

“IL&FS Transportation Networks Limited Q3
FY2018 Earnings Conference Call”

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Moderator: Ladies and gentlemen, good day and welcome to IL&FS Transportation Networks Limited Q3 FY2018 earnings conference call hosted by Maybank Kim Eng Securities. As a reminder all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing “*” and then “0” on your touchtone telephone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Vishal Periwal from Maybank Kim Eng Securities. Thank you and over to you Sir!

Vishal Periwal: Thanks Janice. Good afternoon everyone. I would like to welcome the management and thank them for giving us this opportunity. We have with us today Mr. K. Ramchand, Managing Director, Mr. Dilip Bhatia, Chief Financial Officer, Mr. S.C Mittal, Head of Implementation and Mr. Krishna Ghag, VP and Head of Investor Relations. I would now hand over the call to the management for their opening remarks and then we will open it for Q&A. Over to you Sir!

K. Ramchand: Thank you. Good evening everybody. As Vishal mentioned, we have with us Mr. Dilip Bhatia, CFO, Krishna Ghag, Company Secretary and are also joined by Mr. S. C. Mittal who is the Head of Implementation. As you all are already aware, we have four regional heads and they all report to the implementation head, so all our sites come under Mr. Mittal. I would like to start with a few words on what is happening at the macro level and then probably we will go onto more specifics on what happened in this quarter. The biggest event which took place recently was the budget, they have once again increased the amount of allocation to the road sector. It was ₹ 1.1 trillion last year, and has gone up to ₹ 1.2 trillion now, which is almost 10% higher over the estimated figure. In fact, you will remember that actual number which was approved in the original budget was only about ₹ Rs.86000 Crores which went up in the revised budget to ₹ 1.1 trillion. Of the, ₹ 1.2 trillion that is budgeted for FY2019 about half will come from the budgetary resources and the remaining has to be infused by internal and extra budgetary resources.

As far as NHAI is concerned, they have now ramped up their invitation for bids and they have invited bids for over 10,000 kilometer costing nearly ₹ 1,75,000 Crores as on January 2018. In the meanwhile, they have also awarded projects for a length of about 2,700 kilometers costing ₹ 43,000 Crores in 2017-2018 and there are plans to award another 3,000 kilometer in February and 5,000 in March, which will make it almost 10,700 kilometers awarded for the year. They will complete about 3,500 kilometers of construction which is the highest that it has been achieved in the last couple of years.

One of the big programmes which has been launched and is an opportunity for the road sector is the Bharatmala highway project which was announced in October 2017, this is a mega plan to build 83,000 kilometers of roads and bridges in various phases by 2022 with an investment cost of almost ₹ 6.92 lakh Crores. The Bharatmala project will replace the national highway development project which was launched way back in 1998. The project is considered to be India's biggest and aimed at improving the economic activity, speeding up traffic flow on the economic corridors and for faster movement of cargo.

Of the above, phase I of the project includes construction of 34,800 kilometers of road, which includes 10,000 kilometers of national highways and 9,000 kilometers of economic corridors.

Moving onto our business, we have 30 road projects in our portfolio, of which 11 are annuity and 19 are toll aggregating to around 14,000 lane kilometers. Our operational road lane kilometers is around 10,800 and we have five EPC projects on-hand with a total cost of about ₹ 6,000 Crores, of which the largest one is the Zojila Tunnel for which we signed the letter of acceptance about a few weeks with a total cost of about ₹ 4,900 Crores.

We also have international projects in our order book which amounts to about USD 235 million excluding Elsamex, which consist of primarily O&M projects and operate in Elsamex out of Spain. The average toll collection has gone up, if you look at the average toll collection from toll and annuity it is at about ₹ 10 Crores as against ₹ 9.5 Crores per day last quarter, of this 41% is from annuity and 59% is toll. The uptick is mainly because of the commercial operations achieved in our Khed-Sinnar and Chenani Nashri projects which got commissioned during the year. In addition, there has been an increase in the tolls collected on Barwa Adda because we were able to commission the second toll plaza effective October 2017 and therefore the Barwa-Adda tolls have actually doubled during this period.

