ñIL&FS Transportation Networks Ltd. Analyst Conference Callò

June 1, 2015

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MR. GEORGE CHERIAN – CHIEF FINANCIAL OFFICER
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K. Ramchand: I think we are having a meet after maybe two years. I think we need to explain where we are, how we want to do our business, where we think we are going and lots of other things.

Let me first introduce everyone. I think most of you know the people on the dais. We have Mukund Sapre who is on the Board and he is also the Executive Director. George Cherian is the Chief Financial Officer and you all may have met him at some point of time. Drupad, he is the head of Investor Relations; Harish Mathur is Chief Executive, Implementation. He also looks after our International Implementation Businesses which is his new avatar. The domestic business is looked after by Mr. Mittal who is available at the back and Prashant, who understands all the numbers that exist in the big balance sheet and asset that we own.

To kick off, I am going to talk about what is happening in the sector, because I think it is critical to understand where we are going and what we think is going to happen in the sector in the next two years.

The most notable incident that took place a year ago - we got a single majority rule. We have got a leader who is strong and we also have a minister who is extremely active and flush with ideas. He has got a lot of ideas on how things need to be done and is willing to listen, which is very rare in a human being. I think he has probably found the median method of going forward for projects in the highway sector. While I think the government was initially spending a lot of time and effort on solving legacy issues, and you will see that a lot of projects got terminated, cancelled and I think that took a fair amount of time.

To fast forward the enterprise of road construction, they actually started off by saying that they will only do EPC. I think there is and you will find that a large number of projects which are done last year were basically awarded on an EPC route, the easiest of them are the two-laning with paved shoulders or without paved shoulders of which a large amount was awarded or tendered out last year. I think the figures show something like 4000 kilometers of awards by the MoRTH and about 3000 from NHAI. Just fairly significant as far as this country is concerned.

On the BOT front, which is where we are the most active, I think the award process has been much slower. While there have been tenders, some of them have not received any bids, some of them received bids and we somehow are surprised at some of the bids which have occurred in the last few deals. It is not surprising that we have not won a single one, it also shows that some of the ills of the past in aggressive bidding seem to have come up again, it's probably newer players appearing on the field. And I think all of you all know the situation on what the bids were and how the bids formed out and how there is still a gap between people who think projects should be bid on a premium and for the same project people bidding aggressively. So

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there is a thought process and there definitely will be some amount of error in a bid if you find such large differences between two players.

We now have some clarity on how the government will go forward. One of the biggest casualties in this whole BOT space was that banks and lenders had almost walked out from this sector. The government has talked to them and the government feels that continuing with a toll or even an annuity may not be the most appropriate to get the lenders back on; to lend and finance these projects. And hence, I think the new model which is being proposed is the hybrid model where the government is funding 100%, - they pay you 40% during the construction period and 60% during the operating period.

Earlier, they were planning to have a concession period of 10 years, the latest is that it would be about 15 years. So we believe that this is the initial step of getting lenders back on to these projects. The target is about 10,000 kilometers, we had 20 kilometers per day as a target during an earlier minister and I think now we want to get to 30 kilometers.

The amount of projects for BOT varies, depending on who is speaking and which report you are reading. It varies from 30% to 50% depending on as I said where it is coming from. But even if we take the lower number of 30%, we are looking at about 3000 kilometers of awards which will probably be done during this year and which is probably more than except maybe for a year when the 20 kilometer was being talked about for awards on a BOT basis. So I think there is a huge scope for the BOT players in this sector. A large number of players have announced that they are not going to be in the BOT business till they consolidate their business and get back to the EPC mode that they were in earlier.

So I think that is one extremely positive step as far as our company is concerned. We are of the opinion that this is going to open up a fair amount of business for ourselves. We do have a fair amount of order book but I think we should be able to build on it with a better margins.

The other point which is of significance is that we have been listening to a lot of concerns raised by a lot of people, but I think one consistent thing seems to be about a fair amount of debt overhang that was there in the books of this company. We have tried to explain that the debt is not as significant. If you break it down and look at it from what has happened to where the debt has gone, it is not really so frightening as a hard coded number looks. But I think we are also working on that - we have some plans on what we want to do with the debt in our books and I think in the long-term or in the medium-term, we probably would like to see it closer to 3x rather than what it is now. We have some plans to do that including additional equity coming in, probably sale of assets, securitizing some receivables and things of that nature. So I think there is a plan to bring that down in the medium-term to somewhere around 3x.

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On the third front, which we have as far as the company is concerned, I think all of you are aware that about 2 to 3 years ago, we started looking at international opportunities in an even more focused manner. That business seems to be developing well - while our concession business today is one project in China, we have made inroads into the maintenance part of the business. The maintenance part of the business today that is being structured is mainly for multi-laterals and the multi-laterals have a new form of awarding projects or bidding out projects. Earlier they were more into rehabilitation and construction of projects and once you construct, then the local government looked after the maintenance or the asset during the life of that asset. The bank and the multi-laterals are now looking at a scheme where they actually want you to rehabilitate which takes 12 months to 15 months and maintain it over a 9-10 year period and for which you are actually paid for these services.

