IL&FS Transportation Networks Ltd

Analyst Meet

June 1, 2015

CIN - L45203MH2000PLC129790

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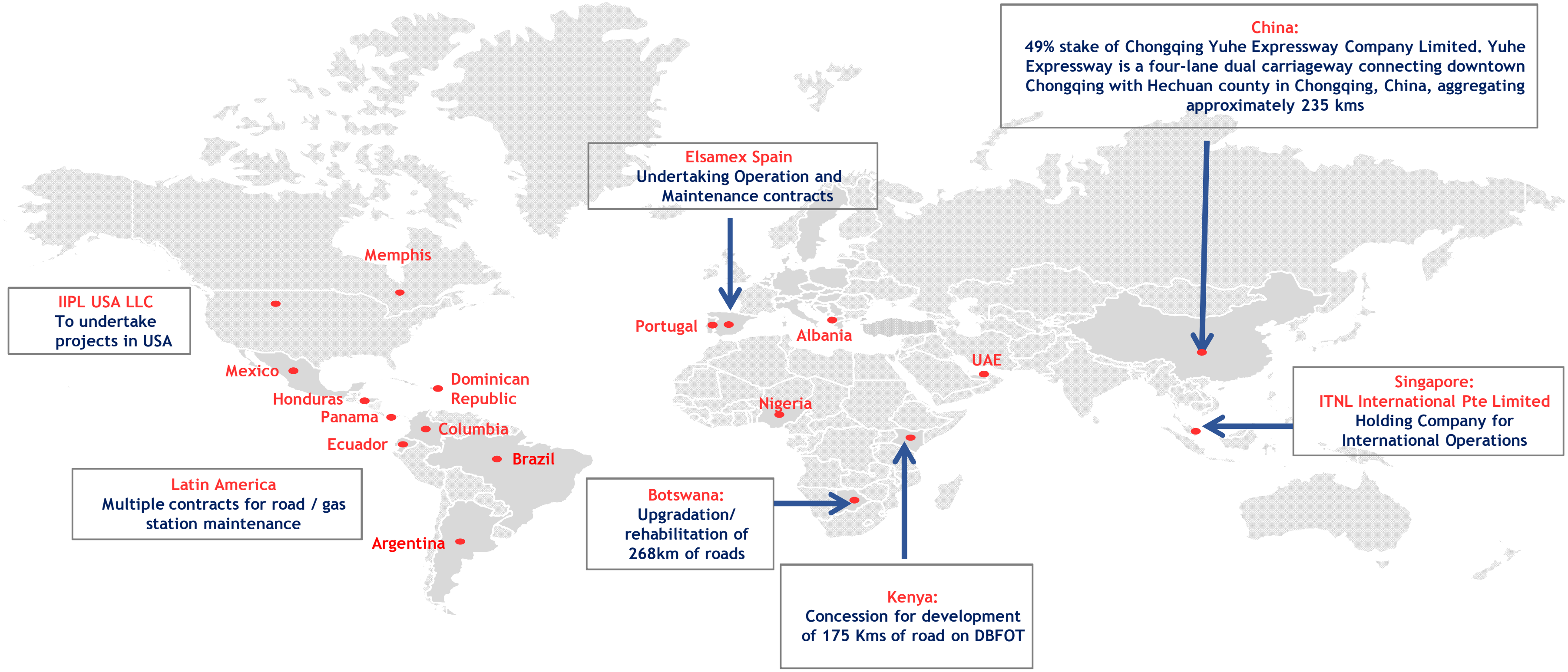
IL&FS Transportation - Overview

ITNL Footprint - At a Glance

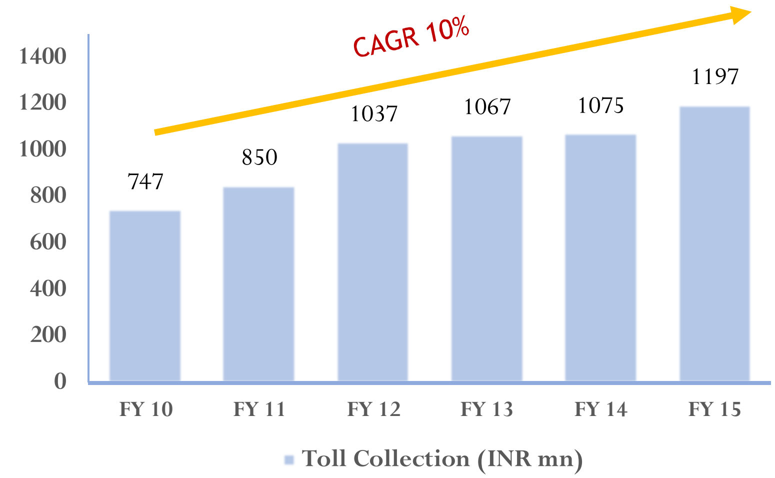


19 Countries	**18** Indian States	**27** Road Projects
12838* Lane Kms Road Portfolio	**8899** Lane Kms Operational	**5** Non Road Projects

