"IL&FS Transportation Networks Limited
Q1 FY17 Results Conference Call"

September 13, 2016

MANAGEMENT: IL&FS TRANSPORTATION NETWORKS LIMITED
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MR. MUKUND SAPRE – EXECUTIVE DIRECTOR
MR. DILIP BHATIA -- CHIEF FINANCIAL OFFICER
MR. KRISHNA GHAG – VICE PRESIDENT, COMPANY SECRETARY & HEAD, INVESTOR RELATIONS

MODERATOR: MR. ANUBHAV GUPTA – EMKAY GLOBAL FINANCIAL SERVICES

Moderator: Ladies and Gentlemen, welcome to the Q1 FY17 Results Call of IL&FS Transportation Networks Limited hosted by Emkay Global Financial Services. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions at the end of todayôs presentation. Should you need assistance during the conference call, please signal an operator by pressing ó*ô then ó0ô on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Anubhav Gupta of Emkay Global. Thank you and over to you, Mr. Gupta.

Anubhav Gupta: Hi! Good Evening, everyone. I would like to welcome and thank the management for giving us this opportunity. We have with us today Mr. K. Ramchand ï Managing Director; Mr. Mukund Sapre ï Executive Director; Mr. Dilip Bhatia ï Chief Financial Officer and Mr. Krishna Ghag ï Vice President, Company Secretary and Head, Investor Relations.

I would now hand over the call to Mr. Ramchand for his opening remarks. Over to you, sir.

K. Ramchand: Thank you. Good Afternoon, everybody. Sorry that we had to do this call on a holiday, but I can see by the participation there seems to be a lot of people available on the call.

Let me start off by giving you some of the highlights of this Quarter: We have received the Second Provisional Completion Certificate for an additional 22 Kms of Sikar Bikaner Highways, which therefore allows us to collect toll at 99% against 89% earlier.

We have achieved financial closure for the Sec.VII of the Ranchi Ring Road project under the Jharkhand Program. This has a total project cost of Rs.640 crores. The other project which we are close to financially closing is the Gujarat Road overbridge project which is part of Gujarat Road Infrastructure Company Limited. So these are updates as far as financial closures are concerned. We have achieved one and are close to achieving on the second one.

During this quarter, we have also divested another 15% stake in GRICL again to Macquarie, at a price higher than what we had done last time.

We also entered into a Share Purchase Agreement with Cube Highways for the sale of the entire equity stake in Andhra Pradesh Expressway Limited. As you know, Andhra Pradesh Expressway Limited is an annuity project connecting Kotakatta to Kurnool on the Hyderabad-Bangalore Road.

If you look at Construction, we now have about five projects which are under construction, three road projects are currently reaching out for appointed dates and are therefore under development. The Construction order book stands at Rs. 13,758 crores which includes some non-road projects which is primarily the Metro Project in Gurgaon.

Just by way of clarification, I am sure that some of you will ask for this, we are not presenting consol financials this quarter because we have very large operations which also includes international operations across Elsamex which runs across Europe, operations in America and we have operations in Vietnam under our Singapore entity. Given that we have a new Indian Standard or IndAS as we call, it has been very difficult for us to reconcile a lot of the policies and the principles that need to go into these projects along with the auditors. So, as SEBI has permitted us to actually present standalone results, we propose to present only standalone results for the first three quarters and the consol results we are proposing to present only in March end which is the year end date. This, as I said, is taking time and I think it will continue to take some time till we are able to look at both aspects of how much we want to take to the opening balance, if at all, we need to take to the opening balance and how much we need to therefore look at revenue recognition in the future. There are a lot of issues with IndAS and I am sure our CFO ï Dilip Bhatia will enlighten you on some of those critical issues on the IndAS adoption and why we are only presenting standalone.

Having said that, our standalone income from operations has gone up 16% to Rs.1262 crores as compared to Rs.1082 crores. Our standalone EBITDA has increased vs the corresponding quarter last year to Rs.374 crores with a margin of 29%, from Rs.252 crores, which was at a 23% EBITDA margin. The profit after tax for the current quarter is Rs.18 crores and just by way of clarification, these are IndAS numbers. We have IndAS comparables for the quarter-ended June ó15 and therefore if you do the IndAS comparison, if you had done IndAS in June ô15 it would have been a negative Rs.19 crores as against a positive Rs.18 crores. So that is the comparison that we have as far as the IndAS is concerned.