We have been successful in these projects, we have got some in Ethiopia, we have one in Botswana, we have a smaller one in Abu Dhabi, we recently have a very small project that we have won in USA on maintenance and I think that business is growing and I think that is going to be the focus going forward as far as the international business is concerned. We will look for opportunistic concessions but that is not the focus of the international business at all. Also, recently, on the maintenance company, we are actually being short-listed or we are the lowest for two projects in Madhya Pradesh which is also on the same basis as that long-term maintenance and rehabilitation.

So we think that this part of the business is going to become fairly important as far as this company is concerned and I think these are the three broad areas that I wanted to touch upon. I will let Drupad run you through the presentation.

There is one more angle that keeps coming up and I think that is about how we do our accounting and so we have asked George to say a few words on our accounting standard/policy, Thank you so much.

Drupad Upadhyaya: Thank you Ram. Good evening everyone. I will run you through the presentation which has been made for the meet today. This presentation is different from the one that we have on the website for the quarterly results. This is also now uploaded on the website. The idea is to capture, like Ram said, the common questions that we come across, our thoughts around them, on how we view ourselves, and what do we want to achieve in future. So it will not carry most of the usual slides on numbers and portfolio etc. which are a part of the regular quarterly presentation.

In terms of our footprint, we are present across 19 countries, predominantly through Elsamex; most of it being our O&M footprint barring the Yuhe Concession that we have in China, and also the A4 Autovia that came into our fold when we acquired Elsamex. There is a new project

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in Kenya where we have been declared the lowest bidder, so barring these three I think most of it is the O&M footprint that we have. In India, we have 27 road projects, 5 non-road projects and a total road portfolio of 12,838 lane kilometers; of which 8899 is operational.

We have highlighted toll revenues of a few assets like Gujarat road - Ahmadabad-Mehsana-Vadodara-Halol, Noida Toll Bridge, Yuhe and RIDCOR. This is to show the past revenue growth trends on SPV basis. Noida Toll Bridge has shown a CAGR of around 8%, Yuhe about 11% since the time we acquired it, and RIDCOR 25% - predominantly because more stretches have become operational, while the existing stretches have also shown growth. GRICLĝs 10% CAGR is despite the fact that we witnessed a de-growth for the past two years in Vadodara-Halol due to local conditions. However, this is now getting normalized.

Let me move on to the order book situation now - we have a total order book of about US$1.8 billion. The geographical spread of our order book shows that we are present in most of the states in India because we do not have the logistical hurdles of moving our manpower and machinery from one state to another as we outsource our construction activities. In terms of project type, about 34% of the total order book comprises of annuity projects, 55% toll projects and 11% of non-road projects.

In terms of how do we source this order book, NHAI is a predominant contributor of the order book, around 52% while non-NHAI portion is 37% and 11% is non-road projects.

Moving onto some of the metrics on revenue side - for example, the revenue from 2011 to 2015 has shown a CAGR of around 13%, the EBITDA margins have shown a growth and similarly, the net fixed assets have also shown a growth.

In terms of the broad sector outlook, like Ram was mentioning, the government plans to finish off the balance, at least the stated objective is to finish the balance NHDP awarding in the next two years. Historically, this has been the awarding activity, last year NHAI did about 3,000 kilometers odd, MoRTH awarded about 4,200 kilometer odd. This year the estimates are between 3,500 kilometers to about 9,000 kilometers depending on various media sources. A member of NHAI during a media interview in March 2015 stated that 9,000 kilometers is the awarding activity that is expected this year with about 50% coming in through the hybrid annuity model.

In terms of overall progress, there is balance award of about 17,000 kilometers odd remaining, barring the ones that are being done in April and May, there is still award activity pending and which is expected to pick up in this year and next year.

Until now, 27 projects have been awarded, total expenditure was Rs. 21,000 crores for NHAI, FY16 stated target is Rs. 75,000 crores which is an increase of Rs. 55,000 crores, to be funded through increased budget allocations and borrowings.

In terms of government initiatives, there has been favorable budget allocations for both MoRTH and NHAI, there is a conversion of existing excise duty on petrol and diesel of Rs.4, and this would bring in additional Rs.400 billion for roads sector. RBI rate cuts have been largely favorable, although transmission is delayed because on an average we have got about 15 to 16 bps of transmission benefit into our books until now. The announcements which have been made and that are likely to kind of benefit the sector in the long run; one is the ó5:25ô scheme which will obviously help the banks address the ALM concerns but will also help the concessionaire make the payments co-terminus with the revenue growth. The infrastructure investment trust is another such initiative by the government. Also, there was an announcement on Infra Bonds being exempt from SLR and CRR requirements which is likely to bring down the cost of funds in the longer run. Further, the establishment of the National Investment and Infrastructure Fund was announced in this Budget by Mr. Jaitley. The fund would draw down debt and invest it as equity which can further be leveraged to fund infrastructure projects.

Just to give you a flavor of where the recent bidding activity has been, for example, what we have seen recently compared to about two-three years ago is that there has been some amount of decrease of competition specifically because there has been a separate window opened for EPC. So, a lot of competition has got transmitted to that part of the sector whereas the core BOT operators are the ones who are bidding for BOT bids. But there has been a variance in terms of wins versus the median range for bids for example, in some of these bids, like you can see the Hospet-Chitradurga, ITNL bid at grant of around Rs. 500 crores. The other players more or less, the L7, L6 were 456, 462 crores, but the pricing disconnect, is that the award happened at a premium of Rs. 18 crores. Only time will tell which way the industry bids will work out.

