"IL&FS Transportation Networks Limited Q1 FY2018 Results Conference Call"

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Moderator: Ladies and gentlemen, on behalf of Maybank Kim Eng Securities, I would welcome all to the IL&FS Transportation Networks Limited Q1 FY2018 results conference call. 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. In case you need assistance during the conference call, please signal the operator by pressing "*" and then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Vishal Periwal of Maybank Kim Eng Securities. Thank you and over to you, Sir!

Vishal Periwal: I welcome everyone and I would like to thank the management of IL&FS Transportation Network for giving us this opportunity to host their post result conference call. From the management we have with us today Mr. Mukund Sapre - Executive Director, Mr. Dilip Bhatia - Chief Financial Officer, Mr. Krishna Ghag - Vice President, Company Secretary and Head of Investor Relations.

We will start with an overview from the company on their quarterly results and then we open up for Q & A. Over to you Sir!

Mukund Sapre: Thank you everybody for joining us today for this Conference Call. I will cover aspects of the Company's business updates and then hand over the call to Dilip Bhatia who can run through the financials for the quarter. Post which, we are available to address any questions.

We have around 30 road projects, which total's to around14,000 lane kilometers, of which, 23 are operational projects and this comprises of around 10,848 lane kilometers. We have been also saying that we will be bidding for EPC Projects, in terms of EPC wins, we have around ₹ 920 Crores worth of EPC contracts in hand excluding the Zojila Tunnel.

In terms of order book (proportionate to our stake), our BOT book stands at ₹ 11,665 Crores, which gives us visibility for the next two to three years of construction work. Our order book have been flat compared to the previous quarter which was around ₹ 11,810 Crores, owing to the monsoon period. Our EPC book is around ₹ 539 Crores and our international book, excluding Elsamex is around US$ 252 million, which includes the Laos Project.

In terms of passenger car units, we have witnessed a growth at around 2.6% quarter-on-quarter and year-on-year it is around 6.76%.

Gross average daily collection from toll and annuity has been flat quarter-on-quarter and up 25% year-on-year at ₹ 9.60 Crores which is split between 42% from annuity and 58% from toll. As you all are aware, Noida Toll has not been collecting money since October 2017 and we had also sold one of our annuity assets in March 2017, so these two are not part of the numbers, which I have just quoted.

In terms of our pending equity requirement for all the projects we have in hand, it is around ₹ 1,080 Crores, of which ₹589 Crores need to be infused by FY2018 and ₹491 Crores will be needed in 2019 and beyond.

Pending Sub-debt requirement also stands around ₹ 1,111 Crores, of which ₹ 359 Crores will be required in FY2018 and the remaining will be infused by FY19 and beyond. We are qualified to bid for project worth around ₹ 19,000 Crores.

The last and most significant update is that we have been declared L1 in terms of the Zojila Tunnel. The estimated cost of this project is around ₹ 4,899 Crores which is to be constructed over a period of seven years. We believe that this is a significant EPC win for us since we have already completed Chenani Nashri Tunnelway Limited in the same geography. We are also constructing Sonamarg Srinagar Tunnel in the same geography and now this will be our third project, which we will be undertaking as an EPC contract.

We have financially closed our Dubai Supreme Courtand automated car park project at US$ 80 million. We have also entered into a transaction and partnered with a real estate developer, Paranjape Group where we will develop real estate along with them.

That is in terms of the business updates and now I will hand over the call to Dilip to run through the numbers and then we can take questions.

Dilip Bhatia: Thank you Mukund. First of all welcome to all you. The results have been uploaded and I am sure you all have seen the result.

Quickly, for this quarter revenue from operations stands at ₹ 954 Crores, slightly lower compared to the last quarter of the same year and last quarter which was around ₹ 1,183 Crores and ₹ 1,163 Crores respectively. Essentially, we are seeing a drop in construction activity because some of our projects like RMGSL, Khed-Sinnar and Chenani Nashri have achieved completion last year and the new projects, which are particularly Fagne Songadh and Amravati Chikli, the initial work has just started, so we have reported lower construction income for the quarter.

Correspondingly, construction cost has also been lower which is why it has not affected the bottom-line but at the topline and at the construction cost level, we have seen drop this year, which we believe is now part and parcel of our business essentially because certain projects are completed, new ones are just starting so it is a matter of time as the existing projects like the ones which are currently under construction like Amravati Chikhli, Fagne Songadh, SSTL, etc pick-up steam on construction activity and then I think we will be back in terms of the topline as well.

At the EBITDA level, we have been better compared to last quarter and even the corresponding quarter of the last year. As against ₹ 374 Crores in June 2016, EBITDA for the current quarter stands at ₹ 420 Crores, which is higher compared to the March 2017 quarter, which was ₹ 379 Crores. So as I said, at the margin level we have not really seen any drop because of the lower construction activity.

