ñIL&FS Transportation Networks Limited Q3 FY17 Earnings Conference Callò

January 13, 2017

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Moderator: Ladies and gentlemen, good day and welcome to IL&FS Transportation Networks Limited Q3FY2017 earnings conference call hosted by Ambit Capital. As a reminder all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal the operator by pressing ñ*ò and then ñ0ò on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Ms. Devyani Jhaveri from Ambit Capital. Thank you and over to you!

Devyani Jhaveri: Thank you. Good afternoon everyone and welcome to the call. We have with us the senior management team represented by Mr. K. Ramchand, Managing Director, Mr. Mukund Sapre, Executive Director, Mr. S C Mittal, Chief Executive, Mr. Dilip Bhatia, Chief Financial Officer and Mr. Krishna Ghag, Vice President, Company Secretary and Head of Investor Relations. I would now like to handover the call to Mr. Ramchand who will take through the highlights of the quarter and then we will open the call for Q&A. Thank you and over to you Sir.

K. Ramchand: Good afternoon everybody and a very warm welcome to our Q3FY17 results conference call. As you know we have once again declared only our standalone results, since we had adopted to do only the standalone announcements for this year and we will come out with our consolidated numbers by the end of the year. We continue to have a similar position as we had in the previous quarter, with about 31 road projects aggregating about 14,499 lane kilometers, out of which 12 are annuity and 19 are toll projects. Out of these 31 road projects, 22 are now operational of which about 36% are annuities and 64% are toll.

Just to give you with an update on what has been happening as far as the bidding process is concerned, I am sure you all recall that during the meeting which we had in May in Sahara Star at the end of the last annual meeting we had suggested that given the difficult situation the BOT projects are going through we would also probably be looking at some EPC projects. We are more or less trying to follow that strategy that we had because we are continuing to see difficulties in financial closure as far as projects in the BOT space are concerned. Additionally, some of the issues continue to remain and it does not seem to have been resolved, so you might have probably seen that we have been declared L1 in couple of projects.

One of them is the Chennai Metro underground station and the other is two road projects in Madhya Pradesh both of these are in collaboration with another party. One of them is with IL&FS Engineering and the underground metro station is in collaboration with a Kazakhstan Company. The order book today is about Rs12,557 crore. The EPC order book is about Rs371 crore and the international order book, which excludes Elsamex, is about

$90 million. This $90 million includes the project that we have in Africa and in America as well as a small project that we have in Vietnam.

The total gross annual collection, which is, I think another important point to be discussed in this quarter because of the demonetisation effect. I estimate that our toll collection should have been about Rs 462 lakh per day as against Rs 415 lakh per day, which is what we collected in the previous quarter of 2015. However, the actual collection not adjusted for the demonetarization effect for all our NHAI projects is about Rs 106 crore as against Rs 126 crore last year.

We have put our claims as has been requested by NHAI on two accounts. One of these is the actual toll loss, which we have suffered, which is about Rs1.5 crore a day. If you include that in the collection then toll collections for this quarter would be about Rs150 crore as against Rs126 crore of the Q3 of 2015.

I am not sure or we have not seen certainty on how this will be paid out because there were two possibilities of this. One, of course as I said is full revenue pay out, which will be the average toll collection that was collected between November 1 and November 8 or the month of October multiply the number of days that we did not collect the toll. The second option that the NHAI has sought is to try this as force majeure and therefore in addition to repaying us as the agreement provides for the interest and the maintenance cost. During this period, they would also provide an extension of concession period as per the contractual conditions. So as we understand the ministry is currently underway and it is preparing cabinet note for the cabinet to approve and I think this will probably be done in the next two or three weeks. We should know what the exact formulation is going to be.

Another issue as far as toll collections are concerned is that Maharashtra and Gujarat stopped collection of tolls or card. As far as Gujarat is concerned, we have received compensation which was due to us upto November, In the case of Maharashtra we are still awaiting the compensation for car traffic. We have only one road of ours, which is the Chandrapur Warora link which is a state highway.

The second issue that we probably have now is that RIDCOR, where we have a large toll collection project along with the Government of Rajasthan, have still not finalised what would be their compensation mechanism. However, we have got indications and we believe that they will follow a similar model as the central government. These are the only places where our toll collections were affected. So number one RIDCOR, number two NHAI and number three the **stoppage of collections** on select categories of vehicles in Gujarat and Maharashtra.

Our equity requirement is more or less similar to what was there last quarter because we have really not been able to put too much of equity. We have only put it in the case of RMGSL, which is a very small and a minor amount. Most of the equity requirements will go into two Maharashtra projects, the ROB project and the few of the remaining projects, which need to be completed.