The point we are trying to make here is that there is still some disconnect in terms of the intensity of competition as evidenced by the kind of bids. While it is going to be a window of opportunity for next 18 to 24 months to win selectively higher margin projects. At the same time, this will get mitigated if the competition has one-off players who bid out higher because of the appetite they might have to win newer projects.

In terms of risk-sharing metrics ï the left hand side shows what is the risk sharing between the NHAI and the private sector until now and what are the proposed amendments on the right side. Land acquisition, forest clearance, environment clearance as we all know has been NHAI's prerogative, utility shifting predominantly is a responsibility of or rather shared in a practical sense. Design, construction risk is something that the concessionaire takes along with

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O&M , Service performance, traffic risk and financial risk. Revenue risk, is taken by Concessionaire in a toll project unless if it is an annuity project that gets taken by NHAI. But due to lot of reasons, for example, around land acquisition clearances, etc., projects were eventually getting delayed and there was a sense that the risk pendulum should kind of, or the certain risk should be absorbed back by the government sector and this was reemphasized in the budget speech made by the Finance Minister. There are two distinct things which the government is doing, one is they are proposing the hybrid model of concession where the revenue risk is borne by NHAI because it's an annuity project. 40% of the total project cost will be funded by NHAI, the concessionaire will fund their balance 60% with suitable debt to equity mix.

In terms of other changes in the concession agreement ï like earlier there was a condition precedent (CP) where 80% of the land had to be acquired and given to the concessionaire, but at times this CP was mutually waived. I think some of the proposed amendments are that this 80% land CP will be made not waivable, the exit norms will be eased further, the total project cost definition will be rationalized so that there is less ambiguity in case there is a termination; and the amounts that the banks will end up funding versus receiving from NHAI.

I will take a pause now and request George to explain the ITNL accounting FAQs and then I will come back for the road ahead.

George Cherian: Thank you Drupad and good evening everybody. The accounting in ITNL is spread amongst the standalone and the consolidated accounts. As far as the standalone is concerned, what we follow is exactly what everybody else does in the following IGAAP. Since we do not have any projects domiciled in the standalone, the accounting is straightforward and simple.

When it comes to the consolidated accounts, you have a choice to go through the IGAAP consolidation which basically involves representing your assets at book value and then going through the elimination process and then you have a consolidated set of accounts. So what we had done about seven years ago when we first started consolidation was to look at how best to represent our assets which are service concession agreements through the accounting mechanism and to make sure that it is appropriately presented in the consolidated statements so that people understand how these two classes of assets which we have, the annuity and the toll can be differentiated and how these can be correctly portrayed.

So what I am going to take you through is some background material which explains what is the service concession agreement, it is essentially a contract entered into between a government body and a private party who actually execute the contract. And what we have chosen to do is follow the guidance note issued by the Institute of Chartered Accountants of India.

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This came about in November 2008 and it essentially followed some principles outlined in the IFRS and the IFRIC 12 which differentiated between two classes of assets. You have contracts which are awarded to you, which are paid for either through an annuity route where the granter of the contract gives you a certain sum of money at periodic intervals and therefore you recover your cost and your margins through the annuity route. There as you know there is a limitation in terms of what your upside is. The other is where you create the asset and then you have an opportunity to collect user fee from the users of the facility and there you could have an upside in terms of how much extra money you can make depending on the extent of users you have for the facility.

So the differentiation here is that the first asset, which is an annuity asset is considered as an asset which you receive in return for cash that you are to receive in future from somebody who has awarded the contract. And therefore it takes the form of a receivable in your books, you create the asset on behalf of somebody, you finance the asset and then you spend the money on behalf of somebody else and you then have a right to receive it over a period of time, a specific sum of money at periodic intervals and you receive the money and set it off against the value of the asset that you have created. So it sits in your books as a receivable.

So the definition here is the financial asset where you have an unconditional contractual right to receive cash for a pre-determined period, this is recognized as a financial asset. As opposed to this, you have assets created where you do not get a periodic payment from any granter, instead you are given a right to collect a fee and recover your cost and make your margins. And therefore it is indeterminate as to what exactly you can get. Here what you get is a right and that right is an intangible which you reflect in your books, the value of the asset that you create is reflected in the books as an intangible asset and it gets disclosed in the balance sheet depending on the stage of completion in one of two heads, you have rights under service concession arrangements or you have in the development stage you reflect it as intangible asset under development.

What is the difference between these two in terms of accounting? A financial asset which is the annuity asset, during the construction stage if you look at the interest cost that you take on borrowings to create the asset, since it is receivable there is no question of capitalizing the interest during construction. So that is a charge immediately to the profit and loss account. But corresponding to that, you also have a set amount that you will receive as an annuity for a given period of time which includes the return that you are expected to earn on that project which you have bid for in the initial stage itself. So what you do is as you build up the asset, you incur cost, you also represent the asset at fair value at every stage by adding on the appropriate margin to it based on your effective interest rate. So you have an asset which is created with a fair value concept and against that once you have completed the asset and built it up with the margins which have been included in that you start setting it off against the annuities that you

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receive. So the annuity then will wipe out the value of the asset through the concessional period. So there is no element of depreciation that goes into the P&L account as far as the annuity asset is concerned.

Now the value of the asset that is created at every stage is the balance on which the effective interest rate is applied and then you build up that value which gets offset with the annuities that you collect from the authority which has granted this. So you have no depreciation in the books, it appears as a receivable in the balance sheet and it does not appear as a fixed asset.