EBITDA margins remain in the similar range. This quarter has been pretty good essentially because there is profit on sale of investment, which was not there last year. If I take that out, I think EBITDA is still in the range of 30% - 32%, which is a fairly healthy margin.

Profit before tax, is more or less similar year on year and quarter in quarter at ₹ 35 Crores. It was ₹ 40 Crores in June 2016 and ₹ 41 Crores in March 2017. PAT stands at ₹ 25 Crores, 10 Crores being tax expense. Tax expense has been provided based on the total profit for the entire year, so essentially during the last quarter or in the last two quarters we made adjustments which you have seen in the March quarter. The EPS annualized stands at ₹ 0.75. The borrowing at the end of June was around ₹ 12,700 Crores, including preference shares. We have seen a slight uptick in borrowing which is essentially again owing to a timing mismatch and I think we will end the financial year without any incremental borrowing.

Mukund has already covered the business updates. A few financial updates, we have financially closed the Dubai Supreme Court Project, which is under IIPL, our wholly owned subsidiary in Singapore. Also, IIPL has successfully repaid bonds worth US$84 million which were due on July 2017. Post this, IIPL has no external debt on its balance sheet.

We have also refinanced two of our annuity projects in this quarter. They were done in April and May. Although we have already made the necessary announcements earlier but they remain significant events for this quarter. Total amount which we refinanced was around ₹ 2,600 Crores and we got at an interest rate saving of 250 - 280 basis points for each of them, which is in line with our strategy and initiatives that whenever our projects reach maturity in terms of annuity or toll collection, we actively look at refinancing the existing debt on their books which helps us reduce the cost of borrowing significantly.

So this is on the financial side, we will be happy to take any questions that you all may have.

Moderator: Thank you very much. We take the first question from the line of Jay Balaji from Jay Balaji Securities Private Limited. Please go ahead.

Jai Balaji: Namaskar Sir. I am an investor in IL&FS Transportation Networks Limited and am also an analyst. My first question how many material subsidiaries do you have? Also, in the next releases, can you please add a short note for reference?

Dilip Bhatia: Sir, if you see our Company, ITNL, all the projects we have are our SPVs, and there are separate companies, which are also our subsidiaries where we own about 51% or more. Likewise, we have about 56 subsidiaries which also include international subsidiaries where we have international projects, so roughly I can tell you our material subsidiaries range between 45 and 50.

Jai Balaji: Okay Sir. The second question was that if you see on the Bombay Stock Exchange there is information that in March 13, 2014 there was a rights issue and also one in October 7, 2015. What was the purpose of these issues and where was the money utilized?

Dilip Bhatia: Sir, while these are two very old issues, you will know there was a monitoring committee which was formed during the rights issue wherein all the offer documents were drafted under their supervision and control. They also check how and where the money was being utilised and only post that they will give a certificate. I do not have the documents in front of me, but essentially the rights issue, which have happened, the utilisation has been provided in the draft but I believe it is essentially for the repayment of debt.

Jai Balaji: Sir, if I see your shareholding pattern, at least 50,000 shareholders hold 5.38% and 201 shareholders are there who hold about 5.2%. So, what is the Company's view on creating value for its minority shareholders?

Dilip Bhatia: Sir, as you are aware, we are in the road BOT projects space. However, as Mukund Sir has told you all that we are now moving from BOT to EPC and are diversifying the business. There is one important aspect for you to understand, that we are now trying to create additional sources of stable revenue in the EPC segment where bid for projects where we have expertise and where we have the knowledge. That is one part. Second important part, is that we plan to reduce the debt which is there in our books and are also working actively on reducing the cost of borrowing as well. We have multiple options to enable us to reduce the debt burden. First option is monetization of matured assets, in the past, we have said that whenever our assets mature, we will monetize them, and we have monetized three assets recently and will continue to do so for all our other asses which will help generate cash flows and reduce debt. Second, InVIT, it is a matter of two to three months, when we will launch the InVIT. The response has been encouraging. We are also waiting and watching how investors are taking the product and so in two to three months we will launch our InVIT. That will help us reduce the leverage in the balance sheet by a significant number, we will be able to reduce the debt by about ₹ 3,300 Crores. Refinancing is also an option, wherein, we will continuously reduce our cost of borrowing. Like I said a moment back that we have done two refinances. The total debt refinanced was about ₹ 2,550 Crores and we have saved about 3% interest cost and from next year you will see the same thing. Likewise, we have four projects which are about ₹ 8,000 Crores that is expected to be refinanced during this year, this will also help us reduce the cost of borrowing. At the ITNL level, the costliest borrowings, which are there, we continuously refinance through the issue of corporate bonds. Last year, we had issued around ₹ 1,500 Crores and this year also our target is to issue bonds around ₹ 2,000 Crores. When we issue bonds, the maturity will be between five to ten years, wherein, our short-term borrowings will be reduced and the long-term borrowing will increase. This will be helpful and the cost of borrowing will also reduce by around 1.5%. So this is also an option which we are monitoring continuously, this will reduce our cost of borrowing and start yielding better profits and we will be able to create value for our investors. So in short, we are diversifying our business model, we are continuously reviewing our existing projects and monetizing the projects to generate cash flows and winning new projects in international geographies like Laos, Dubai etc.