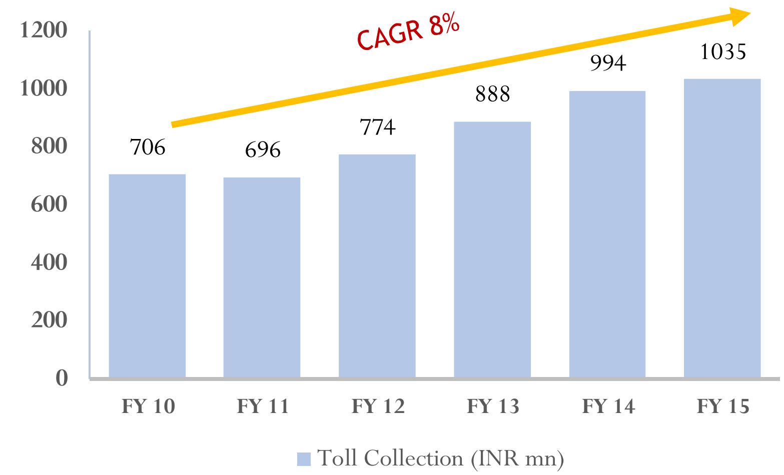
* Reduced as Kaparan to Mangrol stretch of RIDCOR II fully surrendered and Mathura to Bhatodi stretch of RIDCOR 3 partly surrendered due to land availability issues

Revenue Growth Trends - Select Roads *

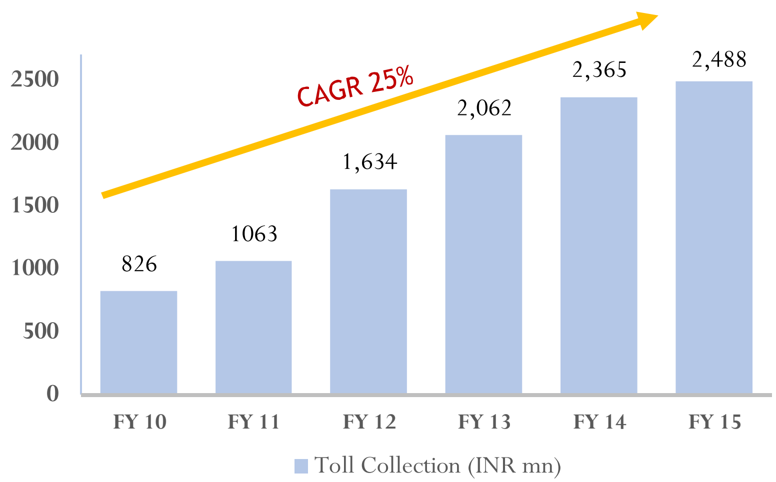
GRICL



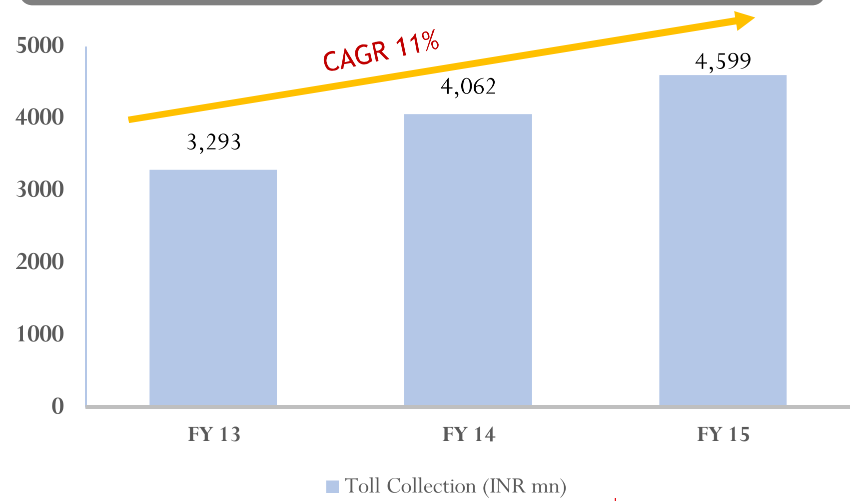
Noida Toll Bridge



RIDCOR (Phase I & II)