I think the other big thing, which is due as far as this company is concerned, is the commissioning of the tunnel. We are pleased to tell you that the tunnel is now stable, as far as the civil engineering portion of the tunnel is concerned, it is fully complete. We are undergoing the final testing of the whole system, which is primarily related to the integration of the system. As you all know it is an intelligent tunnel and the final system integration tests are going on. The independent engineer is on the verge of giving his completion and we should see, we believe that we are in line to achieve closure of this project, at least the COD would be received by end of this month. So we believe that between January 31 and, latest by, February 10, we should be on track to get the COD for this project.

We also understand that there will be a huge inauguration because this is the longest road tunnel in India and we should be getting the highest levels of government officials to probably come and inaugurate. The company has now received the extension of time for Barwa Adda. However, we expect to commission the select toll plaza on this stretch, which is expected to increase the traffic by almost 25-30% and we should be in a position to thereafter have substantial increase in the toll collections in Barwa Adda. The company currently qualifies to submit bids for projects worth Rs39,000 crore. The other two initiatives that have been undertaken is that we had received the in-principal approval for registration of the infrastructure investment trust and subsequently the trust has been registered. We have planned road shows for the same, the presentations has been uploaded on the stock exchange as well as filed with SEBI. It is also available on the website of ITNL for any of you who may be interested in looking at what the infrastructure trust is going to look like and what assets are there and what are our plans for that.

The second exercise as you probably know, we have requested the shareholders permission for an NCD issue. We have finished a substantial portion of what we need to do for the issuance of the NCD. We have received one of the two ratings that we had sought for. The rating that we have got for the NCD is AA+ and I think that we are on track. We will be opening it shortly but we do not know when the approvals will come exactly.

Another important step that we have taken is that we have reorganised ourselves as far as international operations are concerned. If you recall there were some companies in India, which are held by Spain, there are some companies in Spain, which are held by India, there are some companies in Spain, which are held between the Singapore entity and the Indian entity. We are re-organising all our international entities under our Singapore entity and that would be the holding company as far as ITNL is concerned for all our international activities and therefore all the Indian companies under the subsidiary of the foreign entities will come under ITNL and all the foreign entities that ILFS ITNL holds will be shifted to IIPL which is in the USA. The results for the quarter ended December 2016 are in compliance with the Indian Accounting Standards and has been restated in Ind-AS and as therefore comparable on a like-to-like basis. I would like to pass on the mike to Dilip Bhatia, our CFO who would run you through some of the critical numbers of this project.

Dilip Bhatia: Thanks Ram. As you all would have had the results by now on a standalone basis the total revenue for the quarter was Rs1,020 crore, a 5% improvement compared with Rs978 crore over the last quarter.

The total profit before other income and finance cost was healthy around 30%. We are at around Rs373 crore versus Rs295 crore the last quarter. What we have started to see is now with the efforts of the company and the market environment there is little bit of softening of the finance cost. The finance cost this quarter is around 5% lower than what we had last quarter. We hope this trend will continue in terms of, the benefits of the liquidity in the market and the softer interest rates being passed on to us. We hope to see further reduction in the finance cost as we go along.

The bond issue which Ram just mentioned will also be a significant contributor in our endeavor to bring the finance costs down, we see a good 200 to 250 basis points interest rate benefit as we complete the bond issuance.

On a PAT basis, profits are almost the same as the last quarter, except that the last quarter had gains from investments, which in this quarter we do not have. Compared to the December 2015 converted into IndAS, which was a negative Rs19 crore is a significant improvement this quarter to Rs55.66 crore profit. As Ram mentioned four companies, which were held by Elsamex Spain have been now taken over directly or transferred to ITNL as part of our international reorganisation. This is subject to approval from the Spanish Bank, the transactions are not yet closed, but we hope to complete that in this quarter.

Similarly one of our assets, which was Andhra Pradesh Expressway, which we had divested to Cube Highways, we received almost all the approvals. It is finally the NHAI approval which is expected shortly, so again we hope to complete that transaction in this quarter, that transaction will result in cash inflow of Rs140 crore on a standalone basis and at the consolidated level the debt, will come down by around Rs700 crore. These are the important highlights of this quarter. I am happy to now take questions from all.

Moderator: Thank you very much. We will now begin with the question and answer session. We will take our first question from the line of Gaurav Sanghvi from Bajaj Allianz. Please go ahead.

Gaurav Sanghvi: Good afternoon Sir. The construction income is lower year on year, so if you can help us to understand the execution part?

Dilip Bhatia: This quarter, construction is slightly better than last quarter, but yes compared to last year it is lower, I think some of the projects are nearing completion with finishing touches like CNTL and Khed Sinnar. More importantly, our two Maharashtra projects, will add to construction income, we have received appointed dates for them only in the month of November. So a little bit of work while it happened in the quarter as per the Accounting Standard 7 we could not take that into the income because minimum threshold work was not completed, but I think next quarter these two projects should contribute significantly to the construction revenue.

Gaurav Sanghvi: In terms of our order book, do we have all the appointment dates in place or some projects have land acquisition issues?