Moderator: Thank you. Mr. Balaji, we request you to join the question queue for any follow-ups. We have the next question from the line of Vishal Periwal from Maybank Kim Eng. Please go ahead.

Vishal Periwal: First is on the profit and loss account and the revenue we have booked again from the sale of investment. Can you give some brief on it like which project and how much was the book value and any other detail that you can share on this front?

Mukund Sapre: This was an investment which was made in a company called Rajasthan Land Holdings Limited, which holds land parcels in various parts of Rajasthan. In June, the Company entered into a tie-up agreement with Paranjape Developers from Pune, who have taken over the entire stake in the company. We divested 100% of our stake in RLHL to Paranjape Group. The Group that has bought RLHL is looking at developing these land parcels for commercial purposes. There will be a joint development between the existing land parcels and they will also be bringing in their parts of land. Right now, we have sold it based on the fair value of the company. In future, whatever gains will be there on account of development, we are entitled to one-third in addition to new ventures as well.

Vishal Periwal: That is helpful. Second, we have seen a sharp jump in the other income also, so is there anything to notice in this because what I understand is that the gain from the investment is booked in revenue from operation, so what has led to this sharp increase?

Dilip Bhatia: Actually other income includes the interest, which we get on financing the SPVs. Essentially, if you look at our business model, it is building roads under our SPVs. Some SPVs report short-term debt or sub debt, which is a means of finance and we support them whenever they need cash either due to cost overrun or for any other factors. Now, as we have been explaining earlier we have numerous SPVs and some of them are in the construction phase, or early part of operations, it is difficult for them to go out and raise money on the strength of their own balance sheet. Therefore, ITNL borrows on its balance sheet and then in turn lends it to these SPVs. This is a pertinent question because if you look at our other income, it has gone up and you will also see that the interest cost has gone up. Essentially, we have borrowed on the balance sheet and in turn have lent it to SPVs. There is a higher interest cost at the same time higher interest income, which offsets each other or more or less offsets each other.

Vishal Periwal: Okay I got your point. You mentioned that we are in the advanced stage for getting more projects and you have given a number of ₹ 190 odd billion wherein we will be either L1 and will finally see it coming to our kitty. So can you name some of the projects and what is the status of it and how do you see the order book building up anything on that front?

Mukund Sapre: Actually the number which I said ₹ 19,600 Crores was the total quantum of project worth where we are qualified as ITNL to bid. Some of the major bids that we have participated in are the Mumbai Trans harbor lane, BDD Chawl etc but please note that we have just bid for them and have not been declared L1. Ideally, we would target around ₹ 4,000-5,000 Crores of additional EPC works annually, which I believe we have already achieved for the current financial year with the Zojila bid.

Vishal Periwal: Okay and if I can just ask little bit more on this, in terms of new bids, which all bids do you see which will be opening up in this year probably this calendar year any name that you can share?

Mukund Sapre: I think wherever we have bid like the Mumbai-Trans harbor link etc should open in two-three months. We do not have any idea on the BDD Chawl bid but have recently submitted our bid. However, I believe there are two-three metro bids and around two-three road bids which are in the pipeline.

Vishal Periwal: I will come in the queue for more questions.

Moderator: Thank you. We have the next question from the line of Harshal Gandhi from JHP Securities. Please go ahead.

Harshal Gandhi: Good evening Sir. My question pertains to finance cost, the Company has been saying that it has been refinancing its debt and reducing the cost of borrowing but if I take the finance cost quarter-on-quarter and year on year, it has jumped by 15%, can you please explain this?

Dilip Bhatia: You are right, I had mentioned in an earlier question that a large part of this is because there has been some borrowing which we have taken on our balance sheet owing to on-lending to SPVs, if you look at the finance cost, although it has gone up, at the same time, around ₹ 40 Crores of finance income also has gone up. Secondly, we have just now refinanced and the effect is of only one quarter, when the whole year comes in you will find that the full year impact is much more. Thirdly, the refinancing that we were talking about earlier was done at the SPV level whereas the reported finance cost is only at the ITNL level. The refinancing is happening at the SPV level. At ITNL level, essentially there is refinancing with bonds, which were issued in March so the impact will come in the next couple of quarters. There is some additional borrowing we do for supporting new projects and hence that is another reason you see the finance cost going up but if you net the finance cost increase versus increase in other income which is essentially the interest income from SPVs you will not see any significant increase in the finance cost.

Harshal Gandhi: Okay and what would be the fresh order inflow received in Q1?

Mukund Sapre: Sorry can you repeat your question?

Harshal Gandhi: What would be the fresh order you would have received in Q1 FY 2018?

