IL&FS Transportation Networks Limited

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Q4 & FY13 Results Analysts Meet Transcript

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Management Participants:

Mr. K. Ramchand – Managing Director
Mr. Vibhav Kapoor – Group Chief Investment Officer, IL&FS
Mr. Mukund Sapre – Executive Director
Mr. George Cherian – Chief Financial Officer
Mr. Danny Samuel – Head, Corporate Strategy

Management Good evening everybody and welcome to IL&FS Transportation Network's Analyst Meet. I am sure you know everybody on the dais; you probably have been seeing them year after year. You also must be seeing a very familiar face on CNBC, Mr. Vibhav Kapoor, he is the Chief Investment Officer of IL&FS Group. I would want to run you through some developments which have taken place in the sector, which I think are important for anybody analyzing the company. I think the first and foremost issue everybody has been talking about is what we are commonly calling today as "Policy Paralysis". For us, policy paralysis probably means lesser deal flow and therefore lesser amount of projects that we can actually hope to garner and get a share of. Given the industry's performance in FY 12, we hardly won any projects. Although there were lots of projects which were bid out, we were probably not even amongst the first three bidders. However, given the current bidding scenario, the last few bids which have come out in the market have hardly attracted more than 4 or 5 bidders. I think this is because there are probably 30-35 projects from FY12 which are yet to reach Financial Closure and most of these have overrun their allotted 180 days period for financial closure. I think there was a bit of irrationality in what happened in this sector and I think a lot of you analysts would also come out with similar conclusions. This is one big reason that this industry was forced to go slow because the government found itself with projects which have been awarded, but were not in a position to take off. This has obviously reduced the number of companies that are in a position to bid for projects. I am glad to announce that we are one of those few who are still left in the race for bidding for projects and you will see that's how we won the last 2 projects. Amongst the last 2 projects, it is also interesting that one of them is actually one of those projects which were rebid after an earlier bid which failed to take off. At that point of time, the premium quoted was almost 3 times of what we have quoted and won during this round for the said project. So I think it is apparent that these projects will come up and I think the pace at which these projects are going to come will depend on the issue of renegotiation. There is a lot of talk about the government wanting to do renegotiation of the terms of these projects. I am not sure that the government will be able to push forward for a solution based on renegotiation. For the government, anything which has a down side is a no and anything which has an upside is also a no, they could only work as long as it is within the four walls of a contractual agreement or policy framework. I think it is a real and quick decision that the government has to take. And we are already hearing that the Finance Ministry and the Planning Commission have not agreed to the renegotiation framework. So I think sooner rather than later all the projects will come out for rebid and we believe that there are a large number of good projects in which probably we should be able to bid for and probably win. We have also in the last year heard a lot of noise on inter-governmental rivalry; Forest and environment versus transport, Planning commission versus transport, Planning commission and Finance versus the transport, the transport industry versus the Finance Ministry versus everybody else and I don't think it has done well for the sector. I think the sentiment for the sector is not very positive due to these intergovernmental rivalries. We hear mixed voices from various government bodies; this was not the case earlier, when we used to hear one voice. Let me take one example of the above, the Concession Agreement says that we (NHAI) will provide 80% of the land upfront. However, the Finance Ministry has now put a diktat to the PSU banks saying that unless 100% of the land is available they should not disburse any bank loan. This is becoming an issue when Companies seek disbursement and I think strong companies are able to overcome this because they know that 100% of the land will eventually be received, if not in 6 months it will come in 12 months. We have seen this happen time and again in almost all the projects that we have implemented; that while we are not in a position to get land upfront, over the course of the project we are able to get land and which is one of the reasons why I think we have been able to successfully implement most of the projects. I think the third issue which seems to be cropping up is of implementation and execution bandwidth which is available with the companies. We are of the opinion that we have built a very strong company where we have a host of engineering strength which is able to at least step in and undertake construction in the event there is a failure of contractors. I think this is the biggest advantage as far as this company is concerned. In fact we are doing it in one of our projects and I think we should be able to get out of some problems that we have with an existing contractor

The last one is and I think this is something that none of us can predict; Interest Rates. By definition, this sector and companies in this sector will continue to be highly geared because if you look at any project which is funded at 3:1 will have probably some borrowing at the platform level and when you consolidate all of that, your debt equity ratio is about 4:1. Now according to us, 4:1 is really not that much of an issue as is made out to be when you look at it from an operating angle or a macro angle. However, I think interest rates being inflexible for such a long time is not a very good sign and I think the quicker we are able to see a downward trend in interest rates the quicker would we be in a far stronger position with an improved profitability. Lastly, I think if you look at the future, I know none of us can predict the future, but if you look into the future, I believe that there is a strong scope of consolidation in this sector. We are already seeing a lot of companies backing out from the biding phase. We have already seen a lot of companies offering projects that they have in their hands for sale. Banks are also approaching us to come and take over assets/projects of other companies. I think this trend will continue in the next 12 months. The projects will consist of not only projects which have not seen financial closure coming for bidding but also acquisitions of projects. We also have opportunities for inorganic growth and I think when we actually do some inorganic growth, it should be possible for us to improve our cash flows to a much stronger level. On the same basis, we did some acquisitions abroad. I think all of them are doing very well. Last year, Elsamex, which is the Spanish company, almost had € 4 million PAT and this year they are expected to do almost close to €10 million and that will also boost our own bottom line. The Chinese acquisition is also going very well. The projections for the last 2 years have stood up to what had been thought of when we actually acquired those projects, which is not the same for many Indian projects. As part of the Chinese operations, we are also getting into another framework where we are talking to the Chinese counterpart and along with our Spanish subsidiary we will probably have a joint venture for doing maintenance services in China, which will be a "paid for service", so without any investment we should see a large amount of maintenance activity in China. With that, I let Danny take on from here and continue through the presentation