The Equity requirements and subdebt requirement stands lesser than what was there last quarter, last quarter we reported that we needed around ₹ 1,046 Crores of equity, we now require around ₹ 670 Crores. As far as our subdebt requirement is concerned, we needed ₹ 814 Crores in Q2FY18 and now need about ₹ 798 Crores. We need to infuse ₹ 33 Crores of equity and ₹ 10 Crores of subdebt in this quarter. As of now, the Company is qualified and is keenly pursuing to submit bids for projects amounting to ₹ 16,600 Crores. Moving to some key updates, we are happy to inform you all that we have won one very large arbitration award which was for the project of Pune-Sholapur Road Development Company, the award is worth ₹ 547 Crores and it was a unanimous decision by all three arbitrators which is very rare in an arbitration proceeding. NHAI has 90 days, which is up to March 1,

2018 to file an appeal against the award, if they do not file and appeal then we are eligible to collect this money within the period as specified in the Act. In the event that they decide to go for an appeal, then we would be eligible to collect about 75% of that amount, which aggregates to about ₹ 400 Crores against a bank guarantee which will need to be submitted.

We have also refinanced the debt of Jorabat Shillong Expressway Limited, which brought down the interest cost from 11.3% to 8.5%. In addition, we have also raised ₹ 499 Crores by way of rated, listed, redeemable NCDs ranging between 5 years and 10 years tenure at a rate ranging 9% to 9.5%. The company has also raised an additional ₹ 200 Crores by way of rated, listed, redeemable NCDs and the same will reflect only in the next quarter.

As I mentioned earlier, one of the biggest events that took place during this quarter was that we received the letter of acceptance for the construction operation and maintenance of the Zojila Tunnel in J&K and we signed this letter on January 19, 2018. As we speak, we have submitted our performance bank guarantee which was required to be submitted within a period of 15 days of signing the letter of acceptance of about ₹ 140 Crores which is considered as the performance bond. We are now eligible to collect mobilization advance into two parts of 5% each and are also eligible to collect advance towards purchase of plant and machinery of additional 5%. The Construction period is seven years and we believe that we will be in a position to complete this earlier. There has been some discussion on increasing the scope of the project. The government is keen that we should also have a railway through the tunnel and they have asked us to work out some measures on how we can actually put a railway line through the tunnel.

I think the infrastructure story and the ITNL story was well received in the international market. We raised about 1,000 million CNH bond or the RMB bond from the Hong Kong and Singapore markets and this was against the target of 700 million that we were actually targeting for. This is to refinance the debt which is falling due in April and another one falling due in July. So our refinance requirements for the bond which we had placed and the short term loan that we have taken to the replace one of the bond, will probably be refinanced again if the sale of the project does not go through.

We have looked at the sale of the Chinese asset and we continue to discuss this with two of the potential buyers, we are awaiting an official approval from the client to actually divest our shareholding, which is 44% out of the 49% for which the approval is almost in place and we believe that going forward we will have a far better outlook than probably what we had on previous occasions. We are now on a much stronger footing and we believe that we will be able to go forward and lead from this moment on. I would like to quickly hand over

the mike to Dilip Bhatia who will explain the results which are available on both our website as well as on the stock exchanges. Thank you once again for joining us this evening.

Dilip Bhatia:

Thank you Ram and good evening to all of you, the results for the quarter ended December 2017 has already been uploaded on the website and I am sure you all have had a chance to go through it. I will quickly take you through the key highlights of the quarter in terms of the financial performance. The total income stands at ₹ 1,080 Crores, which is 6% higher than the last quarter (quarter ended September 2017) and around 8% higher than similar quarter last year. What we have seen this quarter is a significant increase in the construction activity and the construction income stands at ₹ 585 Crores, which is 35% higher than the last quarter and almost similar to the same quarter last year.