Dilip Bhatia: Yes, we have appointment dates for all the projects.

Gaurav Sanghvi: Okay, there are no issues in terms of execution from that end?

Dilip Bhatia: I think except for Gujarat ROB, which is a smaller Rs250-crore project, all the others have appointed dates.

Gaurav Sanghvi: Okay, out of the total order book of Rs3,500 crore, only Rs250 crore is where we have some issues, otherwise all the projectsé

Dilip Bhatia: There is no issue as such Gaurav.

Gaurav Sanghvi: I mean appointment date is not there.

Dilip Bhatia: Yes, only appointment date is not there, but again we have achieved financial closure in the project.

Gaurav Sanghvi: In terms of gross margin if we just look at from the construction income and construction expense perspective, gross margin was better in the current quarter compared to the last quarter year on year, if you can help us to understand, what led to the significant improvement?

Dilip Bhatia: Are you referring to construction margin or the overall gross margin?

Gaurav Sanghvi: So when I say gross margin I remove the other operating income and look at the construction revenue and construction expense

Dilip Bhatia: Construction expense means construction cost right? So I think this is again the mix of the projects in terms of where you know the construction is happening, also I think one important fact we are seeing is that softer commodity prices, some of the projects where escalations were assumed, when in the original project cost and margins are worked out. We are actually not seeing escalation, we are actually seeing de-escalations so that is helping us in terms of the overall margin.

Gaurav Sanghvi: Do you think this trend to continue because if I just look at the last quarter, actually EBITDA margin at the construction level was only 3.2% and corresponding base quarter was 1.5% whereas this quarter we have 15.5%, so there is a significant improvement. So do you think this trend will continue in the margin?

Dilip Bhatia: Yes, I think the trend should continue going forward.

Gaurav Sanghvi: Okay, in terms of what is the total equity invested in the project and what is the equity commitment remaining, if you can help with this numbers? What is the total equity investment we have today and what is the commitment remaining, if you can help with these numbers?

Dilip Bhatia: So the total amount invested into various SPVs today is in the range of Rs5,100 to Rs5,200 crore, actually to be precise Rs5,216 crore. The incremental equity commitment for all the projects to be completed for our current order book is Rs943 crore out of which Rs400 crore and Rs229 crore are to be increased in the next two years and remaining after 2018.

Gaurav Sanghvi: So, Rs900 crore is what is remaining right?

Dilip Bhatia: Yes.

Gaurav Sanghvi: Out of which Rs400 crore will go this year?

Dilip Bhatia: Yes.

Gaurav Sanghvi: What is the outstanding standalone debt?

Dilip Bhatia: Rs9,600 crore.

Gaurav Sanghvi: What is the target which we have in terms of, after we will get Rs700 crore like from this Andhra Pradesh Expressway, so what is the overall target we are planning on standalone debt.

Dilip Bhatia: Gaurav, Andhra Pradesh Expressway will give us the cash flow of Rs140 crore and on a consolidated basis Rs700 crore will be debt reduction. On a consolidated basis, I think what we see is that we are almost at peak as well as some initiatives, which we are planning which is InVIT and others will help us reduce the debt going forward.

Gaurav Sanghvi: This Rs9,600 crore, which is debt, it will continue as it is or do you think, it can come down further in the next one, one-and-a-half year?

Dilip Bhatia: I think what is significant here is to look at that all incremental cash flow requirements whether it is equity, sub-debt or support where the target is to meet also the internal accruals and not increase the debt while projects will get commissioned. While the asset size of the company will move from Rs 22,000 crores to Rs, 45,000 crores in the next three years. We do not expect the standalone debt to significantly go up. More important also as we are working on and we look going forward is to change the mix of this debt more from moving from short-term to longer-term, moving from bank driven to bonds and capital market driven, which will be definitely bringing in the advantage in terms of the interest cost reduction and also increasing the maturity profile so the bonds which we are looking at placing will have a much maturity of 5 to 7 years so that will actually strengthen the entire maturity profile of the company.

Gaurav Sanghvi: But if one looks from the overall income in EBITDA and interest expense respect to the significant part of the EBITDA is going into interest expense today, so what is the slightly medium-term plan in terms of, because are we planning to sell few projects to ensure that interest cost comes down substantially or what is the plan in terms of deleveraging and improving the standalone profitability?

Dilip Bhatia: Going forward while I cannot give a specific number to you being a forward-looking statement, overall as a management strategy is to definitely reduce the overall interest cost by two ways, one will be reducing the cost of debt, which will be through various bonds and other instruments, and two will be containing the overall debt while the assets get commissioned, while the overall income increases containing the debt so that in terms of the proportion of the finance cost to the overall EBITDA and gross revenue starts reducing over a period of time.

Gaurav Sanghvi: What is the current cost of debt for us?

Dilip Bhatia: Will be in the range of 11.50% - 11.75%

Gaurav Sanghvi: This is standalone right?