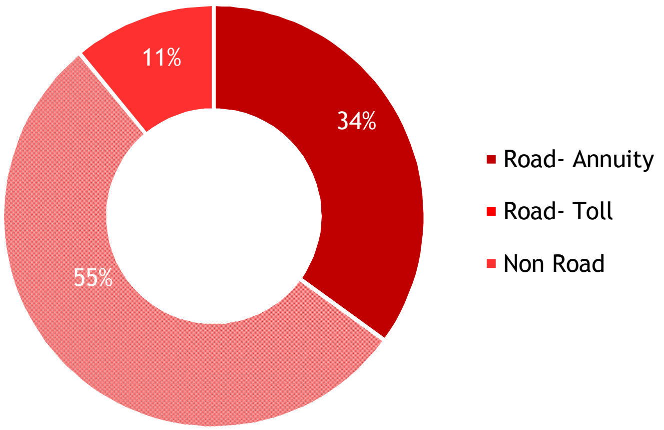
Yuhe Expressway



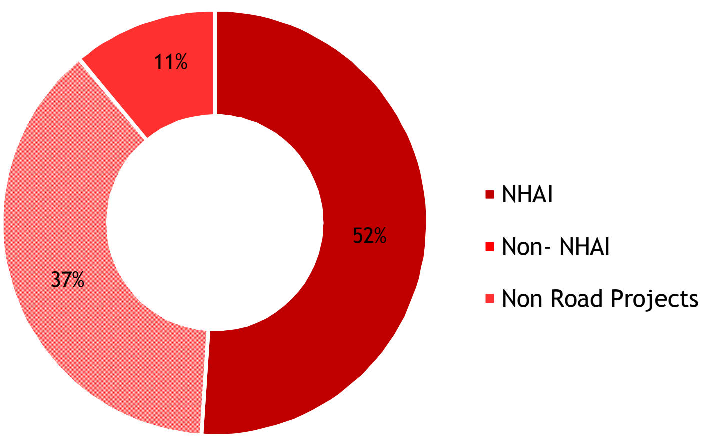
* Not adjusted for consolidation

ITNL's Order Book: Composition & Spread

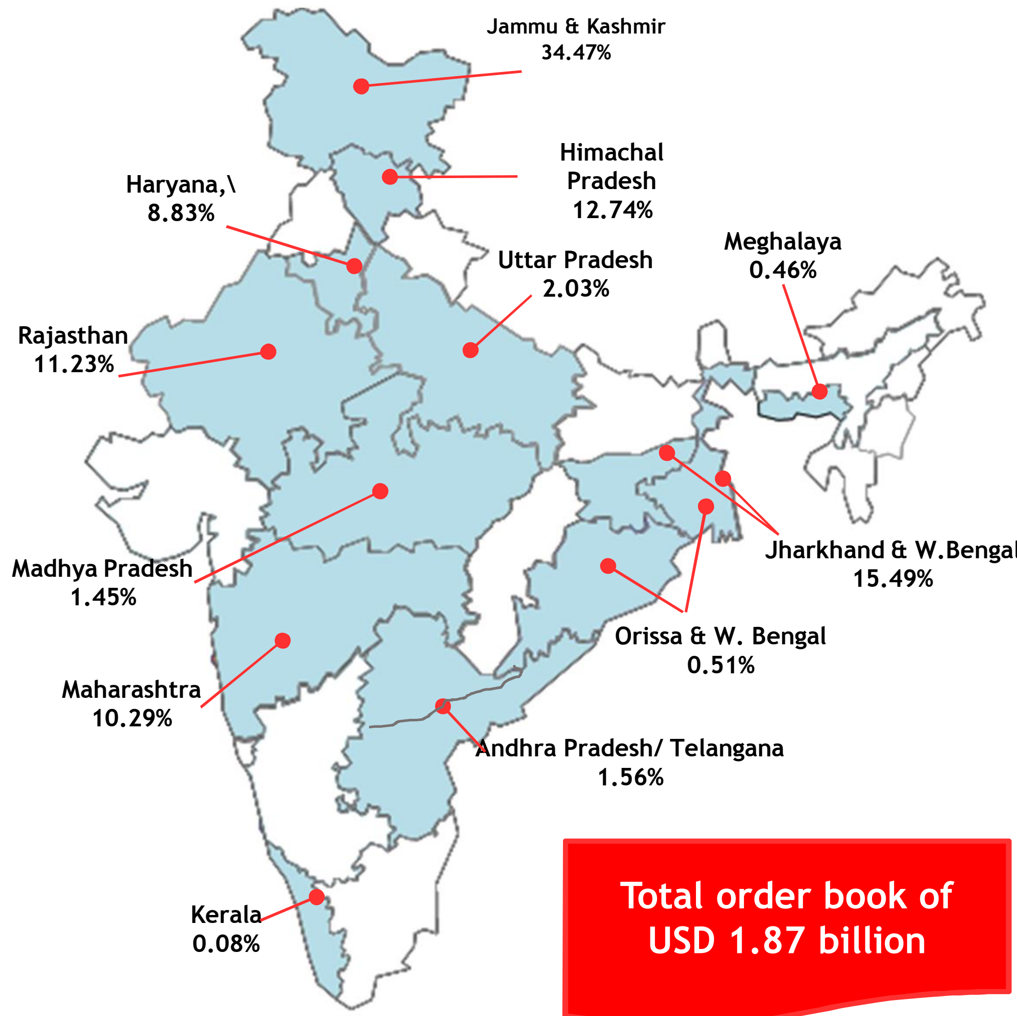
Order book - Project Type



Order book - Sourcing



Order book - Geographic Spread



Total order book of USD 1.87 billion

Order book details as of March 31, 2015 :
INR?USD = 63.5 as at May 22, 2015