The intangible asset is much like any other asset that you create, you have a road which is built, you borrow funds on that so you capitalize interest during the construction phase and you build up the value of the assets, you also recognize the margins that are associated with the service concession and against that you actually start receiving toll. The revenues go into the Profit & Loss account directly like any other revenue, the asset gets depreciated but depreciation is proportionate to the revenue collected in the ratio that the revenue collected bears to the total expected revenue over the concession period which can more or less be let's say identified with the use of the asset itself because revenues are a function of toll and the rate at which the user of the number of vehicles that you use it and also the amount that you will charge for it. So you have a concept where the charge of depreciation is related to the revenue that you collect in proportion to the overall revenue that you expect to collect over the concession. So there is a depreciation which is charged in a proportion throughout the concession period and at the end of which you would obviously have charged off the entire value of the asset, your Profit & Loss account will then capture the revenues directly into your P&L account.

So the difference is that in one case the P&L does not reflect the annuity which comes in, it reduces the value of the asset which is carried forward as a receivable, that is the case of the annuity asset and the other case, there is a depreciation which reduces the value of the asset and the entire toll revenues get recognized in the P&L account. So this is basically what we have been doing and we think that this is possibly the most appropriate way in which service concession arrangement should be reflected in the presentation.

I think it is also borne out by the fact that the proposal that is coming up through the IndAS essentially reflects the same thing. So as far as we are concerned this is one of the biggest assets in the balance sheet of the company and I think, we are well placed in terms of dealing with the IndAS as we go along except for minor corrections which we will have to make in terms of classification or any other minor adjustments that have to be made. I think, we are geared to deal with the IndAS when it comes in next year as well.

Thank you.

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Drupad Upadhyaya: Thanks George. I will quickly take you through the road ahead. This is basically a snapshot of various processes in terms of our core systems, how that helps and what are the processes which are involved, our essential business goals and how do they translate into financial results.

On Slide 19, on the bottom most line: as part of our core systems, we have a very strong parentage in terms of having IL&FS as our parent. It helps in terms of having the right amount of corporate governance framework, right amount of guidance and helps us in terms of achieving financial closure more speedily; it essentially acts as a support system in terms of stop gap arrangements and financing which might be needed.

Second, the next circle that we have is on leadership; we have a very strong leadership team which has been with the company since inception. Both Ram and Mukund have been here since the time ITNL was formed and Mr. Mathur has also been here for a very long time. There is a very cohesive culture that exists within the organization which essentially helps in terms of the entire team which works towards a common goal. In terms of what are the key processes, there is obviously the idea of pipeline creation which helps through having the right team for opportunity identification. In the Indian context, you obviously have NHAI and MoRTH which come up as regular sources of bids, but in terms of expanding O&M footprint into newer geographies, having the right right kind of people and the right business development team and working hand in hand with a lot of government organizations also help in terms of creating that amount of pipeline.

In terms of risk management frameworks that we have, there is a clear focus on O&M during the operational phase, there are clear systems which minimize toll leakages, etc., there is a focus on capital structure in terms of retaining certain thresholds in terms of projects IRRs, etc., or maintaining a certain amount of DSCR on each SPV, a certain threshold return below which we won't accept a project. We are fairly conscious of our regulatory and the social responsibilities. We have a dedicated environment, safety, health, and quality team which also translates into having a strong brand value and retaining that brand value.

In terms of our goals going forward as we see it, like we said earlier, we will continue to seek portfolio expansion which is through this pipeline creation. The other aspect which Ram touched upon was portfolio optimization; I think I will cover that in the subsequent slides, essentially it is in the form of asset efficiency, asset churn and so that will eventually result in achieving the financial results which is one, expand revenue and profitability; second, manage your return ratios by asset churn and asset efficiency, and create long-term shareholder value.

In terms of key verticals that we have, one is Concession portfolio, the other is O&M portfolio - International, third is O&M portfolio - Domestic. The new hybrid model that the government has announced is going to be a win-win for all because lenders are likely to come back to the

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sector. Since the bid parameter is going to be total project cost, there is not going to be any ambiguity on that front. Secondly, there is not going to be any traffic risk to be borne by the concessionaire because it is an annuity model and NHAI takes the revenue risk. What it also means is that the concessionaire has to fund 60% on a debt to equity mix, so at the same amount of equity the private sector will be able to take on much larger quantum of projects.

The overseas concessions essentially will be opportunistic, like for example, the Kenyan bid that we have won, the risk reward ratio will be significantly skewed in our favor vis-à-vis domestic concessions and the equity ask is also minimal, that is the thought process behind pursuing overseas concessions; only in select conditions where the circumstances are or the risk reward is favorably skewed towards us or in our favor.

In terms of O&M footprint, we will continue to leverage Elsamexœ strength into newer geographies, but the idea there is to target multilateral spends predominantly so that there is no payment risk or that also mitigates sovereign risk to an extent because the ADB, World Bank, EBRD have a large program on OPRC and O&M spends. In terms of the domestic portfolio, we will continue to expand the Elsamex India operations by bidding and winning the projects which are put up in India. Recently we have won two projects worth Rs. 315 crores, about 186 kilometers in Madhya Pradesh.