Mukund Sapre: We did not get any new orders during this quarter. We are L1 for Zojila, which is an EPC contract, and prior to that we have two-three EPC projects worth around ₹ 900, Crores but in terms of BOT there is nothing new.

Harshal Gandhi: Thank you I will come back in queue.

Moderator: Thank you. We have the next question from the line of Shekhar Singh from Excelsior Capitals. Please go ahead

Shekhar Singh: Sir just wanted to know what is the total revenue from the annuity road contracts?

Mukund Sapre: As I said earlier, we are somewhere around ₹ 9.6 Crores per day, which is 42% annuity and 58% from toll. If I try to put a number per day for FY2018, then it is going to be around ₹ 11.6 Crores and FY2019 will be around ₹ 13.36 Crores. Generally the ratio has been in the range of 42% from Annuity and 58% from Toll.

Shekhar Singh: Okay and the remaining revenue will be what?

Mukund Sapre: 58% is coming out of the toll that we are collecting from various projects.

Shekhar Singh: Okay and what is the total capital, which is there in these 30-road project or the 23 operational road projects what is the total capital, which has been deployed?

Dilip Bhatia: The total amount invested by the company in all these projects will be around ₹ 5,300 Crores, which is the equity investment we have done. We have also given sub-debt, which is the means of finance of ₹ 2,000 Crores plus the support which we give to SPVs at different points of time whether it is for cash flow mismatches or for cost run which is another ₹ 3,500 Crores. So essentially ₹ 11,000 Crores is what we have invested in all these projects which are under construction as well as operation via various forms such as equity, sub debt or short-term loans.

Shekhar Singh: What will be the total debt involved in these projects. I am just trying to calculate what is the total capital in the sense like the equity and debt put together?

Dilip Bhatia: We have roughly around ₹ 19,000 Crores of external debt.

Shekhar Singh: ₹ 19,000 Crores and Sir entering into EPC business, I just wanted to understand that IL&FS engineering is also there and IL&FS transportation is also getting in to the EPC work, is it similar work or is it very different?

Mukund Sapre: As you would know, that from October, I am also part of IECCL that was a conscious decision for the precise reason that these two entities can combine with each other and still strive. In terms of IECCL business, it is going to be concentrating more on power, oil & gas. Metro and Road will be a synergy between IECCL and ITNL, so if you look at the Mumbai-Trans harbor link project we have bid along with IECCL in a JV and we have a coordinating team which is going to take into account the common sector and help synergize both these entities. ITNL is going to participate in niche projects like Zojila since we have already completed CNTL and we are doing Sonamarg Tunnel. On the other hand, IECCL has a huge inventory, huge staging material and huge equipment lying which can be used by ITNL.

Shekhar Singh: Congratulations thanks a lot.

Moderator: Thank you. We have the follow up question from the line of Vishal Periwal from Maybank Kim Eng. Please go ahead.

Vishal Periwal: Sir on Zojila Tunnel in which we are L1 can you give some colour on what is expected to be the margin trajectory for this particular project because we have done one such project in J&K before but how do you see this bid that you have put in like what kind of margin that you see from this projects?

Mukund Sapre: In terms of construction business we look at a 10% profit margin. Also, as I said that we had taken up construction of 3 kilometers of Chenani Nashri Tunnel by ourselves and did it in-house owing to which, we now have the necessary equipment which we had procured in an amicable settlement with our earlier contractor so that gives us a real benefit and we have a readymade team, readymade equipment and we are very confident of doing this in time or little bit earlier.

Vishal Periwal: Second is on, you were planning for InVIT so is the plan still on? Can we see this InVIT happening this year anything that you can share on this front?

Mukund Sapre: I think it is going to happen and we are working on it and we believe that we should launch by December.

Vishal Periwal: The next is on, I believe we were planning for an asset sale in one of our subsidiary that is in China so any progress that we have seen in this project if you can an update on this front?

Dilip Bhatia: As you know in China, we have been seeing large amount of control on capital and release of capital outside. Given that, we have been going a little bit cautious on that front, while we have a lot of onshore investors we also want to make sure that the money once it is paid gets released to us and we are able to take it back to India. Discussions with lawyers and investors are going on. We also have a possibility of some offshore investors who have now shown interest in the project so before finalizing the deal we wanted to really look at all the possible opportunities. As of today, we are very close to agreeing terms with both offshore and onshore investors, if everything goes well I think we should be able to close these transactions by December 2017.

Vishal Periwal: I will come back in the queue for more.

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

Ronald Siyoni: Good evening Sir. I wanted to understand about the other income portion. From Q3 FY2017 onwards you have started booking other income as interest from these SPV's earlier, till Q2 it was not there so what was the change and how the second entry is getting deflected? what is getting contradicted here?

Dilip Bhatia: I could not get your question.

Ronald Siyoni: From Q3 FY 2017 we have started booking of other income as interest, which we have received from SPVs like whatever we are lending before Q3 till Q2 FY 2017 there was no booking of such income in other income right?

