IL&FS Transportation Networks Limited

Analyst Meet

April 29, 2011

MANAGEMENT PRESENT:

Mr K Ramchand, Managing Director
Mr Mukund Sapre, Executive Director
Mr George Cherian, Chief Financial Officer
Mr Danny Samuel, Sr Manager (Investor Relations)

Danny: Good afternoon ladies and gentlemen, we welcome you all to this analyst meet wherein we will discuss our financial performance. You would have already got a copy of the results sent across to the stock exchanges and uploaded on our website. We will take you through a small presentation on the fourth quarter performance, but first of all I would like to call upon Mr K Ramchand make his opening address to all of you.

K Ramchand: Good evening and hello to all of you. This year has been a form of consolidation exercise for us. The previous two year, we had a lot of wins and it was necessary for us to ensure that we started implementing the projects on the ground and that had been the main focus for this company during the previous year. A byproduct of this, of course, is that we continue to earn some income as we continue to implement these projects but I think more important is the fact that our implementation schedule is on track. We actually started construction on about five or six projects last year and we have been fairly successful in all of them. Going forward this will continue to be the focus of this Company. We have been able to reach financial closure on all of them except for one border entry point project.

We are seeing a fair amount of bidding, which is interesting in the recent past, I think we will continue to see such interesting bids in the future. I think everybody has their own incentive and requirement for making a bid and I do not think anybody who submits a bid actually thinks that it is not the right bid to have put in. We have a large pipeline of projects and if NHAI, which is the mainstay of most of the road projects, is able to deliver projects as portrayed by them in the media in the past few months with a target of around 7000 kilometers, I think we should be successful in getting a few of them because we will be then more amenable to the type of bids that will fall in place. At ITNL this year I think you have seen the results, from our side we think that they are fairly reflective of the challenges that one faces in today's market. The fact that we could actually achieve a fair amount of growth, around 26% on consolidated PAT despite lot of issues being there on the ground and otherwise, shows the resilience of the company. We believe this company has now built itself in a manner in which it can actually, I will not say predict but I think to a fair extent, mitigate a lot of risks in the implementation phase of the project which is the most critical phase of these projects. We will continue to bid in the manner in which we have done in the past, I think most of you all know that we have a threshold IRR that we have to meet in all our projects. Having said that I think going forward this year should continue to be a good year and we expect to perform in the manner in which we performed in the past. I will now ask Danny to present to you the highlights of this quarter and then we will take questions from you.

Danny: Good afternoon everybody. I'll take you through a presentation highlighting the performance of the Company in the fourth quarter of financial year 2010-11. Most of the slides you will find it similar except for a change in numbers, so it is still the same old presentation. A few points which is worth mentioning, though it is in the past, is that the last two years have been fairly good years for the company and we have got projects worth on an average of around ₹8,000 Crores each year. We have also been able to achieve financial closure on all the projects and start construction on most of them. The only project which is pending financial closure right now is the Madhya Pradesh Border Entry Point Project, other than that we have achieved financial closure for all other projects and hence you will notice that in the last two years we could tie up debt to the tune of around ₹11,000 Crores which itself is a fairly big number given the average size of road projects. The bid pipeline is a big pipeline but there is always a question mark hanging around whether it will get implemented or whether projects will come by and whether the authorities who are going to give the project would be able to deliver those projects or not, but even with all the questions hanging around, the bid pipeline is a reality and it is a huge pipeline of around ₹90,000 Crores worth of projects comprising around 13,000 kilometers. These are not just NHAI projects but there are a few state government projects as well. As we all know NHAI has been the mainstay the most prominent supplier of projects in the sector. There is a huge opportunity and if the opportunity rolls out there is a pie which everybody can share.