Danny Samuel Good evening everybody. I think most of you would have run through this presentation, but for the sake of everybody present here, I will run through this presentation and highlight a few points. Thereafter, we will open the floor for questions and answers. The overall lane kilometers in our portfolio have grown and we are now having 13,000 lane kilometers spread over 25 road projects. The Gurgaon metro project is expected to get operational by end of next month. We have also received another extension of the same metro project called the Rapid Metro Gurgaon South Extension. We have also commissioned two of the border check posts in Madhya Pradesh, the others are also due by this year end. Though the environment is not as good as we anticipated, we have been able to weather the bad times and have been able to make the best of what we were offered. The new projects we won don't figure in the organization list because the SPVs were not yet formed as of 31st March, but we have signed the concessions for both of them recently and these are both NHAI projects. One is Barwa Adda Expressway Limited (project located in West Bengal and Jharkhand) and other is Khed Sinnar Expressway Limited (project located in Maharashtra), they are both owned 100% by us. We have commenced construction work on the projects we had won previously namely, Sikar Bikaner and Baleshwar Khargpur. We have also started tolling on Baleshwar Kharagpur as the concession allows tolling from appointed date. We are awaiting the appointed date for Kiratpur Ner Chowk, but we have already mobilized the contractors on site and as soon as we get the appointed date we will start the construction work. We have also securitized one of our Annuity projects during this year called Andhra Pradesh Expressway Limited wherein we were able to issue bonds of INR 530 crores which were subscribed by the market. The money we were able to raise replaced the entire debt in Andhra Pradesh Expressway. In addition, the rates we got were also better than what was for the term loan. We securitized it at

10% payable semi annually. During the year, we have commissioned part of RIDCOR II, In the Jharkand stretches, we have commissioned three projects. We have also commissioned Ranchi - Hazaribagh and this was done four months ahead of schedule. In the coming years we expect to commission Moradabad-Bareilly, Narketpally-Addanki, Pune-Sholapur, Chandrapur-Warora and the remaining stretches of the Jharkhand program. All the balance projects will be commissioned over the next 3 years. Going forward, we will be adding more lane kilometers to our portfolio. This year we were able to add around 850 lane kilometers to our portfolio. Next year we should add around 2500 lane kilometers. In the Rapid Metro Rail Project phase-I is should get commissioned shortly and for the balance portion which has recently been awarded to us we have achieved financial closure. We will commence construction for that portion shortly and expect it to get commissioned over the next couple of years. For the MP Border check-posts, we are yet to receive some land for some of the toll plazas, but what we are striving to do is to commission the plazas which have the highest amount of traffic and focus on them. We were able to commission two of these plazas, the balance few which are shortlisted should also get commissioned within the next few months. In the last two years, we secured projects to the tune of around Rs. 69 billion each year on average and except for the projects which we have won recently, the others are all financially closed. The 2 projects for which we have signed the concession only a few days back, have another 6 months to achieve financial closure, we are sure that we would be able to close them much ahead of the scheduled time. Construction work is progressing as per schedule and we are not facing any major hiccups in any of the projects and hence we believe that we should be able to commission our projects substantially on time or rather, we should be able to commission some of them earlier than their scheduled completion date. On the bid pipeline which represents opportunities offered by NHAI along with other players like the various States, Ministry of Road Transport and Border Roads Organization in the coming few months, projects in the post qualification stage amount to ~1500 kilometers and those in the pre qualification are around ~4,000 kilometers. We believe that the bids that may come this year should be around 3000-4000 kilometers. Moving on to the financials, on a consolidated level, we have clocked a growth in overall revenue and have been able to maintain our EBITDA margins at similar levels. We have reported a PAT of around Rs. 520 crores for FY13 which when compared to FY12 has increased by around 6%. On a standalone basis too, we have been able to record a growth in revenue as well as profitability. Standalone PAT has grown by 7%. Revenues for Consolidated and Standalone have grown by 19% and 22% respectively. Most of the revenue on the Standalone is construction revenue, a portion of the revenue is also coming on account of the fees for pre-construction and design activities which we do for each of our projects. In the consolidated results, construction dominates the overall revenues, but the change that we see, is that the toll and annuity revenues have also started growing and, going forward, we expect it to grow higher as a proportion of the total revenue each quarter. Last year most of the projects that we commissioned were annuity projects and they additionally add around Rs. 1 crores to our average daily collection. The debt equity in the standalone and the consolidated has climbed slightly. The increase in the standalone has been on account of loans that we have taken for investment and onward lending. The total capital work which remains to be executed has increased from last quarter with new project wins. This was around Rs. 12000 crores last quarter and has risen to around Rs. 14600 crores. We expect work the current pending orders to get executed over the next 3 years time. The overall revenue collection each quarter has also improved as you can see in our presentation on page 18. We have also been able to operationalize two of our annuity projects; Hazaribagh- Ranchi and 3 stretches in the Jharkhand projects, they have also contributed to our revenue for Q4FY13 and this should continue for the future years. If you have any questions, we are now opening the floor to question and answers

