmedabad- Vadodara where we have seen impact in last 2 quarters. Therefore, we don't expect any significant increase in the interest cost other than the disbursement which we will draw for the under-construction HAM asset.
- New BOT and TOT assets are under private investment. That interest does not get consolidated in IRB. So, with respect to IRB, whatever interest we have seen in the current quarter, probably the similar kind of interest amount we should see in the coming quarter as well.
- Investor:** Understood, Sir. So therefore, I think next two quarters we should see significant improvement in the bottom line considering the couple of more projects, cash flow will start coming in is would that be a fair understand?
- Management:** Yes, I have covered that H2FY24 is expected to be better than H1FY 24 in terms of the execution even in terms of toll collection. Whatever the additional collection and additional EBITDA will come from the construction will add to the bottom line to that extent.

- Moderator:** Next question is from the line of Vaibhav Shah from JM Financial. Please go ahead.
- Vaibhav Shah:** So why does the fair value loss arise in the trust?
- Management:** So based on the Ind AS Accounting Principles, if you have asset or liability which is getting matured over and above the period of 12 months, you have to fair value on each balance sheet date and the amount which is there in the trust book that is payable to IRB and that amount is not payable within one year, because that claim amount will be crystallized, once we get an arbitration award or a court order. So, on each balance sheet date as per IND AS Accounting Principles, you have to do a fair value and that is noncash item for the trust.
- Vaibhav Shah:** OK and Sir, what is the debt number on the EPC side including the OD?
- Management:** So, it's around Rs. 5,500 crores including OD and CC facility and Cash balance of Rs.2,500 crs. Net debt is around Rs.3,000 crores.
- Vaibhav Shah:** Lastly, what is the breakup of other income for BOT and EPC?
- Management:** Just around 109 crores in the construction and 21 crores roughly in the BOT.
- Moderator:** Thank you. We don't have anyone in the question queue. Would you like to make any closing comments?
- Virendra Mhaiskar:** I would like to thank all of you for being on this call and wish to connect with you soon with the next quarterly results. Thank you and have a great evening.
- Moderator:** Thank you very much, Sir. Ladies and gentlemen, this concludes your conference today. We thank you for your participation and for using Researchbytes Conferencing services. You may please disconnect the line for now. Thank you and have a great evening ahead.