Dilip Bhatia: Income was getting booked from earlier, so whenever we gave either sub debt to a SPV or short-term loan to a SPV, we charge interest and that is what gets booked. If you recollect from December onwards the format of reporting has changed, where there is now only the revenue from operations and other income there used to be earlier other operating income as there are part of other operating income as there is part of other income could be but now there is only other income hence, that is getting clubbed under other income. We are also talking to our auditors about our associates, which will be part of income from operations but I think it is work-in-progress.

Ronald Siyoni: Okay and what will be the fee income portion during the quarter?

Dilip Bhatia: No fess, no significant fee is charged?

Ronald Siyoni: Thank you very much.

Moderator: Thank you. We have the next question from the line of Biswarup Mohapatra from Future Generali Life Insurance. Please go ahead.

Biswarup Mohapatra: Earlier we used to get debt numbers for standalone and consolidated so could you please give that number and how is the quarter-on-quarter movement?

Dilip Bhatia: I think we have given standalone. It is around ₹ 12,700 Crores which includes preferential of ₹ 700 Crores, this is for June 2017. The consolidated debt, I think will be close to March 2017, which was around ₹ 31,000 Crores.

Biswarup Mohapatra: Okay and standalone what is the number in March?

Dilip Bhatia: March was ₹ 11,670 Crores.

Biswarup Mohapatra: Okay and so is actually where we are getting a finance cost of around ₹ 380 Crores for this quarter, so going ahead it should go down and similarly under consolidated level, what kind of reduction in interest cost on weighted average basis are you expecting after all these refinancing activities?

Dilip Bhatia: I just mentioned earlier in the call that we are looking at refinancing projects worth ₹ 8,000 Crores this year. We have refinanced projects worth ₹ 4,300 Crores last year and even if we suppose that banks are not passing on any further debt interest cost reduction to us which I believe they should do with the recent RBI rate reduction with a ₹ 12,000 Crores sort of debt refinance and we have total 2.5% benefit on an annualized basis we should look at ₹ 300 Crores worth of reduction in interest cost at the consolidated level. Of course, I am annualizing everything while ₹ 4,300 Crores was refinanced last year the impact of this will be seen fully in this year. The ₹ 8,000 Crores we have lined up for refinancing will be seen fully in the year going forward because they will be refinanced at different points of time.

Biswarup Mohapatra: Sir is there any delay in launching the InVIT I mean what is holding up our launch, earlier if I am correct we were targeting somewhere around Q1 or Q2 so is there any delay due to any specific purpose?

Dilip Bhatia: No I do not see any significant delay. There has been little bit of administrative procedures, some approvals and also we have been seeing the recent two transactions and their performance. I think we are just waiting and watching and will now get in touch with the investors again and we believe we will see good interest from them.

Biswarup Mohapatra: Going forward what will be our target primarily like more towards EPC side or BOT side I mean can we say that that is a shift in order book in favor of EPC going ahead?

Mukund Sapre: Actually this is going to be dependent on what sort projects come in terms of size, because if you look at the hybrid annuity model, we would generally see an average size of ₹ 400-500 Crores and that is where we believe that we would not be able to compete in that section. As long as the bigger hybrid annuity projects are going to come and bigger EPC projects are going to come then that is an area where we will be putting bids for additional wins. We have a few defined HAM Project which we have identified for ourselves and also for EPC. It is going to be a combination of both in terms of hybrid annuity and in terms of EPC. In the future, we are going to bod for projects which meet our required threshold and expectations.

Biswarup Mohapatra: Sir, finally can you give us the consolidated revenue and profit figures for the quarter?

Dilip Bhatia: As you are already aware, the board has chosen to declare only standalone numbers for the quarters so I am sorry, I would not be able to give you any consolidated numbers for this quarter.

Biswarup Mohapatra: Okay so consolidated number will be out at year-end?

Dilip Bhatia: Yes.

Biswarup Mohapatra: Thank you Sir.

Moderator: Thank you. We have a follow up question from the line Ronald Siyoni from Sharekhan. Please go ahead.

Ronald Siyoni: Sir you had highlighted that for operational projects you have invested about ₹ 11,000 Crores equity right?

Dilip Bhatia: For all our projects, not only operational but all the projects which includes projects under development and under construction as well.

Ronald Siyoni: ₹ 19,000 Crores is the debt portion for all the projects including construction and ongoing?

Dilip Bhatia: Yes.

Ronald Siyoni: ₹ 13.36 Crore average daily collection, would be the revenue per day including all these projects after all the projects get operationalised, which are under construction also?

Mukund Sapre: Yes ₹ 13.36 Crore is the forecasted figure for FY 2019.

Ronald Siyoni: Yes but it includes everything there won't be any leftover project from which revenue will be booked?

Mukund Sapre: Yes. The number includes all the projects which are slated to be completed by FY 2019.

Ronald Siyoni: Thank you very much.