Participant My first question is that you will need almost over Rs. 10,000 crores more in these projects, so assuming 4:1 debt-equity, the Rs. 2500 crores equity how would you fund it, would you fund this internally or it would be by further raising. And my second question is if you could throw little more light on your

Spanish acquisition which had gone into little bit of trouble and how you have improved it and how it has come back? And my third question is that annuity is around 25% to 26% of your revenue, the rest of the revenue comes from your own constructions, technical projects and you are the only one who is in the industry has a higher EBITDA compared to the rest of the industry who undertake it as an external projects, how do you justify this or how would you all look at an different accounting, is it market which is reflecting that somewhere? So could you explain all these three questions?

Management We have pending investments of around Rs. 2400 crores on all the projects that we have in hand today. We are looking at various options of raising capital including through equity, debt, combinations of the same or through various similar instruments. We have few structures that we are contemplating to meet the requirement. We are looking at securitization options at the SPV level. We have two SPVs which are already cash making and have little debt remaining in them. We also have other SPVs which are coming on-stream in the next few years, so we have a series of SPVs which we have planned to securitize through some appropriate structures, some of these structures could be akin to sale, but may not be a direct sale. Using some of these structures we will try and meet out the requirement of equity commitment. The second point is that this Rs. 2400 crores is spread over two to three financial years, so obviously it does not comes in as one chunky investment, but is spread over the 2-3 years. Also if you look at the order book that we have that itself will give us some amount of revenue as we go by and all of these things put together we should be able to meet our investment requirement

Management Actually if you have looked at Elsamex what was happening was that most of the revenues were Spain centric, so our approach has been to get them out of Spain and diversify to new markets. Our first success in this direction has been in a mandate that we got in Abu Dhabi for two important roads. We believe that the revenues flowing from outside of Spain needs to be build up. We are looking at concentrating on O&M and the consultancy part of it which will be more dominated in Latin America and Middle East. We very strongly believe that worldwide road maintenance is something that is still being done by either civil contractors or handled departmentally, and that if we could create a niche for ourselves there would be a huge market to be explored hence we are banking heavily on Abu Dhabi. 1st June will be the first commencement for us on those two assets and once we demonstrate, that having a professional O&M contractor is going to make a difference; a niche will be created for us. The second strength we are trying to target in Elsamex is the expertise available with the consulting outfit and the project management strength. So we are also trying to use them to design tunnels in India like the ones on our Kiratpur Ner Chowk project. The idea is of achieving self-sufficiency so as to avoid employing consultants and at same time I am also creating revenue for the outfit. Thirdly, is the contribution from the Latin American part. We are now consciously working on that and we believe Elsamex should be able to consolidate its position in this geography. On the O&M joint venture company, I think the Chinese have also realized the value add and professionalism that Elsamex could bring to their portfolio of roads. The Chongqing Engineering Group which is the counterparty is willing to give us two expressways of around 150 to 200 kilometers to be jointly taken up in the initial phase. Taking these things forward we are very confident that what we have planned for Elsamex in the coming years will definitely deliver.

Participant What is the revenue now in Spain? Are there any liabilities especially with the historical thing or everything has been cleared now? Are there any extraordinary liabilities?

Management The receivables pending from municipal administration is high but are being cleared

Management One more thing actually in Spain there is a new regulation which has been passed that receivables which are due from local municipalities, the central government is actually stepping in and paying that as long as it is more than 6 months, I think that is helping many Spanish companies to recover their dues

Participant How much is the number?

Management I think the receivables are around 25 to 30 million Euros

Participant What sort of revenue is there in Spain right now?

Management Last year around €120-130 million and we definitely look for healthy growth

Participant And you expect the same numbers to come back with any Government on them.

Management Definitely

Participant The third question to be answered but the major question on EBITDA margins being higher in construction comparatively to companies when they take it independently. It's not you it's across the industry which is the norm

Management Technically what we have done is that we have tried to be self sufficient in every aspect. When we are quoting a rate, we have quantities estimated by our design team and thus have a far better comfort on bill of quantities and, secondly, we have remodeled our approach. We are approaching smaller contractors who are smaller in terms of turnover, so we could still manage our margins on what work we are awarding because we are taking over the quantity risk and are also putting up a strong project management team enabling us to deliver these projects to time and costs. We strongly believe that if suppose we are saying that we are going with around 10% to 15% development margin. We have every reason to believe that we have delivered that and there is no reason for us to believe that it is going to go out or something. So these cushions were already built and we maintain the profitability.