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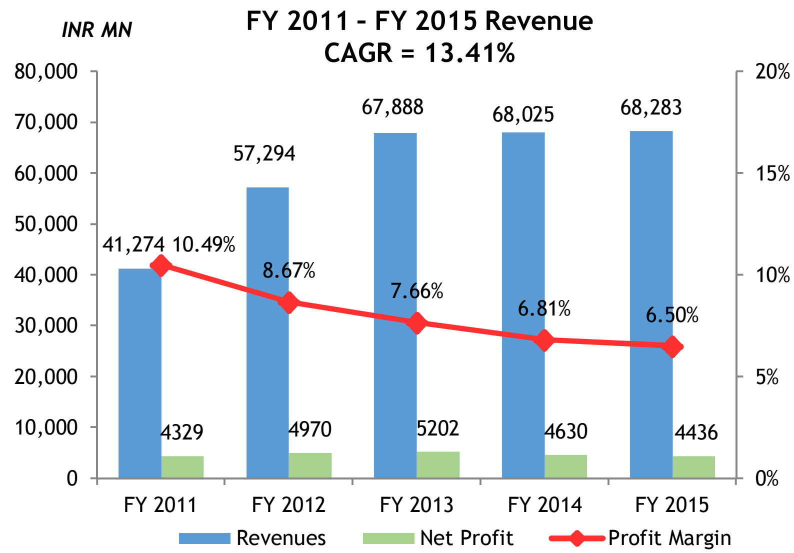
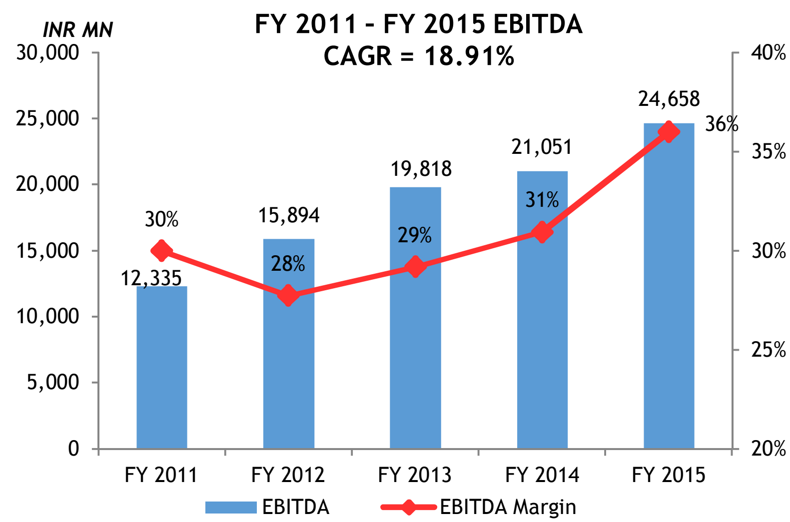
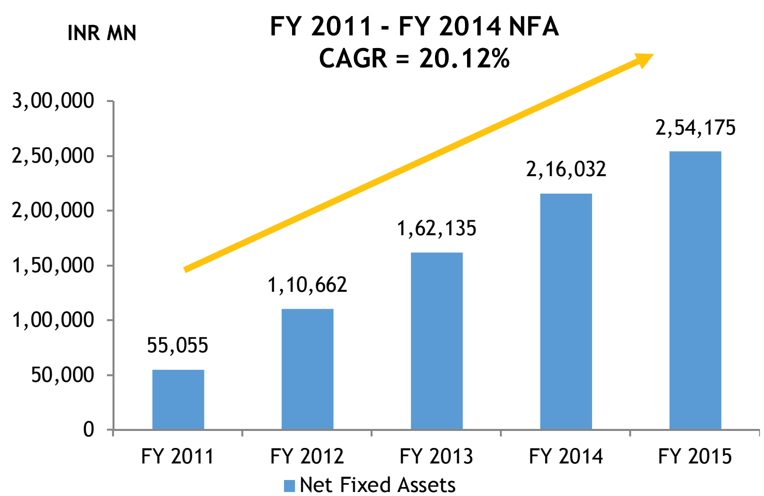
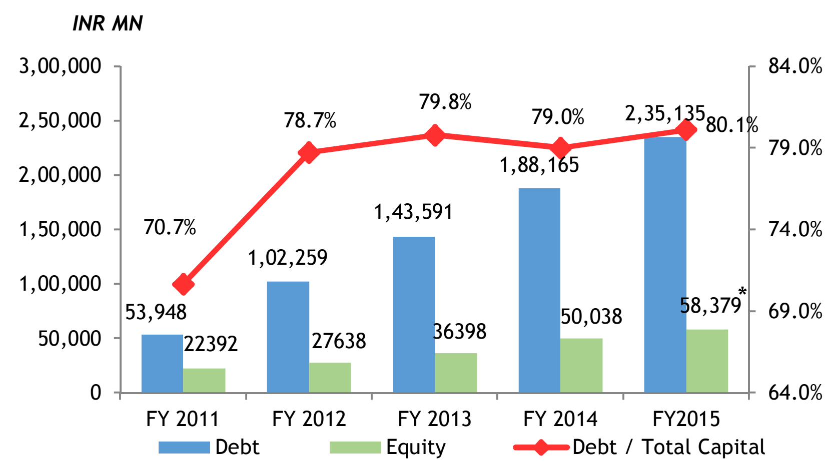
ITNL - Steady Revenue Growth and Improving EBITDA Margins





Source: Company information





Source: Company information
Note: Includes rights under Service Concession Agreement, which represents Annuity & Toll Assets at Net Value
** Not adjusted for Dividend payout*