Moderator: Thank you. We have the next question from the line of Dhananjay Mishra from Sunidhi Securities. Please go ahead.

Dhananjay Mishra: Sir what is the proportion of overseas revenue in this quarter?

Dilip Bhatia: We have no overseas revenue this quarter because we have only reported standalone numbers.

Dhananjay Mishra: Sir but you have an order book of US$ 250 million?

Dilip Bhatia: Please note that the results are only standalone financials. Overseas order book is based on separate subsidiaries, which will come only as part of consolidated financials.

Dhananjay Mishra: So it is not coming in standalone so even if there is an EPC work that will also come in consolidated, right?

Dilip Bhatia: No. For example, Zojila will not come as a subsidiary but will come in ITNL books only since the work is being done by ITNL.

Dhananjay Mishra: Okay.

Mukund Sapre: Just to confirm, all EPC will get captured in standalone only but international projects like Laos etc are being done by IIPL, our Singapore subsidiary or Elsamex are hence they are part of consolidated financials.

Dhananjay Mishra: Okay and this ₹ 300 Crores interest cost saving we are expecting is only through refinancing? Are we not factoring in anything like InVIT etc that would be additional, right?

Dilip Bhatia: Additional yes.

Dhananjay Mishra: Sir one more question on your toll and annuity collection, how do you recognise the revenue in the income statement?

Dilip Bhatia: So toll is simply on receipt basis. As you know, we collect toll on a daily basis and that gets recognized to P&L as an income. As far as annuity is concerned, annuity is like an EMI, so when you take a housing loan, of ₹ 100, a portion is income and the other portion is principal, so when we account for annuity under the current accounting standards, any annuity which comes is considered as a payment made by the government towards the asset that we are building and a portion of the payment is recognized as a finance income and goes to the P&L and another portion of the payment is considered as a recovery towards the asset and goes for reducing the cost of the asset.

Dhananjay Mishra: What proportion will come in the income out of the annuity received? Let us say that we have ₹ 10 Crores everyday so out of that, 42% is annuity so let us say ₹ 4.2 Crores is annuity income out of that what proportion will come in the P&L statement?

Dilip Bhatia: This is a function of an IRR on the project and also a function of how much cost has been incurred on that project.

Dhananjay Mishra: I am just asking a rough figure not exact figure?

Dilip Bhatia: See annuity the problem is annuity is one number, so in a housing loan for example, when you take it, in the initial stage, the whole part is a reverse of the full loan you have and now and secondary portion is interest. Annuity is a similar principle where the annuity is reversed and the initial portion is limited to finance income and because you have spent significant amount of money on building a project, it gets difficult to share a proportion.

Dhananjay Mishra: That is all from my side.

Moderator: Thank you. We have the next question from the line of Nirbhay Mahawar from N Square Capital. Please go ahead.

Nirbhay Mahawar: Just a follow up question on the InVIT, why is the InVIT closure taking so much of time, is it because most of the other infra companies have launched?

Dilip Bhatia: Only one infra company in the road sector has issued the InVIT, the other one is in the Power sector and is not our key sector.

Nirbhay Mahawar: The capital market conditions are pretty benign as of now and we have been trying and we were the first one to try and launch the InVIT?

Dilip Bhatia: I understand that but as I am saying, InvIT is a new product, new set of investors, new regulations so obviously the market takes time to settle, while I do not want to comment on the current market conditions they are benign for say the equity side but we have seen in some of the cases in the existing InVIT, the market listings have not been bad and the investors are also interested and we are also just looking and I am happy to tell you that our recent interaction with investors has given us good confidence and that they are a lot more understanding about this product, a lot more understanding of what to expect from the product and accordingly the expectations are now well aligned to the expectations we have and what we would like to give with an IRR with a yield. We are now seeing a good alignment between investors and issuers, so surely as you know Mukund said I think the InVIT is very much under our radar and it will happen in a matter of two-three months .

Mukund Sapre: We just feel that sometimes it is better to not be a first mover in the market.

Nirbhay Mahawar: Also follow-up on the debt number you mentioned consolidated debt of ₹ 31,000 Crores, this is gross or net debt?

Mukund Sapre: This is gross.

Dilip Bhatia: Net is around ₹ 29,900.

Nirbhay Mahawar: ₹ 29,900 and peak debt is around ₹ 30,000 Crores, that is what sometime back you had mentioned? So would it be fair to assume that with this number we have reached our peak debt levels?

Dilip Bhatia: We should. I think the way it is currently going, more and more projects are getting operational and we are now paying more debt. I think if you look at the projects which has incremental debt are only Amravati-Chikhli, Fagne Songadh and SSTL and some other newly won small projects. Also, as and when the financial closure happens during this year, we will not see projects drowning down any more substantial debt. The other 20 odd projects which are operational will start repaying their debt. We have more or less reached our peak debt and particular initiation like InVIT will help us release the debt significantly from where we are today.