Participant EBITDA of 30% is possible, right?

Management That would be the mix actually. The development margin I would target somewhere around 12% to 15%, but if I take the overall blended margin then the same should remain. In fact next year we are going to add on around 2500 lane kilometers, it should show some improvement in terms of the overall EBITDA as operating projects have higher EBITDA margins

Participant And last part once you complete all your projects with your toll which is about Rs. 4 crores a day, how much would it go to once you complete all your current project what sort of toll revenue would you…

Management I think it should touch around Rs. 12 crores per day

Participant So may be 2016-17?

Management In 2016, that is, by when we would have completed our Chenani Nashri project

Participant So Rs. 12 crores a day, so it will increase 3 times from current

Management We are already at around 4 Crores, hence around 3 times

Participant Any view on the return on equity, what sort of return on equity ROC, ROE would you like to maintain as a large corporate, what sort of returns do you think would your investors expect or you would expect in terms of for a long term

Management I think whatever projects we are bidding in, we are trying to maintain our threshold margins but that too would be basically driven by borrowing costs. Hence the threshold number is dynamic in nature, but in today's context it is around 14% unlevered. We have seen the interest rate cycle from 15% to 8% to 12%

Participant How much is the cost of debt on the whole book?

Management Our current cost would be somewhere around 11.5%

Pulkit Patni This is Pulkit here from Goldman Sachs. Just about the financials, if I look at the financials for say next year or the year after that, from an EBITDA perspective I think we will be somewhere between 2100 to 2500 crores, from debt perspective it is going to drop further to something like Rs. 18,000 to Rs. 19,000 crores. Given the fate of some of the companies we have seen recently because of over leveraging, I just want to understand how you get comfort in terms of being able to service the debt on time given that we are in the macro environment which is extremely uncertain at the moment?

Management In terms of debt that is there on the standalone books or on the SPV books, each of the SPV is levered to the extent that it can service its own debt with sensitivities incorporated and I think we have already seen the peak of debt cycle where we have seen servicing happening and I think as we go by since debt rate is expected to come down, we should see better days coming. So to that extent, I don't see a problem with respect to servicing of the debt, debt is going up on account of lot more projects being undertaken in the recent years rather than gradually since inception. Had all these projects happened gradually over a period of 10 years, probably we would not have been sitting on the same moment of consolidated debt as we are sitting on today. This has happened because in the last 3 or 4 years, the number of projects which came by not just for us but for the industry as a whole has been much higher than the last 10 years put together. So to that extent that each of the under-construction SPVs become operational in a phased manner, the amount of net debt added on to the balance sheet would be much lesser as the operational SPV would start repaying debt. Hence the debt-equity on a whole would remain within a range and we believe that it should probably not cross 4.5 times, even after taking into account new projects being added each year but assuming that they come in gradually. On the other hand if we consider a scenarios with no new projects, then the debt equity would probably hover around 4 and thereafter start reducing rapidly

Pulkit Patni Any internal benchmarking in terms of how many lane kilometers do we intend bidding on an annual basis going forward?

Management We have not yet benchmarked any lane kilometers per se, as sometimes the cost is not actually benchmarked to lane kilometers. Some projects could have large structures, some projects could be on a premium and hence the cost may vary in terms of lane kilometers. But what we have seen is that we need around 5,000 crores of projects each year to sustain a certain level of growth. But I think given the asset light model that we follow, we can even sit tight for a year or two in case the going is not good and whatever we have in the hand today would probably take us through those years

Management I have something to add. A fair chunk of that debt which is shown in the books is getting capitalized and getting serviced during the construction period. So even if there is, let us say, 14,000 crores of debt some amount of that is in the construction phase and therefore though it is shown as debt, it is getting capitalized. So you will have to take that into account before you can actually talk about a real debt-equity ratio with the kind of service from operating cash flows. That is one. The second part is that like I said in the beginning, these companies would be highly geared; there is no way that you can get out of it unless you have a very large operational portfolio. For example, what I mean is today we have 13,000 lane kilometers, the portfolio of which let us say 6,000 kilometers is commissioned. Let us say, 5 to 6 years down the line, we probably have a portfolio of 25,000 lane km and you will have commissioned about let us say 18,000. The debt-equity ratio would have crossed the peak of the curve when you have actually more commissioned and less under implementation. At that point in time debt-equity ratio start dropping. I think that is due in another 2 to 3 years, because I do not think we will be able to do like we said, get more than let us say 5,000 crores or 6,000 crores of projects a year which typically means that if we are doing 5,000 crores annually today, and we have an order book of Rs.15,000 crores we have visibility for about 2 to 3 years. Also, this business is not as predictive as one may want, as in many other businesses, because we have very government-related demand. The demand is all government-driven. So if the government bids out 10,000 kilometers I cannot say that I have got 5,000 crores and I am going to stop. It is something that we will have to take a call on at that point in time. But I think the target seems to be about 5,000 to 6,000 crores a year. Wherever it takes us it will take, but debt-equity will start falling when we cross that hump. And I do not think we have reached that. That is why we said it will go up to around 4.5 and then it will start dropping. And once it starts dropping it will fall pretty rapidly because then your debts start getting repaid and cash flows start coming up

Pulkit Patni About your Hyderabad project some of the companies that have business in Hyderabad we are aware have ran into trouble... I am not taking any name but what would you do when you buy them out, is there anyway the project has got affected what is under your control or some might be they running it and you might be investor could you just give us some, not taking any name but on a very broad basis how are your Hyderabad portfolio doing, would you take control of it or are they in control, are they working on time, is there any risk there, could you just give us some overall light?