The revenue from operations is around ₹ 713 Crores, which is a 4% growth compared to the last quarter. Further, this quarter we do not have any gain on select investments as compared to the last quarter and the same has been made up by the robust construction income which we achieved this quarter. The EBITDA margin continues to remain very healthy and stands at 45% and in absolute terms stands at ₹ 490 Crores, it is flat as compared to the last quarter, but overall the margins continue to remain very healthy. The profit after tax was reported at ₹ 60 Crores for the quarter which is same as the last quarter essentially on the back of major tax provision. For the nine months ended December 2017, the total income stands at ₹3,097 Crores versus ₹ 3,408 Crores last year. The fourth quarter is a busy quarter from the construction perspective, so we expect that the fourth quarter will bring a significant uptick in terms of the overall income with emphasis on the construction income particularly.

At the profit after tax level, nine months ended December 2017 show a healthy growth of around 12% as compared to the nine month ended December 2016, we currently stand at ₹ 145 Crores as compared to ₹ 130 Crores reported in the same period last year. Moving to the borrowings of the Company, I think we have not seen any significant increase, we probably stand at ₹ 12,490 Crores of total borrowing at the standalone level and ₹ 31,900 Crores on the consolidated level. The numbers are pretty much at the same level of March 2017. The Equity and subdebt commitments stands at ₹ 670 crore and ₹ 798 crore respectively, this is essentially the total money that we require to complete all our outstanding projects over the next four year period. These were the highlights of the results for the quarter. We will be happy to take your questions on the business and the financials now.

- Moderator:** Thank you. Ladies and gentlemen we will now begin with the question and answer session. The first question from the line of Milind Karmakar from Dalal & Broacha. Please go ahead.
- Milind Karmakar:** I just wanted to know about the progress of InVIT and what are the issues because of which we are unable to start the InVIT?
- K. Ramchand:** Actually there are a number of issues as far as the InVIT is concerned. I think one of the major issues is that the InVIT that have already been listed have not performed very well and the yield expectations are therefore much higher, so we are not sure if we want to offer such a high yield in a scenario where the interest rates are much lower than what it was during the listing of the earlier ones. We are just holding on to see where and at what time we should launch, but I think as far as the InVIT is concerned, it is now on hold. There has also been a lot of talks that the government is going to come out with their own InVIT. However, I do not think that the private sector InVITs are flowing in a flood, but let's wait and watch on how the yield expectation goes as far as the new InVITs, particularly the government InVITs which include the TOT projects.
- Milind Karmakar:** But there are no taxation issues on this right or that still remains?
- Dilip Bhatia:** That still remains and as we updated all of you in the last earnings call that there were certain representations we had made to CBDT and Ministry of Finance regarding amendments in Rule 11UA which corresponds to Section 50CA and 56U10 of the Income Act, these two sections as you recollect were leading to a large tax liability on InVIT as well as in ITNL. There was a widespread expectation that the budget would address the anomaly of the book value. Unfortunately we have not seen any such change in the finance bill other than changes for the real estate properties which were not for InVIT as an instrument. So yes, the tax issue still remains. We are evaluating now how we can work around the issue and this coupled with the high yield expectation from investors are the two key challenges for the InVIT delay.
- Milind Karmakar:** Okay, thank you.
- Moderator:** Thank you. We take the next question from the line of Chetan Phalke from Alpha Investco. Please go ahead.
- Chetan Phalke:** Thank you for the opportunity. Sir when it comes to our Chinese asset monetization, any ballpark figure that we can expect and how much will come down or what will be the effect

on the balance sheet after this and other monetization's? Also, any rough timeline by which we can expect this to get completed?

Dilip Bhatia: We just mentioned earlier about the Chinese asset, which is a large asset that we are looking at divesting around 34% out of 49% that we hold, this will be around \$200 million and this will help us reduce debt. At the standalone level, we keep looking at opportunities in terms of monetizing our matured assets. I would not want to give the specific names of the projects, but over the next four to five quarters, we are looking at a cash flow of around ₹ 600 Crores to Rs.700 Crores to ITNL, in terms of asset monetization.

Chetan Phalke: Okay. Sir, recently NHAI has announced quite a few project on the TOT model, are we planning to participate in the TOT projects going forward?

