ñIL&FS Transportation Networks Q2 FY17 Earnings Conference Callò

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MANAGEMENT:	**IL&FS TRANSPORTATION NETWORKS LIMITED** **MR. K. RAMCHAND - MANAGING DIRECTOR** **MR. MUKUND SAPRE – EXECUTIVE DIRECTOR** **MR. DILIP BHATIA – CHIEF FINANCIAL OFFICER** **MR. KRISHNA GHAG – VICE PRESIDENT**
MODERATOR:	**MR. VISHAL PERIWAL – RESEARCH ANALYST, MAY BANK KIM ENG SECURITIES**

Moderator: Good Day Ladies and Gentlemen, and a Very Warm Welcome to the IL&FS Transportation Networks Q2 FY17 Earnings 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. Should you need assistance during the conference call, please signal an operator by pressing ớ*ô then ớ0ô on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Vishal Periwal from May Bank Kim Eng Securities. Thank you and over to you sir.

Vishal Periwal: Good Evening, everyone. I would like to welcome and thank the management for giving us the opportunity to host their 2Q FY17 Post Results Earning Call.

From the management, we have with us today, Mr. K. Ramchand -- Managing Director; Mr. Mukund Sapre, Executive Director; Mr. Dilip Bhatia -- Chief Financial Officer and Mr. Krishna Ghag -- Vice President, Company Secretary and Head, Investor Relations.

Now, I will hand over the call to Mr. Ramchand for his opening remarks and then we will open it for Q&A. Over to you sir.

K. Ramchand: Thank you. Good Evening, everybody, and Welcome to this conference which we are hosting after our board meeting which just concluded pre-lunch.

Just to highlight some of the positives that have taken place in the company, I would like to just quickly run through some of the things which have happened. As you all know this company has 31 Road Projects aggregating to almost 14,700 lane kilometers, of which 12 are Annuity Projects and 19 are Toll Projects. Of these 31 Projects, 22 Projects are now operational, which is broadly about 36% on Annuity and 64% Toll.

Order book as it stands today is Rs.13,524 crores and has a visibility therefore for about two-to-three years. It has gone down marginally from the previous quarter by about Rs.400 crores. Construction activity in Q2 has been lower and we have also witnessed cost overruns in some of our SPVs like Jorabat-Shillong, the Tunnel Project in Kashmir (Chennani Nashri), the Rapid Metro, Kiratpur Ner Chowk, Barwa Adda and Khed-Sinnar. We believe that, may be even more than what we have spent will be recovered by way of claims over the next couple of years. We have already filed for claims, we have three arbitrations going on in for projects, namely, JSEL (Jorabat Shillong), MBEL (Moradabad Barielly) and PSRDCL (Pune-Sholapur).

The total gross average daily collection has been flat; it is almost the same as what we had in the last quarter, which is around Rs.8 crores per day and this I suppose is also due to the seasonal trend, plus we are also observing a new phenomenon where from Q2 we have now been allowed to collect overloading charges from trucks and this seems to have caused some diversion because the per ton cost is almost about Rs.1000 and that seems to be weighing heavily on some of the trucks which do not go long distance and particularly on short distance trucks we are seeing some diversion taking place from Toll routes to non-Toll routes and we are working out a formula through which we can entice them back onto our roads.

The current equity requirement including the recently awarded project stands at Rs.926 crores as against Rs.1000 crores in the previous quarter. We have to infuse Rs.445 crores by FY17, Rs.150 crores in FY18, the remaining Rs.372 crores will be infused beyond FY18 primarily for the Gujarat Road Over bridges and the two Maharashtra Projects.

This quarter the two Maharashtra projects (Amravati Chikli and Fagne Sonagarh) have received appointed dates as on 9th November 2016. We expect two more projects to get operational during this year, mainly the Tunnel Project (Chennani Nashri) and Khed-Sinnar. We already received extension of time for some of our projects; one of them is for Barwa-Adda among few others. We expect to commission the 2nd Toll Plaza on Barwa Adda which is the most critical part as far as Barwa-Adda is concerned, this would see a fair amount of increase in traffic by almost 30% to 40%. There will be a delay as far as some of the projects are concerned; one of them is KNCEL which is the Kiratpur Ner Chowk, because of unavailability of land. We are also qualified to submit projects worth Rs.30,000 crores.

On the financing front, as we have been discussing in the past, we have made fair progress on the reduction of debt on our books; one of them is that we have established the IL&FS Transportation Investment Trust. The Trust was registered and is pending registration. We have a proposal to put four of our roads in our road trust, and we believe that this should be a fairly significant position taken by most of the investors whom we are trying to target for this.

Last month we have all seen demonetization and therefore Toll Collection has been suspended for the last four weeks. We are planning to start collecting it tomorrow and when we start collecting this and as you probably know the government has allowed us to continue to accept old currency and we have also installed a lot of other cashless transaction methodology for users to be used on the roads.

We have received our second PCC for Sikar Bikaner **(SBHL),** which now allows us to collect Toll on 99% of the road. During the quarter, Rapid Metro operated at a flat fair of Rs. 20, the average weekly traffic has gone up to almost 35,000 passengers as compared to 34,000 passengers in the corresponding quarter in the previous year.