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India Road Sector Outlook

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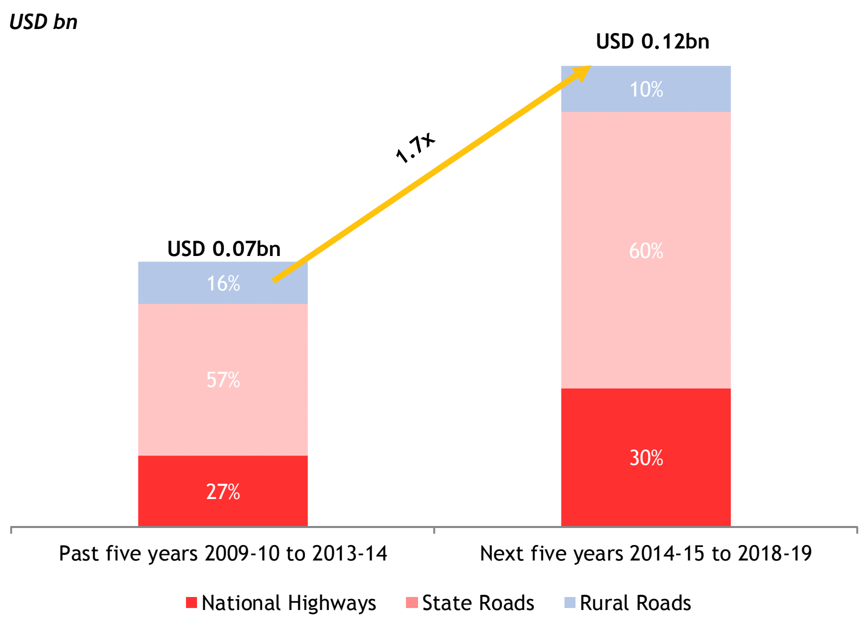
Infrastructure Segment - Poised for Growth

Aggregate investment in Roads to nearly double over the next 5 years

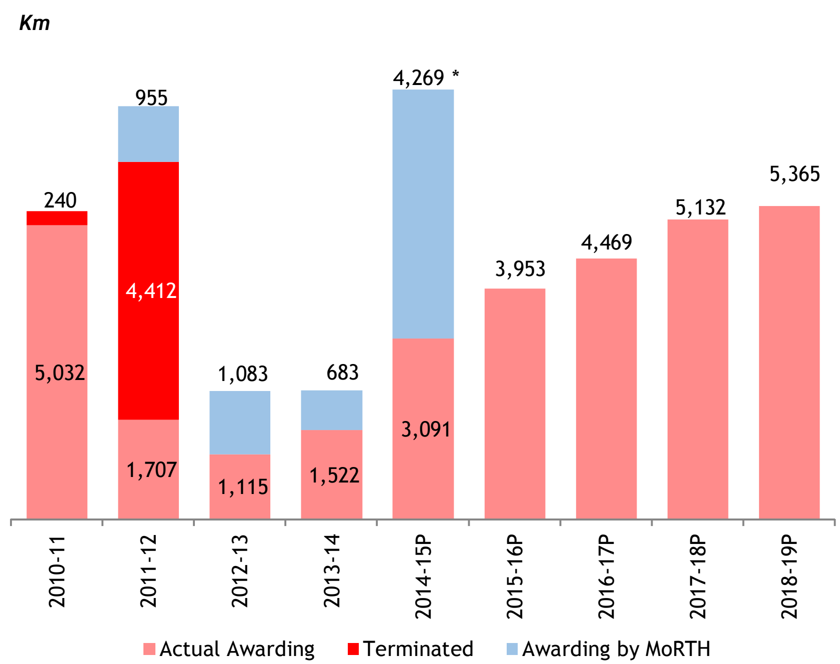
Investment in Roads



Sources: NHAI, MORTH, CRISIL Research

National Highway - Awarding to pick up gradually from current low levels

NHAI Awarding



Sources: CRISIL Research, NHAI
* Annual avg additional awarding of 2,500 kms by MoRTH

- Of the 3,091 kms awarded by NHAI in 2014 – 15, only 24% (5 projects) went on BOT mode
- Close to three fourth of length to be awarded on EPC over the next couple of years
- NHAI has amicably terminated stuck projects which would aid future awarding

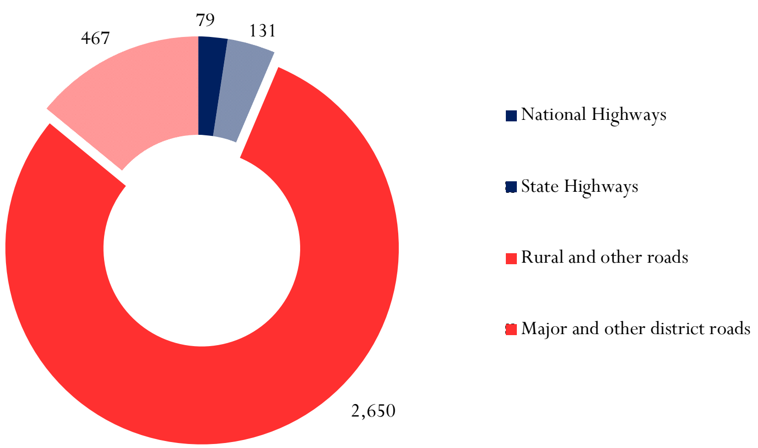
Road Sector Opportunity

Program	To be Awarded (in Km)
NHDP-III	2,805
NHDP-IV	9,892
NHDP-V	2,944
SARDP-NE	278
Total	**15,919**