We believe that we are in a fairly good position because we expect three more projects to get operational during this year. The most important of them is CNTL. I will delve on that a little bit after we finish this. On the other two, we have Khed Sinner Expresswat Limited (KSEL), where we have already applied for COD and then we have Barwa Adda Expressway Limited (BAEL), which we believe will also be completed by October. With regard to Chenani Nashri, I think all of you have been reading in the newspaper about the unrest in Kashmir and it has not left us untouched because we have a lot of logistic issues that need to be addressed as far as Chenani Nashri is concerned. We have also been subject to some strike because of the unrest in Kashmir and slowdown in the arrival of commodities that we need to complete this project. So while we had said that we would be finishing this probably in September this year, it is probably getting shifted to October and we believe that we are very much on track to finish it in October even if the unrest continues. If we finish these three projects, then we should end FY17 with 25 operational projects. We have witnessed a delay in Kiratpur Ner Chowk Expressway Limited because land availability continues to be an issue. This is a new issue which has come up because the owners of land who had given us land earlier have actually now asked for more compensation in line with the current compensation pay and therefore there has been some stalling of work where we had already acquired the land. We believe that the completion for Kiratpur Ner Chowk will now go into February 2018.

The current equity requirement today stands at about Rs. 1,007 crores, Rs.454 crores to be infused in FY17, Rs.219 crores in FY18 and the remaining will be beyond FY18.

The other important event which has taken place is that we have also applied for an approval to float an InvIT. We have identified three or four assets that will be put into InvIT. We have done some non-deal road shows and we believe that we have got a very satisfactory response from the InvIT non-deal road shows that we participated in. I think that going forward, this would become the vehicle of raising more capital into this company, and as you have seen, SEBI has already given approval for two or three other companies. We believe we should also be following in line and getting this approval quickly. Once we get the approval for the InvIT from SEBI, we think we can launch it in 15- 20-days.

The second critical component in looking at our balance sheet is that we have floated a resolution to raise about Rs. 5,000 crores of Public Listed NCDs in todayǿs board meeting. This should help us in reducing the interest cost because almost all of the Rs. 5,000 crores, which will be raised through a bond structure will go as repayment towards debt which is at a much higher cost currently. We should be saving 3% to 4% once the bond has been raised. That seems to be the outlook and I think that should show performance in a better light as we go forward.

Having said that, I thank you all for having participated in this and look forward to receiving any comments that you may have.

Moderator: Thank you very much. We will now begin the Question-and-Answer Session. We have the first question from the line of Yellapu Santosh of Angel Broking. Please go ahead.

Yellapu Santosh: Sir, I have three questions: First one, the recent APEL BOT Project which got sold to Cube Infra. Can you please explain the transaction dynamics ï is it book value accretive or not? Second question is that for the Metro Project, we were expecting that the project would be getting more lucrative from returns point of view if the Mall of India commences its operations, now we are hearing that the project is getting delayed and it might take more time. So is it that the project dynamics would get affected because of it? Thirdly, more industry-specific question; the recent arbitrage related government announcement, is it also applicable for any state highways related projects also?

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Dilip Bhatia: APEL transaction for which we have signed an SPA with Cube Highways has a total consideration of Rs.140 crores. Coming from a book value perspective, it is definitely book value accretive, it is around Rs.1.25 to Rs.1.3 times book value.

Mukund Sapre: On the Metro, what we are saying is that passengers per day is rising every day As far as the south extension is concerned we are expecting it to get operational by November-December 2016 and this going to add on passenger traffic. Also we have seen the utility of the metro in this Monsoon period and with Gurgaon facing too many issues for the very first time, we touched very high numbers on the ridership in this period. However, we need to give time for the ridership to build which should happen slowly and a spurt will be seen with the addition of the south extension as well. I believe the third question was on the amendment to the Arbitration Act. Actually, we are under arbitration on three of our assets with NHAI and we are evaluating pros and cons. Good thing is that we have received letter for one of them on if we want to move to the new amended approach. We are evaluating the consequences of taking a decision on whether we want to continue with this because it has proceeded quite a lot on Moradabad Bareilly We will take an appropriate call after talking to our arbitrator and our senior lawyers about moving to the newer one or continue the old one. But other two, we believe that letters will come shortly. Obviously, the framework is going to be a very good respite with awards happening in one year and also that 75% of money can be put in escrow account and can be drawn against guarantees. I think it is going to be good for many of the projects where we have taken a call of completing and we had issues like cost overruns etc. So we do believe that these amendments are going to help us in coming days.