So these are basically the thoughts around how are we going to, how we think about that concession portfolio; it continues to be India centric and in terms of international opportunities like I said opportunistic where the risk reward is skewed. In terms of the O&M portfolio, both domestic and international, we will continue to expand our footprint because that is ñpaid for servicesò model; the capital that is required minimal and it is predominantly a working capital business.

Coming to next slide on portfolio optimization and financial management; some of these questions are repeatedly asked. There are two things in the portfolio optimization, namely: asset utilization and portfolio churn. In terms of asset utilization, we are focused on completing our current order book on time and to cost and to add to that we are also focusing on finishing the balance length in projects like Pune-Sholapur, Moradabad-Bareli where tolling is not happening at full rates or at projected capacity because the full land or the 100% land is still not made available.

Second, in terms of portfolio churn, there are two thought processes here. One is we dilute minority stake in our cash cows and we have demonstrated this by diluting 42% in favor of a global infrastructure specialist in Gujarat roads which is fairly a mature toll asset at a significant higher price to book multiple than what has happened in the past deals in the India road sector.

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On the annuity assets, which have limited upside, since the top line is fixed and it is entirely a repricing or refinancing game, it is attractive to a yield investor. So we could potentially evaluate bunching a few annuity assets and subject to the right market conditions look at churning capital through this.

In terms of balance sheet management, our financial requirements broadly are placed in two buckets. One is the equity which is required to be infused in our existing portfolio which as of March 2015 is Rs. 655 crores of which around 60% is for the rapid metro Gurgaon Phase-II, implying that predominantly most of the equity for the existing portfolio of around Rs. 39,000 crores to Rs. 40,000 crores (historic cost) has already been infused which is why you see ROEs significantly depressed because only one-third, roughly around one-third of that total portfolio is earning revenues right now and the balance still has to be completed.

The second is that, financial support might be required in the form of short-term loans, etc., for the projects which are getting newly commissioned because typically road projects follow a J-curve, initially there is a one or two year seeding period of support that is required and then subsequently the traffic picks up. Normally in our experience, it picks up better than what was projected, examples being GRICL or Noida projects.

We are cognizant and will recapitalize our balance sheet, we have done that in the past by doing a rights issue. We have taken enabling resolution for a fund raiser and equity which could be in the form of a QIP or a PIPE or a rights issue.

On our annuity portfolio, like I mentioned, we can securitize the annuity portfolio by way of refinancing which essentially means the existing lenders get repaid and some amount of sub-debt gets released. On NHAI projects, what happens is there are two pieces or stages, one is when initially the project finance is done - that is at a project level which is non-recourse to the sponsor generally and ring-fenced debt. Once the construction risk is taken off, the spreads generally get compressed, irrespective of whether it is a toll asset or an annuity asset. For annuity assets, what we are able to do; is go a step further; and we have done that in the case of two assets in the past in NKEL and APEL, we are able to float a bond or a debenture structure on the back of receivables from NHAI. Since NHAI is an AAA rated entity, the structure by default gets AAA rating and the yields there are more or less spread over the G-SEC yields that are prevailing. So this is a sweet interest arbitrage which can be captured in the process.

Another question is on receivables - we are focused on management of receivables, a lot of existing receivable which is there in the balance sheet will keep coming back as the project portfolio becomes operational. The current portfolio is slated to get operational in 2017, barring SSTL which was newly acquired and has a five year construction period.

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Third point is portfolio churn; this will also have an impact to free up equity, sub-debt and has a potential to reduce both debt at the holding company level and at the consolidated level.

Our long-term goals include a consolidated debt equity in the range of 3x. Also, as more and more toll and annuity projects become operational, the EBITDA margin stream should get expanded from here on. Further, the ROE expansion should follow once the entire portfolio becomes operational because the portfolio will start churning revenues, the entire portfolio vis-à-vis only a portion of the portfolio as of now; whereas the equity for that has predominantly been invested. So this is broadly the kind of road map ahead. Thanks. We are open for questions from you.

Anubhav: Hi, Good evening everyone. I am Anubhav from Maybank. Like you mentioned that the government is focusing more on the hybrid model which will ease the funding requirement for the developers of road projects, don't you think it will take away the advantage from ITNL since one would believe that your USP has been the parentage, strong parentage which has raised funds on time. So how do you see that going forward?

Mukund: There is a window open and we believe that for at least 12 months to 18 months, the EPC players would need to mend their balance sheets. So, technically there would not be too much appetite, but I agree with you that this limited window should be maximum 12 to 18 months and I don't think it is going to go beyond that. And then there will be new players or old players who will also be mending their balance sheets and who are going to jump in. But the issue is that, if the hybrid model tastes success and lenders come effectively, then the quantum of EPC awards is definitely going to go down. All said and done, EPC is also still being awarded on design and build, there are already issues happening on the ground on the design and build approach. So we firmly believe that the quantum of hybrid projects will increase, once the model attains some maturity in the coming five to six months.

Anubhav: So your strategy would be to go for hybrid models or non-hybrid models?

Mukund: Our business is BOT, either annuity or toll, we are not going to jump on to the construction part of it unless and until it is an OPRC contract. A lot of states are going to bid with ADB funding etc. So our areas are cut off, they are on BOT and maybe OPRC.

K. Ramchand: I'll just add two things to this. Number one is I think this is a via-media measure to get the lenders interest back, because I think there has been a lot of lenders heart burn because of the toll projects basically and which is one of the reason why also a lot of the interest pass through has not taken place if you look at the interest pass through which should have taken place, none of that is taken place because I think besides the EPC companies or other infrastructure companies, the lenders are also trying to mend their balance sheet.