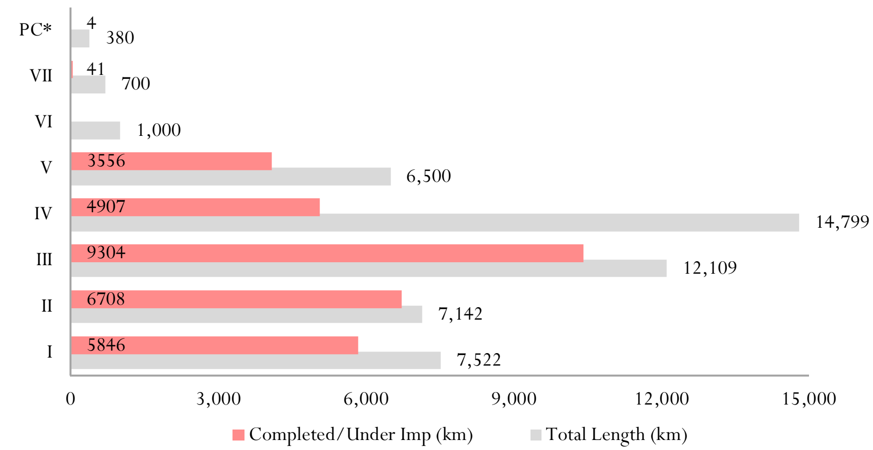
Source: www.nhai.org accessed on March 31, 2015

- India's road network increased to 4.2 mn km from 3.3 mn km
- The 13th Finance Commission has decided to provide a central grant of USD 3.3 bn over the period 2011 -15 for development of state roads across the country. This is in addition to the normal expenditure that is undertaken
- National highways, which comprise 2% of the total network, carry 40% of the traffic; are overloaded at many places or corridors
- Only ~24% of national highways are four-laned

Composition of the Indian Road Sector - ('000 kms)



NHDP Overall Progress



* Port Connectivity

Balance road awards under NHDP to be substantially executed over next 2-3 years

Key Updates : Macro

NHAI Activity	■ NHAI has awarded a total of 27 projects measuring ~3,091 kms in FY 15 versus 1,522 kms in FY 14 ■ NHAI's total expenditure in FY 15 was 21,000 crores, FY 16 target is 75,000 crores; increase of 55,000 crores to be funded by increased budget allocation (15,000 crores) and borrowings (40,000 crores)
Government Initiatives	■ **Favorable budget allocation to MoRTH and NHAI** – Conversion of existing excise duty on petrol and diesel of Rs. 4 per litre into Road Cess will bring additional Rs. 400 billion for roads ■ **RBI rate cuts by 50 bps favorable although banks have only recently transferred ~10-20 bps savings to the borrowers; further softening of interest cycle likely to reduce the borrowing costs** ■ **Announcements likely to benefit the sector in the longer run** – "5:25" scheme to address ALM mismatch; helps concessionaire to make debt repayment coterminous with project cash flows – Infrastructure investment trusts (InvIT's) – Infra bonds - exempt from requirement of CRR, SLR; likely to bring down cost of funds in the longer run – Establishment of National Investment & Infrastructure Fund; initial corpus of INR 200 billion to raise debt to be infused as equity in infrastructure projects