Yellapu Santosh: Sir, I just wanted to get a clarification here; is this arbitration amendment is also applicable for Highways Projects awarded from the state PWD side also? I am not asking from ITNL point of view; I am just asking more from an industry understanding point of view.

Mukund Sapre: I think it has to do with an amendment to the Arbitration act. So, it may affect a state also or any other sector and the Centre and NHAI also.

Yellapu Santosh: So when you say other sector also, even for power assets and for other sectors also, is my interpretation right sir here?

Mukund Sapre: That is an amendment to an Indian Arbitration Act. So that is our understanding.

Moderator: Thank you. The next question is from the line of Amit Rane of Dalal & Broacha. Please go ahead.

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Amit Rane: Sir, last year we had a profit from sale of investment of around Rs.142 crores and in Q1 we have already crossed Rs.100 crores. So can you share internally what is our target for this year?

Dilip Bhatia: As we have been saying, while we continuously look at opportunities to monetize assets at a value which is accretive to the shareholders, it is very difficult to time them. So to give a target or to say one quarter is Rs. 102 crores and what will be the other quarters is difficult. Divesting an infrastructure asset is a time consuming activity, so it is difficult to give you any particular target as to how much we have put as a target for profit from the divestment activity. Yes, as we have explained earlier to our shareholders in March, we talked about three assets; two of them we have already completed and one we will be continuously looking for. In addition to that as Ram mentioned we have filed for InvIT and 3-4 assets which will be part of InvIT.

Amit Rane: Sir, our provision for credit loss has actually come down to around Rs.21 crores compared to Rs.66 crores. So based on your own assessment of the current situation, do you feel that this number could be lot lower than what was there in last year? Last year we had Rs.115 crores total for the year as a whole.

Dilip Bhatia: Yes, you are right, we assess that this number this year will be significantly lower than last year.

Amit Rane: Trade receivables, how much is the amount?

Dilip Bhatia: As Ram mentioned, we are moving to a new GAAP which is IndAS and it has its own specific requirement for accounting but the receivables range around Rs. 3,000 crores as of June ô16.

Amit Rane: This number we cannot compare with year-end number, right, because it will be as per GAAP?

Dilip Bhatia: Yes.

Amit Rane: What is the total debt amount in the standalone book?

Dilip Bhatia: The debt stands around Rs. 9,200 crores.

Amit Rane: Sir, what is the quantum of loans given to the subsidiaries?

Dilip Bhatia: Around Rs. 3,200 crores.

Amit Rane: Sir, what is the equity investment, amount in subsidiaries now?

Dilip Bhatia: It is Rs. 5,300 crores.

Moderator: Thank you. The next question is from the line of (Ms. Chinmay Gandre of Future Generali). Please go ahead.

Biswarup: This is Biswarup. Actually, sir regarding the standalone debt last time you had said that there were some problems with financial closures of a few projects, so that is why there was some debt taken by the parent company and given to the subsidiaries. So any progress on that. Like this Rs. 9,200 crores level, is it expected to come down? The second thing is have you seen any further reduction in cost of debt?

Dilip Bhatia: Debt as I said stands at Rs. 9,200 crores. Out of the two projects which we mentioned last time, one of them has achieved the downselling, a portion of that has got drawn down before June and significant portion of that money which we had advanced is being drawn down in this quarter and next quarter. So you will see a significant impact in terms of that money coming back. The second project also, we are very advanced in terms of completing the down selling and we hope to complete that by end of this month but again because of the procedural things involved, the drawdown and consequently money coming back to ITNL will probably start from Q3FY17. In terms of cost of debt, while I would like much better and softer interest rates, we are not seeing significant change from bank in terms of reduction in the base rates. So pass on to us has been very-very limited. What we have been doing to look at the overall cost of debt is to look at the broader market and look at raising funds through NCDs which are definitely at a much better rate compared to the bank loans we have. So in the quarter of June, we raised Rs.200 crores through NCDs. Subsequently, we have raised another Rs.300 crores through private placements. So, this year as on date, we have done Rs.500 crores of NCD. You will recollect last year we did around Rs.1100 crores of NCDs. These are definitely at a much better rate compared to the bank funding we have. Earlier in the call, Ram mentioned about the resolution we have taken in the Board and also we are seeking shareholdersô approval to launch public issue of NCDs. We expect that based on the current market trends and advice given to us by merchant bankers, this would be coming at a very good and reasonable interest rate which will definitely help us reduce the cost of borrowing. Also, I think on the borrowing side, one important aspect that we have looked at is that under IndAS, the preference shares which we had earlier classified as a part of the net worth are now referred to be classified as debt. We have clearly shown as debt now as against the net worth.