Management The Hyderabad companies with which we are working may have been going through a bad patch, but as we always do our approach is to enter in such a JV format whereby we separate construction role from the sponsor role, and I think if you have done that successfully and don't let contractor requirement come into the boardroom and by doing this you can actually complete the project successfully

Pulkit Patni Are you controlling?

Management Every project that we do, we are in control of construction. We have management control of the SPV; we do not do any project wherein we don't have control. In India I think control is very essential, the partnership concept does not seem to be working very well as far as Indian context is concerned because control normally implies that I am senior and you are a junior. So we have decided that when we do a partnership we are going to stress it out up-front and that is how we run all our projects. We are in charge, for example we have a project Warora-Chandrapur, where we have 33% stake but we have control, we control the SPV, we control disbursement, and we control project management. So as long as we control certain critical aspects of the project, then we can control everything

Pulkit Patni And there is no delay in them

Management No. See delays happen but we also get compensated for the delays by an extension of time, and therefore, are eligible for claim. I do not think in that sense it impacts the project

Pulkit Patni If they are not able to bring their equity would you take more equity and complete those projects and or wherever there is…

Management So to the extent that it is permitted in the concession agreement, we can take over. Balance we will have to have a structure in which you take charge

Anjali Parekh I am Anjali Parekh from Crisil Research. Like you mentioned in the presentation that for some of the road stretches actual traffic is not as it was estimated earlier. So how is it going to impact your project IRR? A few of the road stretches

Management I do not think we have commissioned any toll projects recently. Most of the projects that we have commissioned are annuity projects in the last two years. The toll projects that we have commissioned were much earlier. So, I am not sure about which particular project you are referring to. If you can give me a project name, then I will give you the details

Anjali Parekh In general, is the industry facing this kind of…

Management Yes the Industry is facing problems with less than projected traffic. If you look at traffic forecasting -- and I think some of you will have met me earlier, so pardon me repeating this -- traffic forecasting in India is an art, it is not a science, because you are predicting traffic with almost no historical information available. You are projecting traffic for over 18 years doing a traffic count for 3 to 5 days. So, it is quite likely that you are going to err on the side of being wrong rather than being on right. But what we have seen from the past 10 years of experience from either Delhi-Noida or the Gujarat projects where we have been collecting information, the traffic has actually caught up over a period of time and it has actually exceeded what we projected earlier. And I think that is a cycle which operates in correlation to the economic cycle and if you have commissioned projects when the economy is on a downturn then you are going to get lesser traffic, but if your projects starts operating when economy is on an upswing, then you will get higher traffic. So, we believe that over 15 to 20 year period, traffic has to catch up and you are able to recover lost IRRs to that extent

Teena Virmani This is Teena from Kotak Securities. The collections from the Beawar-Gomti project are still way below what had been the company's initial estimate. So when can we expect the project to actually reach maybe near the estimated collections and then maybe go on in an improving trend?

Management This traffic of Gomti-Beawar basically was linked to mining and an alternate corridor. So what is happening there is that mining activity is largely suspended. That is one part of it. The second part of what is happening is that today the whole stretch, which is a competing stretch to Ahmedabad-Udaipur, as this was the old NH8 which is getting 4-laned is still not completed. So we are also doing our part of 4-lane from Gomti to Beawar; Sadbhav is doing the one which is from Gomti to Udaipur and balance is done by Soma. On this stretch there were two or three bottlenecks for traffic or heavy traffic. One place called Eklingji there is a ghat over there and most of the truckers find it very difficult to maneuver that ghat and that is one of the reasons that they don't use this particular stretch. Sadbhav would be developing a tunnel in the ghat section which should ease out the bottleneck. The other is Nathdwara town which is also a traffic bottleneck and now there is a fly over proposed in that town. So this should turn out to be a very good competing corridor. Once you have complete 4-lane and this ghat normalized and a flyover in Nathdwara the drive upto Kishangarh should be easier. So now if you look at the alternate competing facility with existing 4-lane I think traffic is going to build up because historically NH8 has been one of the highest traffic corridors and there is every reason for this diversion as our stretch also offers some distance saving. So we are restructuring the whole thing and developing our section of the corridor also to 4-laning

Teena Virmani Okay so may be if the construction of tunnel and flyovers at these different places may take around 1 to 2 years to get over and then maybe we can expect the collections to rationalize

Management Yes it should which is why we took the decision to four lane the facility. We are in the process of financially closing the development cost required for 4 laning. So we will recapitalize the whole thing into 4 lanes and then move forward and there is every reason now that this is a workable arrangement because you are competing with this high traffic corridor and you can expect traffic growth more than what it was

Mulesh Savla Hello, Good evening sir, I am Mulesh Savla an individual investor. I just wanted to checkout recently we did one debenture issue of about 1000 crore at 12.25, by any chance does it make sense or to issue redeemable preferences as one of our peer companies have done in the recent past, to reduce the tax liability as well as interest cost or finance cost to the company?