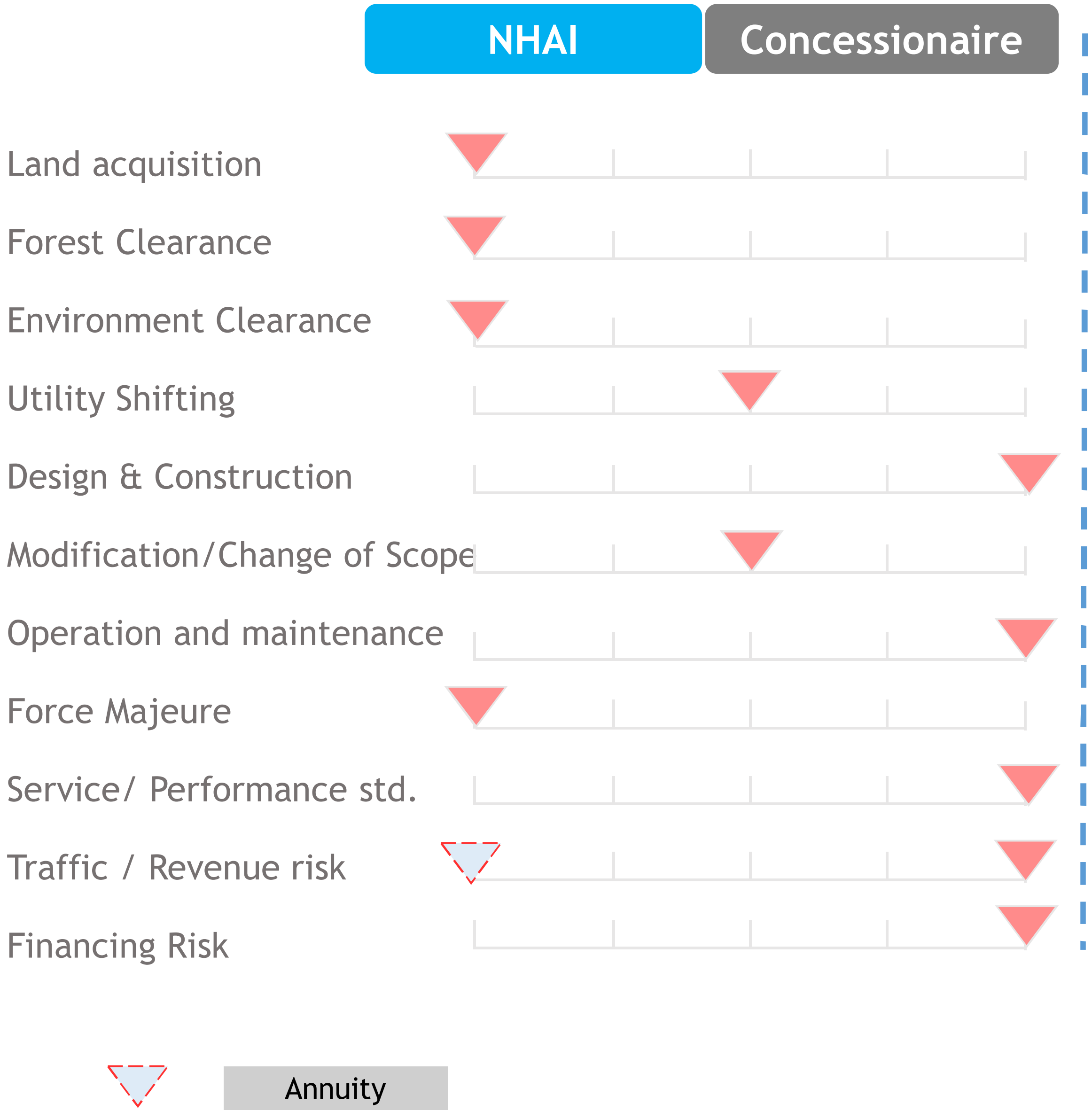
Recent Bids

Sr. No.	Name of the Project	Bid Details (as per NHAI site)	Median Bid Range (INR CR)
1	Hospet – Chitradurga	L1- Rs. 18 Cr. Premium L2- Rs. 12.04 Cr. Premium L3 – Rs. 4.5 Cr Premium L4 - Rs. 168.80 Cr. Grant L5 - Rs. 276 Cr. Grant L6- Rs. 456 Cr. Grant L7 - Rs. 462 Cr. Grant **L8 - ITNL - Rs. 513.56 Cr. Grant**	222
2	Shivpuri-Guna section	L1- Rs. 20.19 Cr. Premium L2- Rs. 55 Cr Grant L3- Rs. 90 Cr. Grant L4- Rs. 144 Cr. Grant L5- Rs. 243 Cr. Grant	90
3	Solapur- Bijapur	L1 - Rs.6.80 Cr. Premium L2 – Rs. 173.57 Cr. Grant L3 – Rs.341.1 Cr.- Grant L4 – Rs. 396 Cr.- Grant **L5- ITNL - Rs. 450.45**	341
4	Solapur Yedishi	L1 - Rs. 189 Cr. Grant L2 - Rs. 308.89 Grant	NR

Recent Bids….continued

Sr. No.	Name of the Project	Bid Details (as per NHAI site)	Median Bid Range (INR CR)
4	Mukarba Chowk - Panipat Section	L1 – Rs. 189 Cr. Grant L2 – Rs. 198.9 Cr. Grant L3 – Rs. 297 Cr. Grant L4 - Rs. 360 Cr. Grant L5 - Rs. 487 Cr. Grant	297
6	Yedishi Aurangabad	L1- Rs. 558 Cr. Grant L2- Rs. 625.89 Cr. Grant **L3 - ITNL - Rs. 654.9 Cr. Grant**	625
7	Kaithal Rajasthan	L1 – Rs. 234 Cr. Grant	NR
8	Bikaner Phalodi Section	L1 - Rs. 327 Cr. Grant	NR
9	Agra Etawah	L1 – Rs. 81 Cr. Premium L2 – Rs. 16.88 Cr. Premium L3 – Rs. 26 Cr. Grant	26

RISK SHARING MATRIX - Existing vs Modified MCA + Hybrid Model



Proposed Amendments

- Proposed Changes in Model Concession Agreement:
    1. 80% land CP non-waivable
    2. Rationalization of TPC definition
    3. Easing exit norms further
- Proposed Hybrid model of concession:
    1. Revenue risk borne by NHAI
    2. Bid parameter is TPC
    3. 40% of TPC to be funded by NHAI
    4. Concessionaire to close balance 60% on suitable D/E mix

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ITNL Accounting - FAQ's

ITNL : Accounting Explained

Background

- Government has introduced Contractual Service arrangements to attract Private sector participation in the development, financing, operation and maintenance of infrastructural facilities for public services
- An arrangement of this nature involves a private sector entity constructing, operating and maintaining those infrastructural facilities for a specified period of time
- The operator is paid for its services over the period of the arrangement
- Such an arrangement is described as a build-operate-transfer or a public to private Service Concession Arrangement