Dilip Bhatia: Standalone yes.

Gaurav Sanghvi: In terms of asset commissioning I think it will have an impact on the consolidated revenue right, on standalone we still, or you think there will be some cash flow coming back to this standalone?

Dilip Bhatia: On a standalone basis, asset commissioning also helps us to refinance the assets which are matured and that leads to some of the top-up in terms of debt at the SPV level and that cash flow comes back on a standalone basis.

Gaurav Sanghvi: Thank you.

Moderator: Thank you. We will take our next question from the line of Vikas Garg from L&T Mutual Fund. Please go ahead.

Vikas Garg: Good afternoon gentlemen. Two questions, one is on the investment trust, which you are proposing to launch, what are the broad timelines that we are looking on that and since you have already started doing the road shows, how good is the market appetite for this kind of structure? So that is one question. Second is the overall debt number of the standalone company, which has gone over by some Rs350-odd crore on a QOQ basis, so while it was mentioned during the presentation that no equity was invested into any of the SPVs, so this increase in the debt on a QoQ basis would have been result of what kind of factors? Thank you very much.

Dilip Bhatia: Good afternoon Vikas. I think the first question on the InVIT in terms of readiness, we have done what is required pertaining to completing the documentation, the transaction update memorandum is uploaded on the website, the investor presentation is available on the website, and we are looking at investor contract programme by end of this month and early part of next month. Based on that we expect that we should be able to complete the transaction before March this year. I think investor feedback when we had met some of the investors around two months ago was fairly decent. The size and type of the portfolio is unique, this is annuity plus toll so it is sort of fixed return, which can be predicted with some growth, so we really hope that investors will really like it. That is as far as InVIT is concerned. On a standalone debt the total increase is around Rs300-odd crore. I do know there has been investment in the SPVs in this quarter, which was for the regular projects like RMGSL, KNCL, CNTL, which are under construction. Also, as I said the transaction which is for APEL, we were hoping to close before December, but some procedural delays has taken us to next month, so that is also an inflow, which has not come in, that is resulted in debt going up by around Rs250-odd crore.

Vikas Garg: Thank you very much.

Moderator: Thank you. We take our next question from the line of Siddharth Sivaramakrishnan from UTI Mutual Fund. Please go ahead.

S Sivaramakrishnan: Thanks for taking my question. My first question was on the debt profile, so Rs9,600 crore of standalone debt, how much of it will be short term and how much of it will be current maturities as long-term debt?

Dilip Bhatia: Around 30% is short term as of today and rest is all long-term debt.

S Sivaramakrishnan: So this 30% includes the current maturities as well.

Dilip Bhatia: Yes.

S Sivaramakrishnan: The other question was on the pending equity commitment of Rs900-odd crore. Now, you also mentioned in the presentation that you have started work on SSTL. So, does it include the equity commitment of SSTL and related to that how much is the sub-debt over and above Rs900 crore that you would have to infuse under construction project?

Dilip Bhatia: Rs943 crore includes all the projects which we have on hand today including SSTL and two Maharashtra projects, so this is the complete requirement of equity over the next three years or whatever time it takes to complete all existing projects, BOT projects and as far as sub-debt is concerned. An almost equal amount is needed as sub-debt to be put into these projects, but the timeframe is the same like your equity, so the next three to three and a half years around Rs1,000 crore is required as a sub-debt.

S Sivaramakrishnan: So roughly Rs800 crore would be the funding commitment towards under construction project in FY2018 and the timeline would be a spread over three years?

Dilip Bhatia: Yes.

S Sivaramakrishnan: One more question I had was on the refinancing at the SPV level. In the last call you had mentioned that around Rs7,500 crore of debt at the SPV level you are looking to refinance. So what would be the status as on date and how much of it we have done, how much of interest cost savings has been realised?

Dilip Bhatia: Last quarter, we have not completed any transaction, but we have moved significantly forward in three of them, we are waiting for NHAI approval, which also has been received. So in this month we should complete two of them, which should be around Rs2,500 crore. The next third one should be done by February, which would be another Rs2,000 crore and the rest two we are looking to be done by March. So there is a clear plan, now road map laid down, the necessary approval documentation have been received, now it is question of getting the final touches and then placing those bonds or refinance activities.

S Sivaramakrishnan: So by March you expect the entire quantum to be received?

Dilip Bhatia: Yes.

S Sivaramakrishnan: This would release how much of ICD that ITNL would have given or used to fund bridge funding to these projects?

Dilip Bhatia: Roughly around Rs500 crore should get released, this is in addition to some of the money will also go to other group companies who might have given short-term loan, so Rs500 crore should be roughly be released. In terms of the other question of interest cost based on the current indication I think we should be from a project-to-project 200 basis points to 300 basis points is the interest rate saving in the re-finance activity.

S Sivaramakrishnan: Thanks.