K. Ramchand: On the TOT model, I do not think it is a developer's market, it is more for a long term investor and yield player rather than an IRR player, and we are looking at it only from a service provider point of view or probably a minority partner. We are not looking at bidding for these projects at this stage. We believe packet sizes are going to come down in the future, we may then participate in those.

Chetan Phalke: Okay, so we are only looking at the O&M side of it?

K. Ramchand: Yes.

Chetan Phalke: Alright Sir. That is it from my side.

Moderator: Thank you. We will take the next question from the line of Vipul Shah from Sumangal Investments. Please go ahead.

Vipul Shah: On slide number 14, you have mentioned that total average daily collection growth from toll and annuity is ₹ 10.04 Crores, so is this adjusted to our stake or minority shareholders share has to be removed from this?

K. Ramchand: This is the gross number, around 75% of this will be our net collection.

Vipul Shah: So ITNL share should be ₹ 7.5 Crores right?

K. Ramchand: Approximately

- Vipul Shah:** Sir, what is the volume of debt that you expect which will be refinanced over the next financial year and how much interest savings can we expect from that?
- Dilip Bhatia:** In terms of the debt refinancing, last quarter we completed the refinance of Jorabat Shillong to the extent of ₹ 883 Crores, we saved around 2.96% to be precise. This quarter, we are actively working on two large refinances, one is for our tunnel project in Chenani-Nashri which could be in the range of ₹ 4,000 to ₹ 4,500 Crores and the other one is for our toll project in Rajasthan which would be around ₹ 1,850 Crores. On an average, we expect to save between 2.5% to 3% on all these refinancing.
- Vipul Shah:** Okay thank you Sir.
- Moderator:** Thank you. We will take the next question from the line of Chetan Phalke from Alpha Investco. Please go ahead.
- Chetan Phalke:** Thank you for the opportunity once again. Sir we have around ₹ 1,300 Crores of annuity income, this is almost as good as quasi government short income or cash flow to us, so why are we not monetizing it and what are our plans going forward on that front?
- Dilip Bhatia:** Chetan, two large annuity assets, CNTL and the second JRPICL are essentially ₹ 1,000 Crores of annuity in a year. I think before monetizing we would like to refinance these particular assets and bring the cost down and make the asset much more attractive. JRPICL was till now a part of the InVIT and till we reach the final conclusion on the InVIT, we would like to wait. It is a matter of time on when we will execute these plan.
- Chetan Phalke:** Do we see it happening in FY2019, the monetization of any of these large assets?
- Dilip Bhatia:** Sorry.
- Chetan Phalke:** Do you see it happening in FY2019, any one of these large assets being monetized?
- Dilip Bhatia:** We do. However, the timing cannot be really predicted.
- Chetan Phalke:** Okay. Sir, what is the outlook on the consol debt? Is it fair to say that we have peaked out in terms of consol debt and going forward what will be the outlook on that front?
- Dilip Bhatia:** I think it would be correct to say after we look at our December numbers that the consol debt is pretty much the same when compared to the March 2017 numbers, though new projects have been adding to the number, the operational projects have also been repaying

the principal debt. Also, as you all are aware, we have received a claim of ₹ 547 Crores and are expecting similar awards in the next three to four quarters. The claims, which will be realized by the SPVs will be used to repay the debt at the SPV level, so that will also help reducing the gross debt in the SPV and also mitigate debt draw-down for the new projects which are under construction.

Chetan Phalke: Okay and Sir any comments on the cash flow going forward because right now correct me if I am wrong, we have around ₹ 2,700 Crores of operating cash flow for this year? For this financial year FY2018, the broad estimate should be ₹ 2,700 Crores, Rs.2800 cash flow?

Dilip Bhatia: If you look at the overall cash flow including the cash flow from investing and financing activity, which includes initiatives like refinance, asset monetization, claims etc the numbers will be in that range. We do not have the exact number, but yes, it will be in a similar range.

Chetan Phalke: Okay and what is the outlook going forward can we touch somewhere around ₹ 3,500 Crores kind of operating cash flows in the next couple of years?