Nirbhay Mahawar: So would you be able to give a number maybe two years down the line, what would be your debt post InVIT?

Dilip Bhatia: I would really love to give you the numbers but since we are in a very dynamic industry and we are hopeful that the numbers will not go up substantially from here.

Mukund Sapre: Unfortunately, we are also bound by internal regulations and policies to not give any forward-looking statements.

Nirbhay Mahawar: Thank you.

Moderator: Thank you. We have the next question from the line of Kapil Joshi from Stewart & Mackertich. Please go ahead.

Kapil Joshi: Good evening Sir. Sir, I have just one question, the government has been coming up with various initiatives to encourage road infrastructure and the company has also been awarded many projects but it is still not reflecting in our company's earnings so can you just throw some light on it?

Dilip Bhatia: When new projects get operational, they initially need some support. They initially need some handholding as the project matures. I think, it is essential for us to realize that and this is an important aspect of our business. As we are growing in our journey of stabilizing more and more projects that are becoming operational and then become mature do they start generating earning surplus for the company. The initial years of toll projects do not usually earn any surplus it takes around 3-4 years to mature and generate cash, if you see our past 2015, 2016 and 2017 operational history, we have commissioned a maximum of toll projects and they need some support in the initial years and that support also sometimes leads to a lower secured earning. However, we are happy to or we are successfully able to supplement that support or meet the support through annuity projects or other projects but as the projects mature, as the projects get seasoned, the same will reflect in the earnings of the company. You will notice that at the gross levels earnings have been going up.

Kapil Joshi: Thank you.

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

Sagar Parekh: Good evening Sir, Thank you for taking my question and sorry if I am repetitive since I joined the call a little late. Can you just let me know what is the equity requirement over the next two years for all our road projects?

Mukund Sapre: The total equity requirement is around ₹ 1,080 Crores, of which ₹ 589 Crores needs to be infused by FY2018 and the balance is to be infused by FY19 and beyond.

Sagar Parekh: And ₹ 19 Crores would be the remaining?

Mukund Sapre: No. The balance is ₹ 491 Crores.

Sagar Parekh: How do you plan to fund this?

Dilip Bhatia: There are various initiatives to fund this. These will be from internal accruals, refinancing, stake sale, claims etc all this will lead to substantial cash flows, which will be used to fund these requirements.

Sagar Parekh: So basically InVIT will be ₹ 3,300 Crores of consolidated debt, how much are we planning to raise in terms of equity from InVIT?

Dilip Bhatia: So in terms of ITNL, the cash flow to ITNL, which will be net of ITNL subscription to InvIT will be around ₹ 300 Crores, the net cash flow which will be net of a 26% subscription which we will do in the Trust.

Sagar Parekh: Correct, so ₹ 300 Crores will come into the standalone entity from the InVIT, by way of raising the money?

Dilip Bhatia: Yes.

Sagar Parekh: So ₹ 300 Crores from InvIT. What kind of asset sales are we looking at, you mentioned about ₹ 300 Crores of interest savings that is about ₹ 600 Crores?

Dilip Bhatia: No, that is at the consolidated level, it can be slightly confusing. This ₹ 300 Crores is at the standalone level. The refinance for various projects will throw up another ₹ 500 Crores to ₹ 600 Crores for ITNL. So if you are looking at that both these initiatives itself, it will take care of the capital requirement for the next two years. If the capital requirement is ₹ 1000 Crores, it is not only for this year but is for the next two years or till the time these projects are completed. Since we look at it from that perspective, the requirement to support the projects in terms of capital and sub debt is not very significant, this year total requirement of capital and sub debt is around ₹ 800 Crores to ₹ 900 Crores and I see another ₹ 1000 Crores over the next 2-3 years. This is the net requirement which we have as against the various initiatives lined up which will generate more cash plus we have not yet spoken about the large amount of claims which we have with the NHAI authority and from last year onwards we are seeing significant progress at various levels and we are expecting at least two of them or at least one of them to materialise this year and two to materialise next year, which itself will give us good cash flow in the range of ₹ 1,000 Crores to ₹ 1,200 Crores to SPVs which will come back to ITNL.

Sagar Parekh: This is at the SPV level, which will then come back to ITNL?

Dilip Bhatia: Yes.

Sagar Parekh: You mentioned ₹ 11,000 Crores invested as either equity or sub debt so correct me if I am wrong that out of that ₹ 5,500 Crores is sub debt or mezzanine debt and the remaining is pure equity, am I right?

Dilip Bhatia: Right.

Sagar Parekh: Okay and this ₹ 13.36 Crores average per day toll and annuity collection for FY2019, does that include the projects, which will go into InVIT, or this is after InVIT?

Dilip Bhatia: Yes it does include.

Sagar Parekh: It does include right and on a blended basis how much would be ITNL's share out of this ₹ 13.36 Crores? Can we take approximately about 70% would be our share?

Dilip Bhatia: More than that.