Management That is also an option which is available with most companies except that it may probably be easier to raise debt than preference capital. Preference capital does not have that big a market and also preference capital as compared to debt is mostly costlier. So there may be a chance where in we can probably raise preference capital at better rates than the debt, but then this have to be explored on a case to case basis. We are not ruling out the option but we will exercise the option depending on how things work out

Mulesh Savla Yeah because HNIs route always likes to have tax free income it has and they will be ready to invest at a lower cost and we may end up just paying about 18-19% dividend distribution tax so I think it may make sense.

Management We are looking at all options and working out the numbers, if the numbers makes sense to us and it is better than or comparable to a debt option then we will surely use this route also

Management Just to add on to the reason why we took 1000 crores because if you remember last year banks were not allowed to lend short term unsecured loans and as a holding company we had lot of short term loans. So we replaced that with longer tenure debt and I think it was on 12%. On the preference capital I think Vibhav Kapoor can give better perspective

Vibhav Kapoor Generally preference capital is much more expensive than debt and particularly for a company which is paying high tax or the full tax ratio, so you really need to assess if you really want to issue preferential with a very low coupon relatively, only in which case it would make sense but if it is going to be close to a debenture coupon rate and the debt rate then obviously it has that tax disadvantage

Ronald Siyoni This is Ronald from Sharekhan. I wanted to ask you that what are the contractual changes you are witnessing say from past old contracts and now which you have got, and in the competitive intensity which has been reduced, is it because the other players have not been able to, they are stuck financially or something of that sort and that is why the more rates could be expected from you?

Management Obviously if you take last few months, the number of bidders has gone down. We believe the number of road developers increased as the only available opportunity to a road contractor was to win a BOT bid. And that is how if you analyze our competitors 80% of them are contractors who have become concessionaires and we believe they have taken a short term look on the concession instead of really talking a whole life cycle costing. Also as there is a talk going on about the change in terms of the premium payable and our belief is that this may not be possible and so our call is that projects stuck for financial closure might come back for re-bid. We believe that this is consolidation time wherein a few firms would emerge stronger and though the cake may be smaller but the participants are going to be far lesser so we definitely see far better chances for us in the coming days. Second aspect will be the inorganic growth, there also we stand a very good chance but again there is valuation mismatch and since we are bound by NDAs, can't quote numbers and names, but we are finding a big difference on valuation in what people are asking what we want to give but given the debt servicing obligations that they are facing we believe it is going to put a dent in their plans and then the expectation of valuations should moderate. And third one will be the bankers who are going to move in for substitution of concessionaires, so they are going to ask for stronger entities who may be willing to take on the concessions. We had one or two instances of banks asking us to take over concessions and we believe that more instances may appear

Ronald Siyoni My last question is, in the future contracts like do you have a type of securities say of project gets like heavily leveraged projects are there, so what is the security in terms of say revenues, the projections say for some projects go haywire or something goes wrong in a particular project, so do you as a player have some kind of security in terms of the contractual agreement?

Management As long as our financial model has taken care of the hockey stick characteristics of the revenue built up, we can sustain issues on traffic forecast. These parameters will keep on fluctuating but if you look on complete average portfolio received with wins in high interest regime and also in lower interest regime and then you will be able to put a parameter which is most workable and growth can be seen on that

Participant Gentlemen just one more question, given that we have over 25 projects in our portfolio, can you discuss some synergies that we have started seeing now; being the largest road operator in India today?

Management Well one thing is that we have always maintained that we are indifferent to the location of a project, which is a primordial concern as far as India is concerned. I think we have been able to prove that our expertise works as well in Kashmir or even the so called difficult states like Jharkhand as compared to seemingly good states like Maharashtra, Gujarat, Karnataka, Andhra Pradesh. There is an impression in the mind of people that there are some good states and there are some bad states to work at, I think if you have a fairly good project management capacity/team, a robust implementation and execution frame work in place there should be no difficulty in where you're working and I think that is one of the main reasons why we have been able to move faster than many other players in this sector. Number two is the synergy that comes from having a bunch of bankers; mostly different every time that fund a project, I think we see a lot of comfort there because we are fairly sure about what they are looking at and how they view us implementing projects and that is why we are able to probably achieve financial closures from banks that much faster. Lastly I think we probably have a foot print which is now global in level. Other's perceive and talk about our portfolio which comprises only about 13,000 lane kilometers in India, if you actually combine the 21,000 lane kilometers that Elsamex manages on a maintenance basis, and then probably ITNL will come across as the largest road operator in the world. I do not think any other company in the world has ~34,000 lane kilometers under their portfolio which would include construction and management of roads and I think this synergy that Elsamex and ITNL has been able to put together is very strong since we are able to sell Elsamex's products across our projects as well. Abu Dhabi is a prime example of how we have been able to actually grow that access forward. Secondly, on Elsamex, which was a promoter run cash strapped company, is now more confident about delivering its outputs because it sees itself as being part of a much stronger and a more capable balance sheet. So, to conclude, I think there are a lot of things which are working for us, some of them may not have been intentional, some of them are intentional, but I think net-net if you look at what has happened in the last 14-15 years since we have been in this sector, I think we have today a fairly regulated entity where everybody within the company knows what needs to be done to bring a project on-stream. We also encounter surprises but I think we have managed to build an inbuilt strength to manage those surprises and manage them in a manner which does not affect the completion of a project which is more critical in these conditions to a very large extent