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Number two is that, I think the government has also said that even if they do it on an EPC basis, they will probably undertake operations only for a year, test what revenue flows happen and bid out those EPC contracts after they have been constructed and operated for a year. So I think this is basically an interim step to get lenders interest back and interest of the community, because today I think the interest is very low because even if you look at the projects, I think he put up only the projects which have been successfully bid, but I think there are an equal or a larger number of projects where there were no bids at all. So I think that needs to be rectified because the long-term answer to infrastructure at least in the road sector is definitely not EPC, the government also recognizes that because there is a lot of competing demands on resources of the government. So I think this is the way forward, it is an opportunity which is available, we will definitely go for this opportunity but we believe that in an hybrid if they can add a little bit of a toll element where there is a revenue risk I think we will be better served in that process.

Anubhav: Yes, thanks. Just a follow-up question, like you showed the examples of how the bids have been so aggressive recently, so can one say that every time when there is enthusiasm in the sector there would be many new players who are ready to burn their hands and would go for project with very low IRRs and ROEs and then get stuck. Don't you think there is a structural problem going on that will always malign the sector?

K. Ramchand: Let me answer this in two or three ways. One is that in the previous regime when there was a lot of irrational bidding as we would like to put it, I think the number of bidders were also much more, if you looked at bidders at that point of time there were 15, 20 even 25 bidders for a single project. We are not seeing the same here. While you are seeing 6 or 7 projects, there are probably or two new players but the 4 or 5 continue to be the old or the existing players. So I think that appetite of new players is limited, so they will probably be seen in the forefront in this initial phase but that is not going to happen in the future.

The second thing is that new players are domestic, end of the day I do not think we are still seeing an international, today's newspaper says that the government is looking at inviting international players to come in. Because there is a feeling that there is cheap money outside and I don't think that is necessarily true, all the money which comes into India even if it is in the form of Malaysian Ringgit or a Chinese Renminbi. If you have to hedge it, if you do not hedge it of course it is cheaper, but if you have to hedge it I think it is going to be at almost the same levels at what you can raise in the domestic market. So I think the competition is today some new players have come but I think they are going to quickly see the liability of the bids that they have undertaken and I think, the process is slow but I think we will see a much better performance of bids the next time.

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The last thing is, the government set up a committee which was under Mr. R.C. Sinha recently. I believe they have submitted their report about a week back. Now we are getting bits and pieces of what has gone into that report, but we really have not seen the full report as such. We understand one of the things that they have recommended is not to go for L1, find a median method of awarding so that you take out both the outliers, the lowest and the highest and the median between the remaining is what they think should be the award which I think will tend to therefore bring players closer to the median number rather than having an outlier of winning a project. I don't know what the reaction of the government is going to be to this particular process, but if they follow that process I think we should have bids which are more realistic.

I also understand the second thing that the committee seems to have said is the bid bond which is today accepted is much smaller, it is between 2% and 5%. While the committee recognizes that for smaller projects, less than 1000 crores or 500 crores, you can keep that bid bond size, but they believe that if you are going for larger sizes the bid bond needs to be substantially increased, maybe up to 20%, 25% which will also keep out a lot of irrational players in this business. So we will see where this report gets accepted and how much of it gets accepted, and if some of these recommendations get accepted I think we should see a better bidding processes at least as far as we are concerned.

Participant: You made a good presentation, in the last slide you put some long-term statements like return on equity, margins and top line and things like that, and obviously shareholder value is the prime objective. Now the question which comes to my mind is that, there is lot of uncertainty and there has been lot of uncertainty in the past and will remain in the future. Now I know that job of the management is to handle this uncertainty and create shareholder value. Can you just give little bit of color in terms of the roadmap and the milestones because this kind of numbers which are going in the future, because either you say that no we are not going to grow, we are going to just clean up the things which we are having. So three times debt equity consol and things like that. If you can give some color in terms of milestones to be achieved so that we can then track that are you moving in the right direction? Thank you.

K. Ramchand: If we had milestones we would have put it up on the slide, so it is very clear, because while this is an objective that we want to achieve, it is very difficult to set up time limit by which these things will happen. We know the path through which we will achieve this, we definitely know that the path to achieve it is to hive off projects which have higher debt equity in our books which is typically an annuity project. So if annuity projects have been founded at 4:1 and if we can hive off annuity projects that will definitely bring down the average.

The second is, we need to definitely raise some equity which will then give us some leeway as far as debt equity ratios are concerned and I am only looking at the debt equity which is there because the rest of it is arithmetic because if you are able to meet your construction schedules

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you should be able to meet most of the other parameters. I think the critical one is debt-equity. So the third is of course if what he suggested is if we are able to reach some amount of let us say interest reduction which everybody looks at, it is going to throw up more cash and therefore the requirement to borrow which continues to remain on our books particularly on the standalone side will reduce. So while I am not able to time the outcome of the steps that need to be done, we definitely know that these steps are going to happen probably in the next let's say 8 months or 12 months and therefore these should be achievable in that time frame.