Biswarup: What would be the approximate cost of debt as of now for the company?

Dilip Bhatia: It would be in the range of around 12%.

Biswarup: The consolidated books are not prepared yet, but any approximation you can give under consolidated debt which was around Rs. 26,600 crores last quarter?

Dilip Bhatia: The debt number remains around that.

Biswarup: Sir, standalone debt you said is expected to come down. Any quantum on that front, how much it would come down by?

Dilip Bhatia: We have been working on various initiatives on debt reduction. One of them as I mentioned is downselling in the projects which have not been done by now. Divestment is also going to help us as will the InvIT. So we expect after meeting the requirements for next two years, we expect the debt to further come down by around Rs.1000-odd crores.

Biswarup: Sir, this Rs.1000 crores equity requirement that you mentioned, so out of that you said around Rs.400 crores will be required in FY17. So this do you think would be achieved by sale of stakes in various projects, I mean, there will be no requirement of equity dilution further?

Dilip Bhatia: Yes.

Moderator: Thank you. The next question is from the line of Nirav Shah of GeeCee Investments. Please go ahead.

Nirav Shah: Sir, on Chenani Nashri project, what has been the cost overrun ï have we applied to increase the concession period over there?

Mukund Sapre: There is around 120-days of force majeure which we have filed with NHAI and there will be some other issues. Otherwise there is no issue on the concession agreement because we are almost within the four months and it does not call for any extension. The cost overrun should be somewhere around Rs.400 crores on this project.

Nirav Shah: So any broad IRRs that we are expecting now from this project after this cost overrun?

Mukund Sapre: IRR is a very relative term. The moment we commission this, this will be an AAA instrument and can be refinanced at 8%- 9%, which we generally do on our NHAI annuity assets. This is going to rebuild and with the current interest falling regime, there is reason to believe that it will throw additional money and is going to catch up on IRRs also.

Nirav Shah: Sir, I just missed the average cost of debt that you mentioned. What is it?

Dilip Bhatia: Around 12%.

Nirav Shah: NCDs what we are targeting should be sub-10%?

Dilip Bhatia: Yes, we expect that.

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Moderator: Thank you. Next we have a follow up question from the line of Yellapu Santhosh of Angel Broking. Please go ahead.

Yellapu Santhosh: I had three questions: If I just consider the income from operations and exclude the other operating income and profit from sale of assets, then the EBITDA margins have declined in the current quarter on YoY basis to around 3% levels. So what is your outlook going forward on the EBITDA margin front given that most of the assets which were seeing cost overruns or issues are now at completion stages? Second question, I would like to understand Rs.156 crores of fee income booked during the quarter, what is the split and which are the projects for which fee income is yet to be booked? Third question is the strategy related question. Having seen so many issues in CNTL, what is the rationale for the management to pursue a project like Srinagar Sonmarg which could also be seeing these kinds of issues given the unrest seen in the J&K valley?

Dilip Bhatia: I will take the second question first; fee which you mentioned of Rs.156 crores, actually it was booked in the corresponding quarter of last year, not in this quarter. Rs.18 crores fee we have booked in this quarter and that also explains your first question because when you exclude the gain on sale of investment, I think if you compare both the quarters, the significant drop is in the fee income which we have booked on the projects and there I think we have been explaining from last two quarters that we have probably staggered the way we now book fees and launching different milestones and when those milestones are achieved, then the fees is recognized. So, I think you look at EBITDA excluding profit on sale of investments. As a part of our business model and as a regular strategy, we are monetizing assets and there are ways of taking money from the SPVs ï one is to take dividends, one is to by way of interest, but they are not very tax efficient. So probably we chose the other last route of monetizing some of the assets and taking the value which is locked in those assets up into the company. So, that should be seen as part of our business model and hence the EBITDA should be seen including that item of the revenue.