Sagar Parekh: How much it would be?

Dilip Bhatia: Our share would be 75% to 80%.

Sagar Parekh: Okay and this ₹ 13.36 Crores will be when all projects currently we will be operational or there will be some portion of projects which will go to FY 2020 which will be operational?

Mukund Sapre: No, FY18 will have two projects getting operational and FY19 will have only one project in Jharkhand commencing operations. Our Maharashtra Projects will get added only by FY20.

Sagar Parekh: Okay Sir, when all projects put together currently under operation or I mean under construction as well as operational all projects put together in FY2020 or 2021 what kind of revenue are we looking at when all projects are operational?

Mukund Sapre: We do not have that number readily available, but I think the larger one is around ₹ 470 Crores of annuity per annum from SSTL which will also come around FY20.

Sagar Parekh: So then what kind of number are we looking at, can it be about ₹ 15 Crores or ₹ 16 Crores per day then?

Mukund Sapre: Yes.

Sagar Parekh: ₹ 15 Crores, right.

Mukund Sapre: Yes.

Sagar Parekh: Okay and on that number we are basically saying that our consolidated net debt will not go up beyond ₹30,000 Crores are we right in our understanding?

Mukund Sapre: I think all the actions and initiatives that we are taking should result in that.

Sagar Parekh: Okay and on the standalone level this ₹ 12,700 Crores, we have been seeing this number constantly going up so can we now say that this ₹ 12,700 Crores has reached the peak and possibly from now on as you have interest savings, as you have asset sales, this standalone debt number should be able to come down from here?

Dilip Bhatia: I think this year, as I have said earlier on the call, we do not expect any incremental debt to be drawn. We should be around this number or may be even lower.

Sagar Parekh: That is it from my side and all the best. Thank you.

Moderator: Thank you. We have the next question from the line of Gopal Agarwal from RBL Bank. Please go ahead.

Gopal Agarwal: Just wanted to know if you can throw some light on the new EPC project, the Zojila Tunnel and how this project will reflect in the EBITDA margins?

Mukund Sapre: Zojila tunnel has a project cost of around ₹ 4,900 Crores and since this is an EPC contract, there are two to three important factors to note, one, is that the escalation is stable, two, is that there is a geological impact payable up to 5% and this is for around seven years of construction period and we also have a bonus clause of 0.03% per day to the maximum of 10% and as I said that this seven years construction should contribute somewhere around ₹ 420 Crores to ₹ 450 Crores of PBT, you can spread the income a little bit of over a period of seven years but that is the number which is going to get added on PBT and an additional benefit is that we acquired some equipment when we had to complete 3 kilometers in Chenani Nashri. We are also doing Sonamarg Tunnel where the start point is just 15 kilometers from Sonamarg Tunnel and if I complete my escape tunnel in the Sonamarg project, then this project which is available for six months after December next year, we will be able to work for 12 months, so that really gives us hope and also a very important factor is the geology, this geology is far, far, far better than what we have learned on CNTL or SSTL, here the terrain is much more mature.

Gopal Agarwal: So we can probably leverage our experience of CNTL and others?

Mukund Sapre: Yes definitely that is what I said earlier. During our construction of CNTL, we had to terminate our contractor and we did almost 3 kilometers of balance excavation, tunneling and completed the projects by ourselves. So with that experience we will be able to complete this using our in-house construction team.

Gopal Agarwal: Thank you Sir.

Moderator: Thank you. Ladies and gentlemen that was the last question. I now hand the conference over to the management for their closing comments. Thank you and over to you!

Dilip Bhatia: We thank you all for joining us and asking very pertinent questions. As Mukund stated in the beginning, I think this year we have started well and the Zojila Tunnel has been a very significant development as far as the company is concerned. From the managements perspective, we do understand the concerns you have raised and the questions you have had and we are actively working on putting in place a frame-work for the company going forward, be it getting into a new business segment or equity which is best capital intensive or looking at the overall debt and looking at bringing it down through various initiatives whether it is stake sale or securitization or refinance or looking at bringing the cost of debt down, so these are all initiatives, which we have been working on during the last year and we continue to work this year as well, the sector and segment probably need a little more time for these initiatives to materialize, but they definitely are happening. The refinance of ₹ 4,300 Crores last year and ₹ 8,000 Crores this year are our larger initiatives, which we continue to pursue. We are on track in terms of project execution, we see two projects Barwa Adda and Kiratpur Ner Chowk getting operational this year, JIICL will come next year and that will also be important, as I said is to look at how the profile is changing. We are moving more from an under construction

Company and more projects reaching operations and that releases the financial bandwidth and management bandwidth to focus on initiatives. We will continue to give you updates on what is happening in the company. Our team is available in case you need any more information or questions; we are happy to help.

Moderator: Thank you very much. Ladies and gentlemen on behalf of IL&FS Transportation Network Limited that concludes this conference. Thank you for joining us. You may now disconnect your lines.