Moderator: Thank you. We take our next question from the line of Teena Virmani from Kotak Securities. Please go ahead.

Teena Virmani: Good afternoon. My first question is regarding the execution trend like you mentioned that some of the projects are nearing completion, so wanted to get an idea about the schedule of the projects going forward as to how the construction schedule would be in the coming one to two years, would it be impacted by some kind of delays or do you think that the delays and all issues are all over and now execution should pick up at a faster pace?

S C Mittal: As far as the projects which are in hand and which are under execution, in almost all the projects 100% land is available and we have also tied up the finances of all these projects. So we do not expect that there would be any significant delay on account of all these factors and things are under pretty good control and whatever is the scheduled dates for the projects, we are likely to complete them in time.

Teena Virmani: Okay, so even in Q4 we can expect some kind of pick-up in the execution?

S C Mittal: Definitely. This is the only working season and so we have been striving hard to achieve a very good progress in the next quarter.

Teena Virmani: So FY2018 execution would be largely led by the new projects where you have mobilised your resources like Amravati ï Chikhli and Fagne ï Gujarat and the recent EPC projects also. These will also start contributing towards the execution in FY2018 and FY2018 onwards?

S C Mittal: Definitely, because let me tell you about the Chennai metro project, the whole project needs to be completed in 20 months, so we have no breathing period and we have already been mobilizing the people, equipment etc, over there, so we have to be very fast in that and besides that the Amravati ï Chikhli and Fagne, Sonmarg and SSTL projects will also pick up next year onwards because this quarter we faced a little bit of issues because, in Jammu and Kashmir there is a low season because of the snow, etc, but definitely in the next year we are going to make significant progress on three - four projects.

Teena Virmani: Regarding margins like to one of the participants you have mentioned that there are some projects where costs were assumed to be high. You have been able to save upon that because the costs did not move on to that level. But, if I compare the execution between Q2 of FY2017 and Q3 of FY2017 there are no different projects, so the project execution which is going on in Q2 would have continued in Q3. So between these two for example, if Chenani Nashri was going on in Q2 it would have been continued in Q3 also so if there is no change in the projects, there probably would not have been a change in the project mix in Q3. So how exactly have we achieved the cost savings because costs savings have been fairly high, EBITDA margins have been around 15.5% for Q3?

Dilip Bhatia: You are correct that the number of projects, which were under execution in Q2 and Q3 are same. But, please understand the road construction business, in the initial period the construction is hard work etc., there is no escalation margin. However, in the later part of the project execution, primarily on the two projects Khed Sinnar and Barwa Adda, now majority of the work that is being done utilizes steel and bitumen and these are the two commodities, there has been a significant reduction in the prices as compared to what we had assumed in the bidding time. So that is the reason that even in the same projects we had good savings in the commodity prices. So the impact of these comes at the later part, because the bituminous work that constitute roughly 35% of the total project is executed in the later part of the completion period.

Teena Virmani: So going ahead how do you see the trend in the EBITDA on a standalone basis because now that these projects would largely be getting over some in this year and some in the next year. So FY2018 onwards we would anyway have new projects adding up to the execution. So how do you see the sustainable full year margins at the EBITDA level going forward on a standalone basis for the company?

K. Ramchand: Teena, I think it is a good question, as we have done this on a yearly basis. I think while this project will come to an end, others will be in different stages, as they move on, the similar cycle comes in every project, so while, in this quarter Barwa Adda, Khed Sinnar maybe next quarter we will have few others and after that projects which have already started they will go to that phase, so on a yearly basis you will have this cycle definitely come in. So we see in terms of the overall EBITDA margins we will maintain this level.

Teena Virmani: In the sense between 13%, 14% or 15% level on a standalone basis.

K. Ramchand: 10% to 15% yes.

Teena Virmani: On a standalone basis. Okay and in terms of consolidated if you can throw some ideas on the international side like Elsamex revenues on a nine-month basis, can you give some kind of idea on that?

K. Ramchand: Since we are not disclosing consolidated numbers, I cannot give you the numbers, but I think Elsamex is also seeing a healthy growth and I think this year there will be an improvement over the previous year.

Teena Virmani: Sorry to ask you a long question, but this is the last question, so on a consolidated basis like if we had a relatively subdued execution during this year on standalone this would have added to lower revenues on a consolidated basis. Also, so my fear is that since the margins are also impacted, the execution was also relatively lower. It may be possible that the company may post a net loss once the Ind-As numbers are out on a consolidated basis because the debt refinancing and all is going to take time, so this year we may have continued high interest outgo and execution impacted, and this working on the numbers on a consol basis, so wanted to take an idea on that?

Dilip Bhatia: Two things, one is while you are saying execution will be low, I think you should also to take into account the corresponding cost savings we achieved which shows an overall impact on margins, while if you look on the standalone basis as against Rs2,900 crore last year we are at Rs2,400 crore so around 15% drop, but at the margin level there is no significant drop, so while the topline as you say maybe itǿs a slightly lower number, but the margin, at the EBITDA level or at the construction margin level, we do not see any significant drop coming in. At the consolidated level, while the numbers are not being disclosed, but we do not see a situation of coming into the negative territory I think we should have a decent year on a consolidated basis as well.