We all thought in the last year that interest rates would be the biggest boost as far as companies are concerned, for some reasons we have not seen that happen, if that had happened you would see different books of many infrastructure companies. So given the unpredictability of the steps that lie ahead, it is very difficult to put up milestone but we definitely have this in mind that we need to achieve this milestone. And as you said we will help you track it, this will come out every quarter, or whenever we come up with it we should in a position to recognize whether we are going forward or remaining stagnant, we definitely are not going to go backwards.

Participant: So can you say that this sector has matured to the extent the power sector has matured or the telecom sector has matured and all these uncertainties of government trying various permutation and combinations of policies and the players giving recommendations, some people trying to play against those recommendations are now all behind us and this government understands that what has to be done in place like you can add value or still there is lot of muck which I still there and probably it will take some time before it is cleaned up. Because as per shareholder value is concerned, investors say the stock has just become half in the last five years, so where is the shareholder value. Now we can always keep telling to our investor that future is bright, India requires some infrastructure, etc., but finally there is a patience to which investors have to wait.

K. Ramchand: Thatôs true. I don't know whether we call it muck but definitely by definition India is not going to be a certain country, I do not think we have reached a stage where any of us can say that we can predict that the changes in policy will not occur. But what we definitely can foresee or what we have seen in the last one year a lot of things have happened which are positive for the stock, it may not reflect in the price of the stock but there is definitely positive for the stock. Number one, I think this is first time that the government is willing to listen, they are hearing, they are also acting on what is being told by the industry. In many earlier avatars, we have seen that they have always felt that it is a vested interest talking rather than a positive flavor being given to a suggestion which was being made. I think a lot of the muck, as you call it, is out, particularly I would see there is something called rent-seeking behavior which is I think at a lower abyuss than what it was in the past and therefore that should be useful as far as companies are concerned. What we are also seeing is that there is not much of a particular company being favored in any manner or a single company being able to influence the policy

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which is beneficial to itself rather than the industry as a whole. So my view is that there is a lot of cleaning which has taken place, it should benefit the industry, I do not know why it does not benefit us, we can have a dialog on this, we have our own views on why our stock is halved or one-fourth or quarter of what it should be because the only way you can do that is through comparisons and if you compare then I do not think there is much of a differentiation which exists but as it is, we are where we are. I think the government which is there today is doing well as far as we are concerned and I think that should result in some rerating of our stock if we play our cards correctly and I think that is very critical.

Mukund Sapre: Just to add to this - to aid the milestone, I see only three steps, one: our orders in hand, and their schedule completion dates. I think we can say that all our on-ground projects are going to get competed as per SPCD. Given that, the revenue is also going to climb. Second is that, success on bids with proper returns, as we see bidding is picking up, we have every reason to believe that we will have few projects which will get added to our portfolio. And third is, as Drupad talked of asset churning, which we are working on. As long as these three granular steps are taken care of, we are going to achieve our milestone.

Participant: Sir there was one slide on the financials, you have achieved a top line of Rs. 6823 crores, and you have an order book of $1.8 billion, is it safe to assume that this order book will meet its completion in the going forward in the next 15-16 months?

Mukund Sapre: Yes, that is what I am saying, that whatever job we are doing on ground and whatever SPCDs are committed. I think there are three projects which are going to get commissioned this year, then there are four to five in the next year excluding SSTL, which got its commencement date on 1st May, so five years post that we will have SSTL operational. We are on track on all our projects, the largest project was CNTL, we had issues but we are on track and we can very confidently claim that it is going to get completed in the given SPCD.

Participant: And with the target of allotment of 10 kilometers per day by NHAI and otherwise, is it safe that we will have this healthy order book or in fact more of this healthy order book going forward?

Mukund Sapre: If you look at our model, there are two very distinct things to note. We have a vast geographical presence, we have no limitations, North to East, South to West.. The simple thing is that our business model has captured the soft skills and we are concentrating only on that part. So I donôt have to worry about construction equipmentôs, or materials since I am outsourcing all that. So, to develop inorganically or organically we need a good bench strength of project directors. If you see our performance in terms of all the projects, when nothing was happening ours was the only Company who completed a project before the SPCD and collected a bonus Annuity. This was on Ranchi-Hazaribagh project in a state where nobody had started work. We have done a large program for Jharkhand where we have succeeded, they have never seen this

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sort of road construction around 600 kilometer to 700 kilometers. So, for us to deliver any turnover, it is driven by good project directors and select sub-contractors whom we hand-hold and concentrate on quality and safety.

Participant: So will it be correct precipitation that we may very shortly see a CAGR of excess of 20%?

Mukund Sapre: I cannot comment on what you are saying, but all of us are looking for better period and I think this coming six to nine months are going to get translated into what we are talking about.

Participant: Sir in the slide you said you tried to control the consolidated debt-equity to 3, and that the couple of steps you mentioned is sale of non-core assets and raising money through QIP. So can you quantify that, what is the realizable value of the non-core assets as of date and how much money we are planning to raise the QIP?

Mukund Sapre: We have an enabling resolution of Rs. 1000 crores. So, it is a fill-in-the-blank game for us, as we talked of two three things. One is asset churning which is very important. These three-four approaches - securitization, interest arbitrage, asset churning, and QIP will meet the residual needs. We do not talk on forward-looking numbers so I really cannot specify numbers to you. However, we are very clear on how we are going to do all this and how things will flow. The sum total of these steps is going to ultimately help us achieve our goals in the coming two years.

Participant: And when is the long-term target, is this a two year target or four year target?

Mukund Sapre: Our current portfolio will become operational in 2017.