Participant Just follow up question from my side, sorry I was little late so I am not very sure whether we discussed about revenue stream from non road projects like the parking project, Charminar Robo Park, the Nagpur bus project and Metro projects and all. If you can just share some revenue stream from these projects. Thank you

Management Sorry, just before we answer your question, I just wanted to add some more points to Ronald's question who's from Sharekhan, one of the things we have learnt by having a financial institution as our promoter, is that if you look at our balance sheet, you will find that we have kept about 10-15 crores aside in some years as contingency, so in the event one of our projects start doing badly, , writing-off that project need not necessarily hit our P&L but will be actually accounted for in the contingency so I think that has been a good governance practice which we have been following for the last 6-7-years. Today the corpus is about 50-60 crores and if a project gets hit then we need not write off the whole thing, we have the capacity to take care of that. To answer the current question, on the non-road projects that we have, the Nagpur Bus project has actually been one of our misfortunes in this enterprise. We got into it thinking that the counterparty would adhere to good practices, but unfortunately that has not been the case and we have been having a running battle with the counterparty. However, what the company has taken a view on is that we will continue with this project till the end of its concession, we have got some fare increases in the recent past and therefore are not losing money, we are recovering operating cash flows., The concession ends in 4-years and we will then just give it back to the municipality. On the other hand, the parking project, Charminar Robo Park, is something that we are just starting. We believe that parking is a very critical component of urban traffic and urban transportation because the only thing which is stopping the parking lots or the parking structures coming up is the enforcement on street parking. I think without on-street parking enforcement, we are not going to succeed in off-street parking. We have got some commitment from the Hyderabad government, where they will actually enforce a lot of restriction on on-street parking. I think that will force people to go into off-street parking structures, so, I think we need to wait another 2 or 3 years before we know the outcome of our parking project

Shravan Shah Sir Shravan here from Asian Market Securities, all our existing projects and the recent one, in terms of land acquisition, are we facing any problem or let us say in other way, the least acquisition in terms of land out of the existing projects, can you name the projects?

Management If you look at any project across all the infrastructure sectors and analyze it from a land acquisition point of view, road projects have been a little better off than any other sector. Our observation is that a problem arises in a project which has a bypass; there are some issues in acquiring the land for a bypass. However, we are trying to proactively look for a solution on these issues and are trying to sort them out on our own rather than wait for the authorities.

We are working together with NHAI on this count and we generally start this process from the date we announce that we are L1 in any project. For example, for Khed – Sinnar and Barwa-Adda the day we declared that we are L1 bidders, our surveyors and our revenue officers with their whole team were on the two sites. I believe, this is one the major reasons we will succeed. If you look for any Brownfield project, I do not see any issues but if there are some bypasses involved then time taken to acquire land will be slightly more. Talking about some of our projects, we had some issues in Bareilly-bypass for Moradabad-Bareilly project but we have almost resolved the issue now. There are also some few kilometers which were left on the Pune-Solapur project with respect to its Tembruni bypass, but sustainable efforts from our side are on and we will be able to resolve these issues. In fact, even in a project as old as Andhra Pradesh Expressway Limited, there are one or two portions where we have closed the deal from our side by paying lease rental to land owners through which the road is running but NHAI is still to acquire those portions. As long as we know that our meter is ticking on a BOT project, the whole focus for us is to deliver the project as soon as possible and that is how we intend working on it. We will even in the future look for ways in which we can help solve the issues/problems by complementing and proactively working with the government to help fasten the entire process

Shravan Shah And sir my next question is, for your recent wins, which include Barwa-Adda and Khed - Sinnar, as far as NHAI's cost is, for Barwa-Adda they quoted 1665 crores and for Khed - Sinnar it is 1350 crore but when we look at the presentation it is almost 40-50% higher, so is NHAI wrong in predicting the cost of the project or the cost what we say includes profit and everything?

Management This is an issue we have been talking about where we feel NHAI needs to look at their costing a little bit differently. However, this is not happening. Our delivered cost is around 1.35x to 1.40x that of NHAI's cost. This is based on our financial model which has been built by us based on our estimates of what the delivered cost of the project would be. We believe that 1.4x is the multiple you should build on NHAI's cost. And the interesting part of this is, if you take one or two projects, the same consultant who worked for NHAI and thereafter acting as an independent Lender's Engineer certifies that what we are doing is right. So there are some issues like NHAI is not updating their cost for projects. Moving forward, we need to see some more improvement from our counterpart to bring in far better cost estimates than what are coming

Shravan Shah And sir RIDCOR it is neither a subsidiary nor a JV nor an associate so I just wanted to understand the logic behind it.