Guidance Note on SCA

- Paragraph 10 of the guidance note issued by the ICAI sets out the principles for recognising and measuring obligations and related rights in SCA
- Accordingly, revenue and costs relating to construction are accounted as per the Standard on Construction Accounting and recognised either as an **Intangible Asset** or a **Financial Asset** as prescribed
- In substance, under the SCA, the concessionaire renders services and in return receives either a **right to collect a user fee** or a **right to receive cash** or another financial asset from the grantor of the concession

ITNL Accounting: Asset Classfication

1. Financial Assets (Annuity)

Where a concessionaire has an unconditional contractual **right to receive cash for a pre determined period** (Annuity) from the grantor of the concession, such a concession is recognised as a **Financial Asset**

Financial Assets are disclosed in the Balance Sheet under 'Other Non-Current Assets' as 'Receivable against Service Concession Arrangement'

2. Intangible Assets (Right to receive User Fee)

Where a Concessionaire receives a **right to charge users of the public service**, such a concession is recognised as an **Intangible Asset**

Such assets are disclosed in the Balance Sheet under 'Fixed Assets' as follows:

Completed Projects - 'Rights under Service Concession Arrangement'

Projects under Development- 'Intangible Assets under Development'

ITNL : Accounting Explained contd....

Accounting for Financial Assets:

- A Financial Asset is recognised as "Receivable under Service Concession Arrangement (SCA)" at the fair value of the constructed asset which comprises of the construction cost plus the margin as per the SCA.
- "Finance cost" is charged to the Profit and Loss Account during construction and operations
- "Finance income" representing the intrinsic value of the asset, is calculated using the effective interest rate method and is debited to "Receivable under SCA" and credited to the Profit and Loss Account.
- O&M and Overlay expenses are charged to the Profit and Loss Account. The same is added to "Receivable under SCA" at fair value & recognised as O&M Income
- Annuity received is reduced from the "Receivable under SCA"

Accounting for Intangible Assets:

- An "Intangible Asset" is recognised at the fair value of the constructed asset which comprises of the construction cost & margins as per SCA
- Finance cost during construction is capitalised as per Accounting Standard 16
- Toll collected from users is credited to the Profit and Loss Account
- Finance cost and O&M Expenses are charged to the Profit and Loss Account
- Estimated Overlay cost is provided for each year by a charge to the Profit and Loss Account and actual expenditure is set off against the provision so created
- The Intangible is amortized over the concession period in the ratio that the toll revenue in a year bears to the estimated toll revenues over the concession

Road Ahead

Strategy Snapshot

Financial Results
- Expand Revenue, Profitability
- Long term shareholder value
- Asset efficiency, churn

Business Goals
- Portfolio Expansion
- Portfolio Optimization
- Brand Value

Process Flow
- Pipeline Creation
  - Opportunity Identification
  - Design, Bid, Develop
- Risk Management
  - O&M , Tolling Ops
  - Capital Structure
- Regulatory & Social
  - Environment, Safety
  - Health, Quality

Core Systems
- Parentage
- Leadership
- Culture

1. Portfolio Scaling

Business Verticals

Concession Portfolio

O&M Portfolio - International

O&M Portfolio - Domestic

Approach & Opportunity

Å NHAI's stated target is to award around 9000 kms in FY 16 through BOT and EPC route

Å Decreased intensity of competition in BOT space to provide a window of opportunity to selectively win projects with higher returns

Å New hybrid model likely to be a win-win for all stakeholders

Å Overseas concessions will be opportunistic where risk – reward ratio is significantly skewed in our favor vis-à-vis domestic concessions and equity ask is minimal

Å Expand O&M footprint in emerging economies by targeting multilaterally funded projects to mitigate payment and sovereign risks

Å Expand domestic OPRC portfolio through Elsamex India e.g. Case in point was 5 year OPRC contract won by Elsamex in India for Rs 315 crores (186 kms)

2. Portfolio Optimization & Financial Management

Portfolio Optimization

Improve Asset Utilization

Focused on completing current order book on time and to finish the balance length in projects like Pune Sholapur, Moradabad Bareilly

Å Tolling at projected capacity / rates not happening till full length not completed; delay in handover of land for feeder roads, bypasses etc

Portfolio Churn

Recycle capital through divestures of toll and annuity assets

Å Divested 42% stake in GRICL to global infrastructure specialist fund at record P/B value

Å Annuity assets have limited upside potential and dilution of bunch of assets to potential yield investor can be evaluated subject to market conditions

Balance Sheet Management

Å Financial requirements entail:

1. Equity pending to be infused in existing portfolio is ~Rs 655 crores, of which more than 60% is for Rapid Metro Gurgaon Phase II;
2. Financial support for new projects getting operational (J curve effect)

Å Recapitalize balance sheet: Resolution taken for fund raise; likely routes QIP / CB / PIPE

Å Refinancing of annuity portfolio to capture interest arbitrage (post construction and softening of interest curve); potential to release sub-debt

Å Management of receivables; existing receivables likely to be released gradually as portfolio approaches completion, will help reduce debt

Å Portfolio churn likely to free up equity/sub-debt which has the potential to reduce both holdco and consolidated debt

Å Longer term goals include:

1. Consol D/E 3
2. Consol EBIDTA margin expansion to 35-40%
3. Consol RoE expansion back to 18% - 22% range

THANK YOU

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