Mukund Sapre: To come back to your question on CNTL, we are present in Jammu & Kashmir from the last five years and generally there has been an unwritten rule that nobody obstructs your work from happening. The same thing is being observed in Sonmarg also, that generally sites are not being obstructed. We have had 150 Australians and we have so many foreigners sitting on SSTL as well. That answers the question you were asking. Another reason has been that maybe there has been some traffic movement which has got impacted this time since they are not moving to the valley and this is affecting equipment and material mobilization. But otherwise if I go by our history of five years, we have not seen any troubles on the work happening. So we believe that this is something intermittent and maybe a one or two monthsô exercise, which should fall back in place and we should be again working on it in full swing.

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Yellapu Santhosh: Sir, my intention of asking this question was even we face not only issues on the current issues that we are facing, even if we look at there could be climatic issues, there could be other operations issues and most of the time this project could face from a construction point of view there could be lot of challenges. So from that point of view, do you not think our basket gets more risked?

Mukund Sapre: Rather, I would say differently that our appetite for construction risk has been demonstrated where we had to terminate the existing contractor and the balance 2.5 Kms of tunnel has been done with our own manpower and our equipment. So as far as the tunneling methodology in Himalayas is concerned, we have a very good hang of the subject with an in-house team and there is no reason to believe that we are running into any construction risk which we cannot handle. So things are going well. I do not see any reason why it should stand out that we are doing something which is different from our normal business course.

Moderator: Thank you. The next question is from the line of Rahul Kapur of Kapur Sharma & Company. Please go ahead.

Rahul Kapur: Just wanted to understand the business model of the company side better, in the sense that does the company function also as a EPC contractor or exclusively operate infrastructure projects which you have constructed, because if we go by the annual report it says that you function exclusively as a proprietor of Infra projects. Also I want to ask you what is the status of the Gurgaon Metro Project and would you be operating it also or are you just constructing that metro project?

Mukund Sapre: To come back on the business model, traditionally, we have been very active on the Build, Operate and Transfer sector where we acted as a concessionaire and in most of the cases we have outsourced construction and as you would see that today, a large chunk of the model of award has gone in terms of EPC. Also, in terms of hybrid annuity which is again tilted towards contractors. So being a developer for so many years and being working with all sets of people in the industry, we know that we have created a sort of in-house expertise and there is no reason why we should not try to foray into EPC. Slowly, you would see that ITNL name will appear in EPC bids and if we win such bids, we already have a developed in-house capability through which we have done in-house 2.5 km balance tunnel in CNTL and we are completing in October. So we believe that we are well placed. As far as the Metro is concerned, you are right, it is being operated by an in-house O&M team and we do have aspirations of being the O&M contractor, as you would know that every city is coming out with metros, and with our experience of running this 5 Kms and 8 Kms south extension which will get added in December, which we are doing with our internal teams, that will place us in a good position to exploit the O&M opportunities if they do arise because all the metros are being done on an

EPC mode and we strongly believe that if not today then tomorrow these O&M contracts will come out and we will be there to pitch in.

Rahul Kapur: Correct me if I am wrong, so currently you are operating exclusively on a Build, Operate, Transfer, model, right?

Mukund Sapre: Yes, we do only BOT mandates as of now.

Moderator: Thank you. The next question is from the line of Mr. Anubhav Gupta. Please go ahead.

Anubhav Gupta: Sir, you mentioned that InvIT is going to happen very soon as you are waiting for SEBI approval and you have already identified three-four road assets which you are going to list into the thrust. What quantum are you looking to raise from InvIT, any rough idea?

Dilip Bhatia: Anubhav, we are with SEBI since the last 2-2.5-months. Indications are that we would be getting approval pretty soon. We are looking at 3-4-assets, a mix of Toll and annuity which will be part of the InvIT. The numbers are getting worked out and we would not be able to give you a definite number but I think roughly the total value of assets should be in the range of Rs.4500-5000 crores. The offering could be in the range of Rs.2000-2500 crores as initial offer to the public.

Anubhav Gupta: In terms of accounting of InvIT, so for example, you sell 49% stake in Rapid Metro, and whatever premium to book you sell your assets, so would you book that profit as one-time gain in P&L or how will it go through?