Teena Virmani: That is it from my side.

Moderator: Thank you. We will take our next question from the line of Harsh Shah from Dimensional Securities. Please go ahead.

Harsh Shah: Good afternoon Sir. My first question, I need some clarity regarding this InVIT structure. When you transfer your SPVs to the InVIT portfolio will it attract any capital gain tax, anything like that?

Dilip Bhatia: Yes, they will be subject to capital gains.

Harsh Shah: And the valuation, which will be arrived, will be after the capital gains?

Dilip Bhatia: No. Valuation will be gross valuation, which will be done by an independent valuer. We have appointed E&Y as the independent valuer for valuing the assets. Now whatever value ITNL will get for transferring 100% stake will be compared with the initial cost of these particular assets in the books of ITNL and the difference if any will be subject to capital gains.

Harsh Shah: That will be borne by ITNL only?

Dilip Bhatia: Yes.

Harsh Shah: Another question, just needed some clarification. We recorded EBITDA margins of around 29-30% for this nine month and one of the participants you mentioned that you will maintain EBITDA margin around 15-16%, so is there any disconnect between these?

Dilip Bhatia: No, that is EBITDA. There was a construction margin the participant mentioned, this is EBITDA margin, which is in the range of 24% to 29%.

Harsh Shah: Overall margin will be maintained at 25% to 29%?

Dilip Bhatia: Yes.

Harsh Shah: The last question relating to the NCDs. What is the rate youŕe targeting to issue these NCDs?

Dilip Bhatia: We do not have the pricing yet. I think a discussion with various banks and the lead managers and the time will be decided closer to the issue.

Harsh Shah: Thank you.

Moderator: Thank you. We take our next question from the line of Chetan Vadia from JHP Securities. Please go ahead.

Chetan Vadia: Good afternoon and thanks for the opportunity, Sir my question is on the consolidated debt level, I know you are giving only standalone numbers, but on a rough estimate where would debt reach as of December compared to March 2016?

Dilip Bhatia: The consolidated debt right?

Chetan Vadia: Yes.

Dilip Bhatia: So on a consolidated basis right now we will be around Rs26,500 crore?

Chetan Vadia: Sir at the time of the last analyst meet you did touch upon debt. Short term would go up a little before it would start going down, so by end of FY2017 you expect debt to remain at this level and what is the expectation on debt level for FY2018 on a consolidated basis?

Dilip Bhatia: On a consolidated basis InVIT itself will help us reduce debt by around Rs4,000 crore while the other projects will draw debt. As I think in the last call, we said that we will see the consolidated level FY2018 being the peak of the debt. FY2018 we see debt around Rs27,000 crore on a consolidated basis.

Chetan Vadia: Okay that is it from my side and all the best Sir.

Moderator: Thank you. We take our next question from the line of Kaustav Bubna from SKS Capital. Please go ahead.

Kaustav Bubna: I was just wondering what your L1 projects are worth so the Chennai Metro and the two road projects in MP?

Dilip Bhatia: Chennai is Rs371 crore where we have already got a letter of award and the other two projects are around Rs213 crore and Rs161 crore, so is around Rs400 crore.

Kaustav Bubna: So you said the Chennai Metro has to be completed in 20 months, what is the timeline for the two road projects in MP?

S C Mittal: These two road projects for which the letter of award is still pending is expected to be around two years for one of the roads and for the other one it is around two and a half year.

Kaustav Bubna: Thank you.

Moderator: We take our next question from the line of Ankush Mahajan from Edelweiss. Please go ahead.

Ankush Mahajan: Good afternoon Sir. Sir, we are just trying to understand that this year the ordering activity from NHAI side is lower as compared to the last year. So would you throw some light on what are the reasons behind it? I mean for the ordering activities if we see?

Dilip Bhatia: Getting a new order you mean?

Ankush Mahajan: Yes Sir.

K. Ramchand: I think that is a question that you should ask NHAI, for the ordering activities. But, if you go by the market, there are various statistics which are coming out. Statistics coming from rating agencies saying that it has gone down, but the governmentøs own statistics seem to say it has gone up. So I really do not know which one to agree with. We should as far as possible try to go with what the government is saying. Now you must realize that when the government says it activity is going up, it is not talking about only NHAI. They have NHAI; the ministry is also giving projects and so is that new company for the northeast called the National Highway Infrastructure Development Corporation. So these are three entities of the central government itself. In addition to these, the ministry is actually allowing state government entities to also bid out projects on behalf of the ministry. For example, MSRDC, RSRDC these are also bidding for projects funded by the central government on National Highways or State Highways, but been done by the state entities, so when you look at these numbers, if you combine all of these, which is what I think the government is putting out as its achievement, I think you would also come to a similar figure as what the government is saying. So I do not think there has been reduction in activity maybe there is a reduction in activity in the central entity itself, by itself may be if you look at NHAI this year as against last year you may find a difference. But if you look at it on a gross level at what the ministry and all its entities that are doing it, it has probably gone up much more because they have got more entities implementing and awarding projects than what they had previously.