In FY11 financials we got consolidated revenues of ₹41,274 million (up by 66% compared to last year) and an EBITDA of ₹12,335 million (up by 40%) translating to a PAT of ₹4,329 million (up by 26%). On analysis you may see the ROE and ROCE for FY11 dropping a bit because of the fact that a year back we did our IPO thus resulting in increase in the average capital employed and the average equity which forms the denominator for the above calculation. It is a similar scene in stand-alone profits also. The stand-alone revenues have also increase from ₹9,415 million to ₹17,010 million. The EBITDA is around the same but that is also to the fact that as you would all know we have changed the manner of booking of construction margins such that the construction margins that we now a days book is on percentage completion method and upfront margins are fairly reduced. Though the total margins to be recognised from a project may not change but these will be booked over a longer time thus providing better visibility for the future. Had we followed the same methodology as we were following in FY 2009 or FY 2010 we would have probably ended FY2011 with a much higher number on the stand-alone and consolidated. There is a break up of consolidated revenue and expenses provided in the presentation. As you would see that during the last quarter the main revenue growth has come from construction income, which is highlighted in blue colour in the graph. as such construction income was the one which has driven the revenue growth in the last quarter and fee income had remained stable. The fee income has mainly come from three projects namely the MP Border Check Post, Chandrapur Warora project and the Jharkhand Roads - which as we mentioned does not figure in the EPC revenue of the stand-alone because of the nature of concession in this project.

On the expense side, again because of growth in construction revenue we will have a commensurate increase in construction cost too and hence the largest part of the expenditure has been construction cost. There has also been some amount of increase in other operating expenses as well which are mainly on account of increase in technical fees that we paid. All in all in the overall operating expenses if you take out the construction expense, the other operating expenses has been lesser than for the corresponding period of last year. In the stand-alone also construction has been the revenue driver but construction revenue in stand-alone is generally lower than the construction revenue in the consolidated mainly due to the fact that there are few projects which only add to construction revenues in the consolidated accounts and not in the stand-alone accounts. The toll and annuity income in the consolidated revenues have also registered a growth and from ₹2053 million in Q3 of FY 2010-11 it has grown up to ₹2486 million in Q4 FY 2010-11. The other portions of income have been relatively stable.

On the balance sheet front, the debt on stand-alone has been ₹18,941 million approximately and on the consolidated front has been ₹54,670 million, translating to a debt equity ratio of 1.02 and 2.32 on the standalone and consolidated respectively . On the consolidated side, it may be worth noting that most of the debt in the consolidated is basically project debt which is project recourse and which does not have recourse back to the parent. The debt equity ratio is basically a summation of all the debt equity ratios at each project based on the debt equity acceptable to the lenders. The debt at the consolidated level is set to grow rapidly because of all the debt that we have tied up for the projects in hand which is around 11,000 Crores, we would be drawing from such sanctioned limits as construction progresses.

The order book has been around 11,000 Crores and the execution has been fairly good and up to our expectation. Unless we get new projects we will see the order book coming down but we hope that this year if the opportunity plays as out as planned, we should be getting more projects and hence we will have a build up of order book again in this year. There has been a good growth in the daily average revenue from toll projects because of growth in toll rates and traffic. We have been collecting around ₹15 millions of revenue both from toll and annuity projects and this number is set to rise year after year. The balance of the slides are the same, so I do not think we have anything further to add on the presentation. We will open the floor for question and answers but I would request you to please state their name and the brokerage or the firm name before they put on their questions. Thank you.

Parin Gala, Gandhi Securities: Your third party construction contracts for the full year consolidated has gone up by almost three times, is it on the higher side and do you feel this trend to continue, third part contracts, because revenues have doubled but expenses have gone up by three times.