Dilip Bhatia: So the InvIT requires that 100% of the assets be transferred to the trust. So we will be selling excluding any government holding which we may have in any of these assets which is allowed to be retained because these are all our subsidiaries. So we sell 100% of our stake to the InvIT. As far as the accounting is concerned, so the new GAAP is on. I think as we execute the sale and since it is of 100% sale, any premium we receive on sale will be recognized in the P&L as a one-time gain at that point immediately.

Mukund Sapre: One small thing, Anubhav. Though it will be sold 100% but we will have to take 25% of the units back, so we will be holding 25% and 75% will go in the trust.

Anubhav Gupta: Just one question on the industry. So last year the government was very positive on the hybrid model. Obviously, IL&FS transport itself is not bidding aggressively for new projects but how are you seeing hybrid model shaping up ï are there many projects on the stream, are you seeing your peers bidding and winning such projects?

Mukund Sapre: As you would see that there have been around 17-18 awards on hybrid annuity model. You would also see that unfortunately the size of projects are in the range of Rs.400-500 crores and that really limits players like ITNL or bigger players to really be competitive. So I think we will have to show patience. We will have to still keep bidding with our benchmark threshold numbers. Maybe once these new 15-20 entrants are satisfied, say after 6-7 months, we might have our roles to play at that point of time. So we will go with our estimations and our expected returns and wait for our opportunity.

Anubhav Gupta: Just last question which is broader again on the industry, so the majority of contracts government is giving on EPC method, right, and we are hearing the competition and aggression from the EPC contractors is back for those contracts and there were some cases where the company bidded below the government cash contract price. So what is your sense, do you think we are again going back to 2010-11 period when there was so much aggression and so much cost competitiveness between the EPC players?

Mukund Sapre: Anubhav, it is really very difficult to comment because as I said that EPC is not something which we really indulge in. We are ourselves really trying to see the business economics on that count. So very difficult for me to comment that why such bids are being seen on EPC, what sort of strategies are being placed. So today we are not really geared up to comment on that.

Moderator: Thank you. The next question is from the line of Jainil Jhaveri of J&J Holdings. Please go ahead.

Jainil Jhaveri: I basically wanted to know why have we gone away from publishing consolidated results?

Mukund Sapre: As the CFO has clarified that with 33 SPVs and our international businesses, we are still understanding the application of IndAS to our businesses. So we need a little bit of more time to really bring out SPV accounts and this is going to be one-time exercise which we need to close out. So please bear with us and we will have those numbers flowing in the March consolidated financials, but it is just a matter of understanding and as you would have heard that there has been a lot of debate on this accounting standards. We do need the time with so many businesses around us.

Jainil Jhaveri: So it will come back though?

Mukund Sapre: It has to, we have been given time up to this year end and we will definitely bring it out in the given time frame.

Jainil Jhaveri: What were the consolidated revenue and PAT numbers if you could give us for just this quarter?

Dilip Bhatia: No, what we are saying is that we will be coming with our consolidated numbers at the year-end in the March quarter. As I said, we have still not finished our consolidation.

Jainil Jhaveri: So you have not spoken about these numbers?

Dilip Bhatia: Not at all.

Moderator: Thank you. The next question is from the line of Viral Shah of SBI CAP Securities. Please go ahead.

Viral Shah: Sir, just a clarification. In terms of assets, you said APEL was sold at 1.2 or 1.25x price-to-book, right?

Dilip Bhatia: Yes.

Viral Shah: If I recall correctly, the equity investment in the asset is around Rs.33 crores and there is a preferential allotment. So how does the number work out to be, could you quantify that number please?

Dilip Bhatia: Again, the equity is Rs.33 crores, the preference is Rs.220 crores, I think it was almost at 1% dividend. Now, as you know, and as we explained earlier, under the new accounting standard, you need to bring them to a market rate. So essentially the Rs.220 crores stands at around Rs.80 crores because this is how it is accounted for under the new accounting standard, and against that you have a total consideration of Rs.140 crores which works out to 1.2x ï 1.25x price to book value.

Viral Shah: Secondly, what will be the debt component in this asset ï is the total debt being removed from both consol and standalone based on the asset sales?