Dilip Bhatia: We will be unable to give you forward looking numbers but yes, as Ram mentioned earlier, I think we are seeing a significant improvement in the operating parameters. One, is with the refinancing, the cost of interest is expected to come down and two, we will be able to report better revenue in this quarter and for the coming quarters as more projects are getting implemented.

Chetan Phalke: Alright. That is it from my side.

Moderator: Thank you. Next question is from the line of Vishal Periwal. Please go ahead Sir.

Vishal Periwal: A couple of questions from my side, this quarter we have received one arbitral award, so what are the pending claims that from NHAI and can we expect them soon? What are the stages they are in?

Dilip Bhatia: This quarter as you said, we received the award of ₹ 548 Crores for PSRDCL. The total claims or arbitration awards including NHAI and other state authorities stands in the range of ₹ 4,000 Crores.

Vishal Periwal: ₹ 4,000 crore is including this ₹ 550 crore which we have received?

Dilip Bhatia: Excluding this number.

- Vishal Periwal:** Though you have mentioned earlier I just missed on that number, you said there are two projects where you are planning refinancing, one is ₹ 4,500 Crores and the other project is in Rajasthan. I just missed out on that number, what is the number on Rajasthan?
- Dilip Bhatia:** It is ₹ 1,850 Crores, the ratings have been out. CRISIL has rated that debt as AA+ and the debt size is around ₹ 1,850 crores, we are now in the very last stages of completing the refinancing.
- Vishal Periwal:** In total what will be the debt refinancing that we would have done till date on FY2018?
- Dilip Bhatia:** Last year we did around ₹ 4,100 Crores which was during FY2017. This year, we have done ₹ 883 crores already and our looking at an additional ₹ 6,300 Crores which we have been talking about. We also are looking at Pune-Sholapur in Q1 of FY2019 which is around ₹ 1,000 Crores.
- Vishal Periwal:** These two projects totaling ₹ 6,300 Crores are expected in the fourth quarter of this year?
- Dilip Bhatia:** Yes.
- Vishal Periwal:** Okay and one book keeping question, the other income has seen a sharp jump, is it a dividend income or a one off?
- Dilip Bhatia:** It is interest and dividend income both, it is interest and derived income both. Interest we do not take on SPV and that is the derived income plus there is also the usual Ind-AS related adjustments on earlier provisions.
- Vishal Periwal:** Is it possible to give a breakup of the other income, the dividend and the interest income on subordinate that we have and if possible if you can give a broad break up of it?
- Dilip Bhatia:** I do not have the numbers at the moment but I definitely can come back to you later with the numbers.
- Vishal Periwal:** Okay fair enough, I think that is it from my side. I will come back in the queue Sir.
- Moderator:** Thank you. We take the next question from the line of Nikunj Mehta from Wealth Guardian. Please go ahead.
- Nikunj Mehta:** Good evening Sir. This question is regarding the Zojila Tunnel project that we have bagged recently, the project has an MOU for about ₹ 6,800 Crores and if I am not wrong the project

was earlier awarded at a much higher price or the contract size was much higher. Can you give us a little logic of why we bid for this amount? Couldn't we have priced it a little better given that there was large gap between what it was awarded for the last time around and this time?

K. Ramchand: Nikunj in hindsight everybody is wise, when you are putting up bid you really do not know what the others are going to bid, so it is very difficult to predict others and put a bid, we do it solely on our research and analysis. We can only say that as far as our bid is concerned, we think we are going to make our margins on this project. Actually there are many reasons why we think that our bid is a fairly competitive bid. One is that I do not think any of the other bidders had any experience working in the Himalayas particularly on the National Highways on road tunnels, we are the only ones, since we have completed the Chenani-Nashri tunnel, and we have also started work on the Sonmarg tunnel. You will be glad to know that in the Sonmarg tunnel out of 5.5 km, 1 km has already been completed. We have a lot of experience in the tunnel business as far as the Himalayas are concerned. In addition, there is a lot spare equipment and capacity available with us following the completion of the Chenani-Nashri tunnel and which we will be able to redeploy when we are doing the tunnel in Zojila, the difference in price, our bid price remains the same at about ₹ 4,800 Crores. What the government approves is not only our cost, but they also approve cost towards land acquisition, utility shifting and every other aspect which they will incur and which we are not incurring. They also will be doing the access roads, which is required for the tunnel by themselves. That is why there is a difference in the figure between our estimates and the estimate that they have sanctioned in the cabinet, which is about ₹ 2,000 Crores, but our ₹ 4,800 Crores number is sacrosanct and there is no difference in that.