Danny: Third party contracts is the form in which we execute our projects. However irrespective of whether we do it ourselves or we outsource it, there would be expenses on construction which would be in correlation with the construction revenue. Construction revenues would always have a lesser margin than in other forms of revenue like for services as in monitoring or supervision fees that we earn and hence whether we do it ourselves or we outsource it we will always have a commensurate expense coming in and the margins would be in the range of say between 10% and 15%. We have been traditionally outsourcing the contract because we do not have a construction arm of our own but in doing so we take on a few risks on ourselves, that we have taken out many a things which otherwise an EPC contractor would have done, like we do the design, we do the supervision & monitoring, we supervise all quality control tests and all such things which are of an engineering format. So it is only the hard part of construction which is the actual laying of the road and the use of equipment, man and machinery to lay the road is what is outsourced and this are outsourced to smaller level contractors. We deploy a full team which monitors and supervises that the work they do is up to quality, is within time and as per scheduling and all such things are monitored by us. Hence for any increase in revenues on construction side you will also see a commensurate increase in cost though there will always be a margin. Thus there might be a 10-15% margins between the revenue and costs except till the revenue is less than the threshold construction level till which time there are no margins which are recognized in accordance with relevant accounting standards.

Ramchand: There are two things in addition to this more at a strategic level than anything else, number one is that if you remember earlier we used to actually outsource the construction contract from the SPV directly to the construction contractor and the balance used to be billed as services to the SPVs, which we have found to be a little tax inefficient in that we were paying service tax and when it came in to ITNL and were subject to also normal tax. By actually awarding the contract to ITNL and then subcontracting we are avoiding duplicate levels of taxation and therefore are becoming more efficient on the taxation level. The second aspect I think is more critical. If you look at the qualification requirements or the bid submission requirement for NHAI they say that you should identify a contractor who has done 20% of the job and this is subjecting us to necessarily find contractors who would be willing to work with us even before bid submission and therefore was putting us in a disadvantageous position because if we had to identify a contractor upfront then we were stuck with two or three contractors, so in order to move away from that and to identify ITNL as a contractor by itself we started awarding contracts to ourselves and therefore I think in another two years or three years time we will also be a contractor who is eligible to do works up to maybe 4000-5000 Crores. Then, instead of identifying a contractor we would have that experience ourselves though we are not a contractor, it is only a method in which we have actually tried to portray ourselves to meet the requirement which is there for winning purposes, and I think that is part of how this processes is arrived at.

Dewang, Avendus: In your opening comments you were quite frank about the competition level in the industry, would you like to hazard a guess on what kind of order inflows you will be looking at next year.

Ramchand: We really do not give guidance, but I think today in one TV interview I said the momentum that we had in the past will continue in the future, so you can draw your own conclusions from that if that helps you.

Dewang, Avendus: In the parent company our debt equity is about 1, till what level will we be comfortable?

Ramchand: I think we can go up to 2, in fact we will not allow ourselves to go beyond 1.5 or 2 but I think up to 2 is easily possible and all this debt is very short term, it is not long-term debt, it is actually two to three years which is more like working capital in nature. It is required to fund part of our equity, which comes back with some lag from the margins that we earn during construction. So it is more of a stopgap arrangement as and when we get more projects. You will find that the working capital requirement increases, as projects require more equity, but as the reverse cash flows start working capital starts getting repaid, so it is more in that sense that capital is raised in the holding company, there are no other purposes for that.

Dewang, Avendus: Sir on the MP Border Check Post Project last quarter you said it will start work from this quarter itself, could we have the status on that?

Ramchand: At four locations we have already started on the ground; we are very near to financial closure and in the coming two, three weeks it would be achieved

Dewang, Avendus: When do we start toll collections?

Mukund Sapre: It is not toll collection actually but an entry that is charged. We also have to create a facility and then have to help authorities in collecting various taxes and all and there are associated things where you need to monitor the weight what they carry. Suppose somebody is carrying overweight then he will not be allowed to go. He has to download his consignment over there and bring some other means of taking it back, so there is a charge to report to him of downloading and again loading it, so the mechanism would be of this downloading and loading again and facilitating government's collection with a service fee being charged to government.