Dilip Bhatia: So it is around Rs.497 crores to be precise, which is a third-party debt. So as the SPV goes through consol books, that much of debt plus the cash flow which we received assuming that also goes towards repaying the debt. So you are talking about Rs.650 worth crores debt coming down.

Viral Shah: That standalone if I read correctly, it would be around Rs.140-odd crores?

Dilip Bhatia: Yes.

Moderator: Thank you. The next question is from the line of Teena Virmani of Kotak Securities. Please go ahead.

Teena Virmani: My question is once again related to the consol numbers although you have not given those numbers as of now. But if you can give us some idea regarding the Toll revenues, how they have been during the last quarter, in the sense like what kind of Toll growth we have witnessed during last quarter in our projects?

Dilip Bhatia: On the Toll growth, we have given some numbers in the presentation if you look at it; I think on an overall basis we see around 3% to 4% growth on all the toll numbers.

Teena Virmani: On the Elsamex front, can we get some idea regarding the growth that we have seen in the current quarter or it would be given only at the end of the year?

Mukund Sapre: Actually, Elsamex is progressing well and you are right that we will be able to give the numbers only during consolidation and this will only get captured by year-end, but it is technically going well on top-line and profitability also.

Teena Virmani: During this year we would not have higher fee income because last year we had already booked significant amount of fee income?

Mukund Sapre: Fee is something relevant to my success and milestones which is relevant to what I am doing on the ground. So, it is always a ratio of some wins and how projects are doing on ground. There are two elements to it ï one is the project management fee and the other is the detail engineering fee and we load some success fee on our overheads. So obviously, project management fee is going to continue, the O&M fee is going to continue, but the detail engineering fee immediately comes in when you have new projects and you are working and you would allocate some success fee and overheads. So it all depends. Let us see what the future has in store for us. But as of now, you are right, number will be a little bit subdued for the year.

Teena Virmani: Regarding the financial closure of your projects, I believe you had bagged couple of projects during Q1 of last year this Fagne Gujarat, Amravati Chikhli. So have we achieved the financial closure of these projects or it is still under process?

Mukund Sapre: We are working on both of them.

Teena Virmani: Similarly, for Srinagar Sonmarg project also?

Dilip Bhatia: It was financially closed.

Teena Virmani: But work has not commenced as of now in Srinagar?

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Mukund Sapre: The contractor is in place. Maybe once the situation improves, maybe one month away, the actual tunnel construction work will start, as you know that you need to have the portals done. We have done that. Contractor equipments are in place, you would see that excavation activity will commence soon.

Teena Virmani: Regarding the consolidated debt number?

Mukund Sapre: I think Dilip has said about Rs. 26,600 crores.

Teena Virmani: Practically it is more or less same as the Q4 of FY16 or slightly moved up?

Dilip Bhatia: Almost same.

Teena Virmani: Incremental equity requirement now is around Rs. 1,000 crores for your projects?

Dilip Bhatia: Yes.

Teena Virmani: So like last quarter it was around Rs.1400 crores. So Rs.400 crores you expect to use from the stake sale of these projects and remaining Rs.1000 crores is expected to be done over FY18 and going forward?

Dilip Bhatia: Out of Rs.1400 crores, some portion has already gone in. Rs.400 crores has already been infused in some SPVs, rest is Rs.1000 crores. That is what we are saying.

Teena Virmani: So out of this Rs.1000 crores, in FY17, can we expect further investments or Rs.400 crores is already done?

Dilip Bhatia: We need Rs.400 crores more out of this Rs.1000 crores in FY17.

Teena Virmani: So in all in FY17 we would have Rs.800 crores of investment and remaining would be done going forward?

Dilip Bhatia: Yes.

Moderator: Thank you. The next question is from the line of Parth Trivedi of Mizu Ho Securities. Please go ahead.

Parth Trivedi I just wanted to continue on the equity requirement question. You mentioned there is an additional Rs.400 crores requirement for FY17. Could you also repeat the numbers for FY18 and FY19?

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Dilip Bhatia: Out of Rs.1000 crores, Rs.400 crores will go in FY17 and Rs. 219 crores will go in FY18.The rest will be beyond FY18.

Parth Trivedi Also, you mentioned that you will now start getting into the EPC work yourself because you already have the in-house capabilities and as EPC is in the bidding in the industry, so could you give us an indicative timeline by when will your EPC bidding increase significantly, by what year would you expect to do that?