Management The only thing is that it does not appear in our books of accounts because the RIDCOR project is held by IL&FS, it is not held by ITNL. This is a negotiated project and the government of Rajasthan was not willing to sign an agreement with anybody other than IL&FS, so while the front of the project is IL&FS as far as the share holding is concerned, we have a derivative structure with IL&FS where all the benefits of this project come to us. We also manage the project at a fee and all the fees and the revenues that come from the project actually flow into our books except for the toll collection. Under the accounting structure, the losses that that the project is carrying are being accounted for by IL&FS but the profits which are generated from the fees come to ITNL

Vibhav Kapoor Just a few words I think it is getting late but I cannot resist this opportunity. I think a lot of questions which I heard today reflect concern on what I would call the sector, rather than the company. There are of course and there always will be issues or concerns about the working of a particular company. All of you are, of course, experts in this sector so you know more than may be I do on what the specifics of the sector are. As far as the company is concerned, I think the way to look at any company in any sector is how efficient it is with relation to the rest of the sector and I think on all the parameters in the last so many years, ITNL has been amongst the best and may be the best in most of the parameters, which include, the bidding process, the aggressiveness or non-aggressiveness with which you bid for the selection of projects, the construction aspect which involves completion on time, whether there are cost over runs etc. Talking about financial closure I think a lot of companies as you know in this sector are suffering from financial closure problems and ITNL has the best record in having done financial closures well ahead of time for all their projects. There are issues of course in terms of debt equity ratio, high interest cost; which I think are more related to what is happening in the sector and of course the nature of the sector. Now unfortunately as you all know the sector has, over the last couple of years, run into a lot of problems at the same time and obviously these have lead to a high interest cost, slow down in the economy at the same time which puts a question mark in the minds of analysts on whether traffic projection are going to turn out right or not. And when there is a slowdown obviously traffic projections temporarily can always turn out be wrong because as you all do, you relate it to our GDP growth and another percentage of 1.2x GDP growth or 1.3x GDP growth. So all these things are happening at the same time, or policy paralysis in terms of land clearances, other clearances, the environmental clearances, forest problems all those issues came at the same time but I think one particular thing which we must look at is that this is as an industry a young industry in the sense that privatization of road projects or BOT projects been about 10-years old or so. And therefore most companies and more particularly ITNL because it has such a big portfolio of roads, is still in the stage where you have more of construction projects rather than operational projects on hand. But if you align that with the fact that over the next 2-years 3-years, I think as Ram mentioned and Danny mentioned that you would see most of these projects converting into operational projects over a period of time and therefore total revenues which will go up 3x or 4x from whatever they are now. And therefore all you have really is a construction risk where the company has shown itself to be very adept and good at managing that risk and completing projects on time and without large cost overhead, it is on a general basis. So this whole sector I think being so young and passing through this phase and at that time having so many problems on the macro front, I think has been unfortunate but going forward as you come into a stage where the projects get operational, because the real value according to me, or the real way to look at is this sector is from what the projects will bring to you by way cash flows through the toll and annuity and not so much from construction and obviously as more and more projects get operational, that part of the revenue stream is going to undergo a vertical upswing. Now as far as some of the other things are concerned, there are macros which are for the sector as a whole, high interest rates, obviously as interest rates come down and the economy also starts to improve there can be a very big differential in terms of the RoEs and the cash flows or the discounted cash flows which you get because obviously these are discounted at risk free rate of return plus a certain premium per equity. And therefore as the risk free return goes down, obviously the discounting rate goes down. And as far as traffic is concerned, yes there will always be issues on individual projects, whether the traffic studies are correct or not I think a lot of the concerns which analysts have today are just on macro issues because the economy has been passing through such a big slow down. So obviously when that improves, I think a lot of these concerns will automatically get addressed themselves. The last point is on the debt-equity ratio and the fact that the interest costs are going up. Again I think as Ram has said 2-3 times, it is obviously a sector where there is going to be a high leverage, there is no doubt about, this is not a sector like an FMCG or low cap investment sector where you can have zero debt on the books or you can be debt free. So that is always going to be there but in terms of how you manage that and if each project has the capacity to meet the interest cost and the debt repayment costs from the cash flows of that project, then I think it is much less of an issue than we would have in any other manufacturing company where you would have a large debt you see on the books, and that becomes a problem. Obviously as interest rates come down, over a period of time the interest burden should automatically come down and that can have a very positive impact on the profitability. So I think a lot of concerns are today macro based and they are there because as I said, so many things happened at the same time which were negative for the sector and hopefully we will be passing over the trough as the economy improves and the interest rates come down, lot of these issues should get addressed themselves but within sector, I think from the record that we have, I think ITNL has been amongst the best and as I said the best in many and most of the parameters within the sector and has shown the capacity to overcome and manage with many of these issues much more efficiently than many of the other participants

Management Thank you all for having participated in the meet.