Dewang, Avendus: To ask it in another way, will we start collecting the fees before the check post when the construction is competed?

Mukund Sapre: We will have to complete the minimum works, which are assigned, so it will take us around six to nine months more wherein fee collection could start

Dewang, Avendus: Thank you.

Nitin Arora: This is Nitin Arora from Angel Broking. Just wanted to check what is the status on appointed date that you are supposed to receive on four projects? Have we received the appointed dates or are you still waiting?

Danny: We have got appointed date for Jorabat Shillong. We also got for Moradabad Barelli. We understand the letter is ready for Chenani Nasheri. So we are through with the appointed dates on three of them. Pune-Sholapur will still take some time to come. However expecting appointed dates, we have moved ahead with the project and mobilised resources.

Nitin Arora: Sir, Pune-Sholapur, have we started booking any revenues or we are still awaiting the appointed date?

Mukund Sapre: Pune-Sholapur also I think some construction we have done, we have done around 5-6 km which does not fall in the wild life sanctuary part, so what we have done on the ground on this, I think we have taken that work done on the project.

Nitin Arora: Thank you.

Abhinav: Abhinav from Elara Capital. Would it be possible for you to give some break up on the construction income on the standalone and consol part, I mean, which projects have really contributed to that?

Danny: I am not sure whether we will get it in the financial when the full financial are out with the schedules, but I think we can do that and we can put it in some form on to our website or in some manner wherein it can be publicly disseminated. It should not be an issue.

Abhinav: But broadly which project now we would have completed the 10% issue?

Danny: On crossing the threshold, we have crossed in Moradabad-Bareilly, in Jorabat Shillong, in Pune-Sholapur and in Gurgaon Metro.

Abhinav: Anything on the Elsamex in terms of specific numbers that they have done; if you can give as well as on the balance sheet size, networth and debt?

Danny: On the Elsamex their revenues have been almost like what had last year, but owing to some operational efficiencies their EBITDA margins have improved and that has resulted in higher PAT for Elsamex, but there is another thing, which has happened in Elsamex is the exchange rates have come down by more than 10% and hence on translation from Euro to Rupee the annual revenue which has come into our books will be lesser by that amount, but all in all even in Rupee terms we will have a higher PAT into our books coming from Elsamex even after taking into cognizance the exchange rate which has dropped. As far as their revenue is concerned they had around 160 million Euros of revenue on the topline and at a PAT of around 4 million Euros.

Abhinav: EBITDA?

Danny: The EBITDA has been around 13 million Euros; having an 8% of EBITDA margin.

Abhinav: How about the networth and debt?

Danny: Networth is around 40 million Euros, the debt is somewhere between 50 and 60 million Euros.

Abhinav: On the net working capital point and fixed assets in Elsamex?

Danny: They do not have any working capital. It is included in the debt itself.

Abhinav: Anything on our airport project and the outdoor stadium which we bagged in Kerala?

Danny: I do not think these are large projects in terms of size and hence does not have any major sensitivity in the overall performance. We will go ahead with the project once the letter of award is received. As far as the airport project is concerned I think we are close to financial closure, and we have started on some work on ground, but as I said, these are not very big projects to have the potential to make any dent in the revenues or profitability into the company whether on a positive side or a negative side.

Abhinav: One last question; how much would be the number for the RFQ and RFT right now for us?

Danny: It is in the presentation, both added together is some 90,000 Crores.

Tushit: This is Tushit from Edelweiss Financial Advisors. My question is just on the bidding part, bidding for new projects. Do we have a specific minimum IRR we will be looking at considering the bids being very aggressive in the market? Do we have a specific IRR, like a minimum IRR?

Mukund Sapre: We are very sure that we are not going to compromise on our threshold parameters. We are following threshold levels and we would like to stick to those levels. Only thing is that the IRR may vary a little bit because of the changes in the cost of borrowing, but we would maintain the differential between the cost of borrowing and our threshold IRRs

Supriya: This is Supriya from HSBC Invest Direct. Just wanted to understand we have 11000 Crores order book, how much is on annuity basis and how much is on toll basis? My second question in that due to rising interest scenario what is going to be an impact on IRR?