Ankush Mahajan: Sir how do you see the competition intensity in HAM now?

K. Ramchand: Well I think it is mixed. The competition has definitely reduced because we are not seeing more than 6 or 7 bids in HAM projects and none of the large players seem to have come in the HAM segment. They are all medium level players and if I may say again from the reports which you also have probably read only about two or three of the seven or eight which have been bid out have actually reached the financial closure, so I think it is still early days to discuss HAM projects and we will have to wait and watch to see how these progress.

Ankush Mahajan: Sir do you think that in future the government will come up with more HAM projects on EPC side, I am talking about the NHAI?

K. Ramchand: I think NHAI will be mixed. I do not think they will come up only with EPC, anyway that trend seems to be dominated by EPC projects, so I expect that to continue, but there would be besides HAM project there would also be BOT toll projects and we have also seen BOT toll projects being bid out, so it is not that there would not be any BOT type of projects. There will definitely be BOT type projects whether HAM or toll or pure annuity itself, but EPC will continue to dominate.

Ankush Mahajan: Sir we are also getting some reference that NHAI is having a problem to acquire land due to the circle rates and with a new law. Would you throw some light on this Sir?

K. Ramchand: I am not aware of that.

Ankush Mahajan: Sir NHAI is getting hurdles to acquire land due to the new land bill? So is it right Sir?

K. Ramchand: I would not be able to comment. It is not on our projects. That is all I can tell you.

Ankush Mahajan: Thank you very much.

Moderator: Thank you. We will take our next question from the line of Gaurav Sanghvi from Bajaj Alliance. Please go ahead.

Gaurav Sanghvi: Sir, what would be the average execution period of our order book?

S C Mittal: On an average, it is generally two and a half years to three years.

Gaurav Sanghvi: Two and a half years to three years. So if we look at this year, actually there is a dip in the construction revenue even if you take it around three years or basically we will be roughly at Rs4,000 crore annual revenue.

Dilip Bhatia: Yes.

Gaurav Sanghvi: So, basically what is the strategy in terms of increasing the construction revenue because this year we will report decline in the construction revenue, so what is the overall thought process you can share?

Dilip Bhatia: Gaurav you are assuming only current projects with no NHAI coming in. It is in the current projects itself Rs12,500 crore, three years used to be Rs4,000 crore on top of it the EPC already Rs800 crore are with Rs371 crore as the net of overheads has been recorded and another Rs400 crore where we are expecting the turnover, so that should help us grow the construction revenue year on year.

Gaurav Sanghvi: So we are kind of okay to now bid for EPC road projects or any other EPC work or are there any strategies on that side?

K. Ramchand: We are actually bidding on the EPC projects as you have seen. We have already bid for it, but we have been selective that is all. We are not going to bid for anything and everything. We will only bid for those where we think that we will be able to make our margin.

Gaurav Sanghvi: Thank you.

Moderator: Thank you. We will take our next question from the line of Amit Rane from Dalal & Broacha. Please go ahead.

Amit Rane: Thank you for the opportunity. In your results we have said something about High Court of Allahabad, so how much revenue impact this has had in this quarter?

K. Ramchand: I do not know what the exact number is, but if you look at the Allahabad High Court order came out on October 13 or thereabouts we collect about Rs100 crore a year, as far as revenue is concerned, and we own 26% of that so on the whole year, our loss would be about Rs25 crore but let us say over the last 90 days that is about Rs8 crore.

Amit Rane: Thank you.

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

Vipul Shah: Sir what would be the maximum debt at consolidated level after the peak of execution cycle?

Dilip Bhatia: Can you repeat again?

Vipul Shah: What will be our peak debt at consolidated level at the peak of execution cycle?

Dilip Bhatia: I think we expect FY2018 to peak around Rs27,000 crore. Within Rs27,000 and 28,000 crore should be the peak of debt.

Vipul Shah: At that time roughly what should be our daily toll and annuity revenue?

Dilip Bhatia: We estimate that to be in the range of around Rs9.5-10 crore.

Vipul Shah: So that will also be peak of that?

Dilip Bhatia: When all the projects go live will be around Rs12.75-13 crore.

Vipul Shah: That will happen in which year Sir?

Dilip Bhatia: That should happen in 2019.

Vipul Shah: But at that time the debt will be lower than Rs27,000 crore?

Dilip Bhatia: The reason is as more projects get operational, the number of projects joined debt will be lower and the number of projects spent and repaying the debt will be higher.