Drupad Upadhyaya: Just to add just one point to what Mukund is saying. A lot of this is dependent on the interest curve and the amount of sub-debt that gets released. This will essentially depend on where your yield curve is and at what price you are able to refinance your debt and get a yield investor for that annuity portfolio. So quantifying that exactly would not be possible because that depends upon several variables. Secondly, the entire portfolio becomes operational in FY17, so while a lot of the projects that become operational now start paying off debt, but the quantum only increases as they become more mature. So I think the target starts FY17 onwards, it is a longer term, target on the consolidated debt/equity.

Harish: Hi, I am Harish from Kotak. Sir you highlighted couple of bids where your company was at a significant outlier to competitors. So if you can briefly explain the thought process, what you were thinking when you are bidding qualitatively or if possible qualitatively. What is the thought process behind such kind of bids or possibly what reverse engineer, what your competitors are thinking?

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Mukund Sapre: I think that the theory is common for all the losers on what they did wrong and somebody else did right. . As far as we are concerned, we have put some certain parameters on bidding, like issues on environment clearance, or suppose there is a wildlife sanctuary or we would not bid for many of the bids should our project cost be more than 1.3x of NHAI. So, even though we are saying that this is an opportune moment to look for better IRRs we believe we will stick by our parameters under our corporate governance. It is very difficult to comment on our competitors on how those numbers have come for them.

Harish: As in there are team trying reverse engineer some of the numbers to possibly look what those IRRs could be.

K. Ramchand: Let me answer, I do not think it is right like Mukund said to comment on any of those, because it is probably will reflect on somebody who bids and one for a project. But let me give an example of a project where nobody bid and I think that will give you an idea about at least some commonality which arose. There is this project which finally has got broken up into five parts and has been tendered out, it is called the Eastern Peripheral Expressway, it is one of the largest projects that we can think of which is on the eastern part of Delhi. The project cost that first NHAI came up with showed that the EPC cost was more than the BOT project cost which itself is a fallacy, anybody who does a BOT project cost knows that the BOT cost will be higher than an EPC tender cost. They rectified that and then they came back and probably increased it from Rs. 4200 crores to let's say Rs. 5300 crores, I think the common estimate, since we did not get a bid, I think the estimate was somewhere around Rs. 6500 or Rs. 7000 crores and if you sum up the EPC cost, you will find that it is almost Rs. 5000 crores - 5300 crores. So if you add IDC and all the risk parameters that you need to add, you will get Rs. 7000 crores. This is one part.

The second part was that, a lot of times, the mistake is not probably in costing, the mistake is always in revenue forecasting because it is the revenue forecast which actually kills or makes a project, you can do what you want to with costing but unless you completely are erroneous I do not think it is going to be different from one company to another company, you will probably be plus minus 15%, 20% but the revenue part of this whole exercise can completely jeopardize a bid. And in that project if you look at even NHAIs bids, you will find that NHAIs traffic estimates was probably double of what our estimate was and I think at that point of time probably everybody must have felt the same and therefore they did not put a bid. Therefore I think if you look at any of the toll projects, I think the issue is going to be on how your forecasted revenue, because lot of people still follow that if GDP is growing then traffic is going to grow in proportion to GDP growth. I think we have probably been associated with traffic forecasting for the last 15 years and we can clearly show that GDP has very little association with in a positive manner with traffic forecasting. I think new players therefore will take time by the time they recognize revenue forecasting and I think that is where the issue is.

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The second part is, like I think Drupad mentioned what we call is J-Curve that we find that the initial years, first two three years traffic actually does not grow, and it probably is depressed and then catches up over time. Now, a lot of that loses IRR, now if you want to bid on an IRR then you have to actually support a theory that you need a more grant during the first two three years and therefore that is what supports. So I think the short answer is, I think revenue forecast is what one needs to look at, if there is an outlier and there is in any manner then I think it is that. And I think probably our revenue forecast are we think very realistic but if you look at the comparisons then they probably are pessimistic compared to everybody else in the business world, there is no reverse engineering as far as that is it, it is fundamentally how you want to look at traffic forecast around that area.

Harish: Sir my second question is on the awarding which happened last year, so about 8000 kilometers were awarded, and the pace of awarding by MoRTH increased significantly including the North-Eastern and other projects. So according to our analysis, how is the quality of those projects in terms of EPC and BOT? A. B, do you think the pace will be substantial for MoRTH is going to continue? And in general are we interested in taking, averaged out, are we interested in taking such projects?

K. Ramchand: Well, the last one is no of course, because we are not in the EPC business and I do not think we will be competitive in the EPC business also. Whether MoRTH will be able to do the same level of award next year or the year which has already started, it is open, I really cannot make a guess or cannot venture what they will do. But this clearly I think going to be lesser than what they did last year, I think NHAI will come back and will be the major awardee agency as far as these projects are concerned. I think the bigger issue with these awards is whether the government and NHAI have the project management capacity to ensure that these projects get done on time and get done in the cost at which they were bid at, I think that is going to be the test. And I think come 12, 18 months, those results will start coming because most of these projects are 24 months construction period and we should be able to see that. We expect that to be driving more BOT projects because once I see that that EPC is not really coming on stream as fast as they thought it would, I think it will drive back the policy back into the BOT frame than what the current system is.

Thanks a lot.

(This document has been suitably edited for readability purposes)