Ramchand: I do not have the exact numbers but I think it is around 50-50, 50% will be on annuity and 50% on toll. In terms of interest also, in recently financially closed projects, reset is due two years down the line, so we do not see that initial impact is going to happen so fast. Particularly on the O&M projects we are trying to work little bit differently; one definite deal we have done is on the North Karnataka Expressway, which we have again refinanced and now we are working on one or two toll projects to see that we refinance on a longer term with fixed rate, but as you know that this is subject to rating from the rating agencies. We are trying to work with them and explain to them and see that ratings are improved because wherever we have track record of four or five years of toll collections and we have a proven history, there we are working on refinancing the debt through a fixed interest structure.

Manish: Manish from SBI Cap Securities. Just wanted to ask what is the situation on the Gurgaon metro project? How much we have booked our revenue from that?

Ramchand: I do not think any revenue from Gurgaon Metro appears in ITNL. Only in the consol. We have started on the ground progress is around 17% on this and most of the land has already been handed over, contractors have been fully mobilized, so practically I would say that we are on track for a scheduled completion.

Manish: Are we facing any problems in land acquisition for any of the projects? Last time when we met there was one project that you talked about where we were facing land acquisition problem or we do not have 100% land acquisition?

Mukund Sapre: Generally issues will remain, but the point is that how we are tackling it, and that is what we are trying to do that we work closely work with NHAI and they are happy with this sort of help coming from us. We have 5-10 revenue guys on our roles who work on the project and we try to help NHAI and I think we are comfortably placed in terms of land. As I said, there is only one important clearance for Pune-Sholapur, which is a wild life clearance where Supreme Court has to endorse and once that happens I think we are through with most of the cases. So I do not see any big bottleneck for us on any of the projects as of now.

Aditya Bhartia: Aditya Bhartia from CLSA. Just wanted to confirm do construction contracts with your subcontractors have cost escalation clauses?

Mukund: As I said, this model is dependent on where we are working. When we are doing a job in Jammu and Kashmir, we have lump sum turnkey fixed cost with the contractor, but in other parts where we are working we have tuned our model to see that we can work with smaller guys. In such cases the risk perception cannot be taken by these smaller guys who do not have a clue on how to handle such risks. Few of them are definitely on item rate basis where we are saying that we are better placed in terms of escalation or in terms of bill of quantities risk. In such cases the risk of escalation and quantity variation is with us, but it will again be dependent on many factors. If we are working in Jorabat Shillong or Chenani - Nasheri those are fixed price contracts, whereas in Moradabad – Barelli or Ranchi – Hazaribag, those are item rates contracts with escalation provisions for a few items. There is one more parameter that is when we are putting in a bid that what sort of escalation numbers are considered for the construction cost. We also have an in-house design cell so we have far better comfort on bill of quantity risk since we have confidence that okay the quantities may not go beyond the bandwidth assumed. We are not relying on outputs from external agencies and that gives us definitely better confidence.

Aditya Bhartia: But with material cost inflation running so high do you see a risk to your construction margins?

Mukund: I do not think that we will overshoot our estimated cost for any project. We do have some formula for escalation which we generally base on industry norms for items like bitumen, steel and cement, but as of now we do not see we will be hitting up or going beyond what buffer we have kept within our development contract on account of construction.

Aditya Bhartia: Secondly, for a number of projects we have seen that actual traffic numbers have been significantly lower than what has been estimated by the management, so how do you ensure that your traffic estimates don't go dramatically wrong?