Vipul Shah: Thank you Sir. All the best for the future.

Moderator: Thank you. We will take our next question from the line of Ronald Siyoni from Sharekhan. Please go ahead.

Ronald Siyoni: Good afternoon Sir. I had just one question. The Rs5,215-crore equity invested in the SPVs, how much is the sub-debt portion in that?

Dilip Bhatia: This is pure equity.

Ronald Siyoni: This is pure equity, no standalone sub-debt portion in that?

Dilip Bhatia: Sub-debt invested is about Rs2,181 crore.

Ronald Siyoni: Thank you Sir.

Moderator: Thank you. We will take our next question from the line of Nirbhay Mahawar from M2 Capital. Please go ahead.

Nirbhay Mahawar: How has our gross net toll collection moved this quarter versus the previous quarter?

K. Ramchand: We mentioned it in the beginning.

Nirbhay Mahawar: I missed it Sir.

K. Ramchand: What is net toll collection?

Nirbhay Mahawar: Means our share.

Dilip Bhatia: I think what Ram mentioned was our share only. I think accounting for the claims on the period when we did not have the toll collected, if we take this off then I think we are almost flat in the quarter in terms of toll collection. On a YoY basis, we see a growth of around 3%.

Nirbhay Mahawar: So would it be Rs8 crore because in the previous quarter you had mentioned around Rs8 crore?

Dilip Bhatia: It is Rs7.4 crore.

Nirbhay Mahawar: 7.4 Crore. Sir this transfer of assets to InVIT will lead to what kind of toll revenues which will get transferred to InVIT assets?

Dilip Bhatia: InVIT assets we have three annuities and one toll. On a revenue basis, we would be transferring revenue of around Rs380-400 crore to the InVIT.

Nirbhay Mahawar: Our ownership will get restricted to 26% if I am correct?

Dilip Bhatia: Effectively we have to sell 100% of the assets and we own 26% of the InVIT, so indirectly IL&FS owns 26% of the assets.

Nirbhay Mahawar: How does this toll revenue move up after commissioning of CNTL and KSEL? Like what kind of jump will take place after these two projects come in?

Dilip Bhatia: CNTL itself will give us daily collection of around Rs2 Crore and KSEL will be another Rs70 lakh.

Nirbhay Mahawar: This is going to happen in the next quarter?

Dilip Bhatia: Yes.

Nirbhay Mahawar: Thank you.

Moderator: Thank you. We will take our next question from the line of Sagar Parekh from Deep Finance. Please go ahead.

Sagar Parekh: Sir just one clarification, you said that your peak gross collection would be about Rs12.7-13 crore per day that is our share or that is the total?

Dilip Bhatia: Total share.

Sagar Parekh: Our share would be 70% of that?

Dilip Bhatia: Around 75%.

Sagar Parekh: You said that FY2018 about Rs9.5-10 crore that is also gross?

Dilip Bhatia: That is also gross.

Sagar Parekh: Currently it is about Rs7.4 crore per day and that is also gross? You mentioned that in the last quarter it was about Rs7.4 crore per day?

Dilip Bhatia: Let me correct, I think Rs10 crore on a net basis, our share.

Sagar Parekh: In FY2018?

Dilip Bhatia: Yes.

Sagar Parekh: Currently, Rs7.4 crore is our share or that is also gross?

Dilip Bhatia: Rs7.4 crore is gross.

Sagar Parekh: Basically about Rs10 crore would be the net in FY2019 on a peak debt of about Rs27 crore, right?

Dilip Bhatia: Can you just come again?

Sagar Parekh: In FY2019 if I do 75% of about Rs12.75-13 crore that would be our share of revenue so about Rs10 crore per day?

Dilip Bhatia: Yes.

Sagar Parekh: So Rs3,650 crore of annual net collection for our share on a peak debt of Rs27,000 crore?

Dilip Bhatia: Rs27,000 crore also is on a gross basis.

Sagar Parekh: Thank you. That is it from my side.

Moderator: Thank you. As there are no further questions from the participants, I would now like to hand the conference over to the management of IL&FS Transportation Networks for closing comments.

Dilip Bhatia: I think we have had a very good session. I am very happy to see participation from all of you. One important thing which we wanted to update you is that as we have been discussing, we have an asset in China, in which we hold 49%, we acquired this in 2011. The asset has done very well for us but over a period of time we have been looking at the overall strategy which is related to divestment and we are now looking at divesting that asset. Today we have a few offers on that. We hope to complete that transaction in this quarter and close it after necessary approvals by Q1 FY2018. That itself will have a significant impact on the overall debt level. I think the transaction should help us reduce the debt by around Rs2,000 crore at the consolidated level. That is an important update I wanted to give. Thank you for all your participation. Thank you very much.

Moderator: Thank you very much. On behalf of Ambit Capital that concludes this conference. Thank you for joining us. You may now disconnect your lines.