Nikunj Mehta: And Mr. Gadkari has urged us to kind of explore some rail alignment also, so if that is done do they give us extra for those kind of extra alignments also?

K. Ramchand: Yes, they will.

Nikunj Mehta: That is useful. Thank you.

Moderator: Thank you. Next question is from the line of Vipul Shah from Sumangal Investments. Please go ahead.

Vipul Shah: I just want to know that construction is done by the company itself or do we subcontract it to companies like Larsen or other companies?

K. Ramchand: We do both. We do the work ourselves as well as we do some amount of subcontracting. However, we have stopped subcontracting the entire project to any one contractor, which was what we used to do in the early 2000 when we used to subcontract it back-to-back on 100%, now we do not do that. Our subcontracting is reducing over time and we are doing quite a fair bit of work by ourselves, so in the case of Zojila for example we may probably not have any subcontractors at all. We are still evaluating and we may do all the work based on piece rate, the method that is used by piece rate worker. So we will get specialized people to do specialized job and we would be in charge overall of all the activities pertaining to the Zojila tunnel. We have moved away from full subcontracting to part subcontracting to almost nil subcontracting, but depending on the expertise that we think we have in-house, the strategy has to be worked out on each project separately.

Vipul Shah: But you have all the equipment's in house?

K. Ramchand: Yes, we have some equipment's in-house.

Vipul Shah: So, what should be the value of those equipment's because these are very highly complex tunnel projects, so they require very sophisticated equipment's?

K. Ramchand: For example, we took over all the equipment's in the Chenani-Nashri tunnel from the previous sub-contractor, we took over all the equipment, camp and everything for about ₹ 150 Crores that we paid to actually take over that construction equipment. In addition to this, we may need to purchase two additional equipment's for which there is a provision in the contract for purchase of new equipment, which the government will fund as an advance to purchase of new equipment.

Vipul Shah: Thank you Sir.

Moderator: Thank you. We take the next question from the line of Vishal Periwal. Please go ahead.

Vishal Periwal: We have mentioned a consol debt of around ₹ 30 odd thousand crores, so is it possible to break it up in assets, which are monetized and which are under construction?

Dilip Bhatia: I think out of the total debt of ₹ ~31,000 crore, around ₹ 12,000 crore is at the holdco level, ~₹ 19,000 crore is at the SPV level, of which, around ₹ 5,500 crore is for assets, which are under construction and the rest is for assets which are operational.

Vishal Periwal: So at the standalone level the full debt will be for the subordinate debt or equity investment that you would have given to the SPVs?

- Dilip Bhatia:** Debt and short-term loans for support prior to estimation is what constitutes SA debt.
- Vishal Periwal:** Sure, Sir. That is it from my side.
- Moderator:** Thank you. Next question is from the line of Vipul Shah from Sumangal Investments. Please go ahead.
- Vipul Shah:** Sir, you have mentioned that ₹ 7.5 Crores is approximately our share of the consolidated income per day, so can you quantify what should be our interest outgo roughly per day?
- Dilip Bhatia:** It is very difficult to give a net interest outgo for all the SPVs currently. However, around ₹ 3,000 crore is for the total consolidated interest.
- Vipul Shah:** Thank you.
- Moderator:** Thank you. Well that seem to be last question, I will now hand the floor back to the management for their closing comments.
- K. Ramchand:** Thank you everybody for having participated in this analyst conference. If there are any further queries please do feel free to ask us. We shall be more than glad to provide you with any clarifications or information that you may require. Have a great evening. Thank you.
- Moderator:** Thank you very much. Ladies and gentlemen on behalf of Kim Eng Securities that concludes this conference. Thank you for joining us and you may disconnect your lines now.

(This document has been edited for readability purposes)