Mukund Sapre: Actually give us another 4-5-months and as I said that we are very conscious of the size of the contract which are going to take. As you know that we cannot be party to a basket of Rs.300-400 crores range, so we have some few big things coming, like we will be concentrating on the tunnel and the knowledge we have acquired for Delhi Metro Tunnels or Chennai Metro Tunnels, we will look for FDHL and other bigger projects. So maybe I would say around six months down the line when these projects are going to really come for EPC.

Parth Trivedi Also, just to continue on the equity requirement, so you do not envisage any dilution on the parent level, is it?

Mukund Sapre: 3-4-projects going to the InvIT is going to help us on that front.

Dilip Bhatia: As I mentioned earlier in the call, we have a sufficient line up of cash flows and cash lease available from various initiatives which we are working on including InvIT, refinance and that cash will be sufficient for us to meet the pre-requirements for the existing projects. So we do not expect any dilution of equity.

Parth Trivedi As you will get into the EPC work yourself, can we expect that the construction income margins to significantly bump up going ahead?

Mukund Sapre: It is all dependent on when we do something on that year. But as a thumb rule, generally 10-15% is the overhead profit on the EPC business, Construction business. So let us see.

Moderator: Thank you. The next question is from the line of Chinmay Gandre of Future Generali. Please go ahead.

Biswarup: This is Biswarup again. This is a question on the broader strategy of the company. So as now we are in the last phase of most of the road projects getting operational, so this quarter in Q3 also there will be three projects getting operational. So now we would more or less move into our dependence on Toll revenues will increase. Now, my question is like now since the Toll revenue growth is not high, low single digit, so do you have any figure in mind like what kind of traffic growth would make all these Toll projects operationally sustainable and contributing to profitability at the consolidated level and any absolute Toll revenue figure that you have in mind for FY18 when most of the projects will be on stream?

Mukund Sapre: If I talk of work to be completed, that figure is still around Rs.13,600 crores. So it is very safe to assume that it is going to be a significant part for the coming two years and if we assume that there is no win in these two years, only then we are talking of a scenario about what you are saying. But generally what we have seen on all our projects that once you give initial four-five years of traffic build-up, you are generally attaining a CAGR of 8-9%. So, with interest rates going down and traffic picking up, I think we should see more sustainability also happening on these projects. Then InvIT is again something which is going to help. It is all interest-driven issues also apart from the growth of vehicles.

Biswarup: Any absolute figure on Toll revenue per day in FY18 or FY19 you have in mind?

Mukund Sapre: If we complete all projects in hand, we were talking of touching some Rs.13 crores per day. We will be Rs.10.5-11.0 crores in FY17 and today it is around Rs. 8 crores per day, if I just convert Toll and Annuity single digit number per day.

Moderator: Thank you. We have the last question from the line of Rita Sahilramani of Edelweiss. Please go ahead.

Rita Tahilramani: Can you please tell me if we have received the appointment date for the two Amravati-Chikhli and Fagne Gujarat projects?

Mukund Sapre: No, we should get very soon, we are talking to NHAI.

Rita Tahilramani: Because the project was received in July ô15?

Mukund Sapre: As all of you know the issues of the sector in terms of project cost, in terms of clarity on the ground, land issue, utility shifting issue, as you would have seen that with experience we have to act little bit wiser and that is what we are doing. We want proper land and proper unencumbered land with utility being shifted and that has been the precise reason we have been following with them. So now I believe we are at a far better position. So we should have appointed date in coming one or two months.

Rita Tahilramani: We got complete land acquisition or is it still pending for the projects?

Mukund Sapre: No, it was more of utility shifting, because land is there, as you know that these were the projects earlier planned and were surrendered. So land position was better but we are also insisting on the utility and pipelines and all those sort of things and now we believe that we will have uninterrupted flow of construction happening.

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Moderator: Thank you very much. That was the last question ladies and gentlemen. I would now like to hand the conference back to Mr. Anubhav Gupta for any closing comments.

Anubhav Gupta: I would like to thank the management once again. Thank you all on behalf of Emkay Global Financial Services. This concludes this conference. Thank you for joining us and you may disconnect your lines now.

Moderator: On behalf of Emkay Global that concludes your conference. Thank you for joining us ladies and gentlemen. You may now disconnect your lines.

(This document has been edited to improve readability)

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