Mukund: It is all dependent on the data collected. Today we have a presence in so many states and now we have made a habit that every month a seven day traffic count is done all derivatives of traffic forecast are based on past history. Earlier people used to rely on data which nobody knew whether it was generated in a room or really done on the site. We had also gone wrong in our forecasting for projects like Ahmadabad to Mehsana and Baroda but we have traffic data on it for 10 years now. We also have traffic data from many other projects in different parts of the Country. So we are creating this, because ultimately what is important is the seasonal correction factor, which also you need to have a very good clue about because for any bid you only do a seven day count and then try to convert that average daily traffic to an annual average daily traffic. So if you have a good hang of seasonal correction factors to see that the numbers are extrapolated to the whole yearly scenario, I think we would be better off. It also depends as to what sort of growth one is assuming. This is one more very critical parameter on because if somebody takes a growth assumption of 10% to 12% growth then his numbers are going to be totally different than what others are going to put. So we will remain with the bandwidth within which we have comfort developing our projects.

Aditya Bhartia: Thank you, Sir.

Pulkit Patni: Pulkit Patni, Goldman Sachs. My question is since you are still in the process of transformation of how you are accounting for revenues given the change in SPV and parent level accounting what is the kind of sustainable EBITDA margins one can assume for the parent and for consolidated and would you continue to see margin compression for the consolidated for the next year or two?

Mukund: I think now this year's numbers if you analyze we can say that the bandwidth what we are creating for this year, we should continue in this fashion because it has brought in sort of a stability and the way we want to look at it. We should continue with the same fashion for the 2011 numbers.

Pulkit Patni: Thanks.

Jitesh Bhanot: Jitesh Bhanot from Emkay Global. Sir, if you can just throw some light on other SPVs kind of construction that you have already done for Hazaribagh - Ranchi project and Chandrapur – Warora, Narketpally-Addanki and Chenani-Nasheri?

Mukund: I think on Ranchi – Hazaribag we are more than 25% on ground and in fact we are going ahead on the percentage what we have planned and our progress physically on the ground is more. If things go well we believe that we will be finishing that project ahead of time. Chenani-Nasheri also we are there on the ground. We have started work on physical tunnel which we call it portal, drilling machines are already at site, contract is fully mobilized and work has started from approach roads and also on the one side of the tunnel. We have one FAC clearance which has come around a month back, so there is nothing now for us so we can just have to work and contract is fully mobilized and the most important critical thing is the jumbo drilling rigs which are required for the main tunnel and the escape tunnel all four five jumbo drillings are already available at these site and in fact and there are assembled in progress. On Narketpally-Addanki also the contract is mobilized fully at site. We would have achieved around 3% progress on ground for Narketpally-Addanki also. Chandrapur–Warora the utility shifting is going on. The contractor has mobilized. Site office is built, but physically onsite as of now it is only clearing and grubbing that is on, and you would see in the coming year we will be better off on the ground.

Jitesh Bhanot: I would also like to understand in last year's meeting you said, something about international ventures you were bidding on considering road progress in South Africa?

Mukund: We do not have good news to report on that. On South Africa, two days back only it has come that we are not shortlisted for the bid. There were three bidders and we have not made it. We will come to know what the reasons were as the authorities over there will come back on that, because it was a very subjective evaluation. It was a total subjective evaluation where all the things were seen and then a call was taken on who are better. On Kazakhstan I think the things are on hold as of now because they have some elections due again in two to three months and practically they also work like us. So let us hope that something moves subsequently when the new government is in place.

Jitesh Bhanot: Something on the toll collection side from your Eastern Hyderabad annuity project, has it started already?

Mukund: Actually the toll collection on EHEL is not our responsibility. It is an annuity for us, but authorities have still not started on it. I think they will take further time because the toll plazas are not ready. There are issues also, but it is annuity for us, so it does not affect us in that way.

Jitesh Bhanot: Thank you, Sir.

Danny: We hope that the questions are over, so thank you all for having taken your time out to come here and listen to us and I invite you all to tea and snacks outside. Thank you.