Some of the key updates as far as the financials are concerned: We had a total income on half year of Rs. 24,104 million as compared to half year ended September of the previous half year, which was Rs. 24,439. PBT was Rs.119 crores as compared to Rs.148 crores corresponding period in the previous year. We had a drop in revenue from operations by about 11% compared to the half year ended September 30, 2015, PBT has fallen about 20%, this was due to lower construction margin, higher interest and finance expenses, plus since we have not booked any project development income from this quarter as we used to book earlier. Tax for the half year is Rs.44 crores, lower by Rs.17 crores as compared to the previous year. Our PAT is at Rs.75 crores which is lower by 14% as compared to the previous half year. We believe that this is a temporary phenomenon and we should be close to where we had proposed that we will be in our presentations with the board.

Having said this, I think we are now actually on a much stronger wicket since most of our difficult projects should get operational this quarter or during the remaining period of this half year, and we should see more revenues flowing from our projects. We have also been able to refinance and the refinancing has occurred at fairly attractive rates, the last one that we have done is almost at about 8.25% and going forward we definitely see a drop in interest rates which when we refinance for some of the larger projects will shows more attractive refinancing which will come back to ITNL and therefore strengthen the cash flows as we are taking care of the debts as far as the holdco is concerned.

You all know that we have also proposed and taken approval for floating a public issue of a bond. We have started the rating exercise for that bond and we have preliminary indications that we should be getting a fairly good rating on the bonds from two rating agencies that we have started to actually rate these bonds, and therefore we should also be in a position to go to the public very soon and that money will again be used for pairing up large amount of higher interest rate debts from our books. So I believe that we are placed very well at the moment. We have done a lot of stuff which was seen to be impacting our profitability and we are taking corrective steps and most of them have seen significant progress during the last half year.

With that I would like to thank you for having participated and supported us during these difficult times in the country and look forward to listening to your suggestions and any questions that you may have.

Moderator: Thank you very much. Ladies and Gentlemen we will now begin the Question-and-Answer Session. We will take the first question from Teena Vermani from Kotak Securities. Please go ahead.

Teena Vermani: My question is related to the projects where financial closure was not achieved till last quarter. So wanted to know the status of Amravati Chikli, Fagne Gujarat and the other projects there was Gujarat ROBs as well, so what is the status of financial closure, because that would give us an understanding as to what could be the construction schedule of these projects?

Mukund Sapre: As far as the Gujarat ROBs are concerned, it is all through, and may be in another two to three days we will be signing the financial closure documents for this. On the Maharashtra projects, the two new ones we are trying to jointly syndicate them with IFCI and IFIN and we have gone ahead and shared the information memorandums. However, as you know that commencement date has been given for these two Maharashtra projects which is 9th November, as you would see in the past that we do not allow performance on the ground to be hampered, so we have already mobilized the contractors on site, the work is starting and after commencement date the milestone of 10% is to be achieved by March, we have moved significantly on that. All downselling has almost happened with some gap of around Rs.150 crores in Barwa-Adda, otherwise we are through with other projects already.

Dilip Bhatia: Just want to also add here that as Mukund said about the two Maharashtra projects while appointed date has come in, we are starting the work, we also work with some very innovative vendor financing structures which will ensure that we are able to commence the work without straining the balance sheet of ITNL, which means we will not be funding from ITNL, but we have worked with vendors and have worked out new vendor financing structures. So while the financial closure is happening, the work will start and it will not hamper the construction progress.

Teena Vermani: But, a similar thing had happened I think for some earlier projects also, I believe, it was I think for Sikar Bikaner or probably Khed Sinnar where there were certain delays from the side of the government agencies but you had started the work. So ultimately the burden actually had come onto the books of ITNL only, because there was a considerable amount of delay. So is it right that we have commenced the work, but without financial closure ultimately would it not put more burden on the books of the Company, because if it gets delayed further it would be a strain on the overall working capital itself?

Mukund Sapre: Actually you need to break this into parts, let me answer your question in two parts; you are right that we did go ahead with Khed-Sinnar and Barwa-Adda where we took our time for down selling but we have already drawn on Khed-Sinnar and Barwa-Adda is also going to happen very soon. The other thing is, what Dilip, my colleague just now said, that this time we are structuring it in a fashion that I do not have too much of funding from holdco to SPV for the work happening on ground, which is basically, utilizing the bill discounting approach and we are not committing any payments and have brought the contractors capability of sustaining this and we have a span of around 6 to 12-months of that discounting period which will be available to us when I really physically discharge the work that needs to be done and to be paid. We know that we are going to take this five-to-six months of financial closure time. During that time, we do not have any outflow. This change has come after learning from our past experience and as all of you know that with so much happening in the sector, financial closure which once upon a time happened so fast, today there is a struggle on that count, but at the same time we believe that things are improving and we will move forward from there. This correction will help by not too much outflow happening for holdco and during this time Khed-Sinnar will already bring back money to the holdco, Barwa-Adda will also bring back money with our recent initiatives, which we have spoken about. I think we would be fairly comfortably placed and will not have too much exposure on these two new projects.

Teena Vermani: So if the financial closure gets delayed beyond 5-6-months, then again it may be an issue?

Mukund Sapre: That it what I am saying that I have a large bill discounting facility available which can sustain rotation of payments to contractors. So one cycle suppose I clear off, the second cycle is again renewed and I use it. So that way if you take, I have six months to one year of time to really close it out and really see to it that I do not go beyond one year. I think the struggle you are talking where holdco steps-in for work going on will happen post this period. But, BOT is such a sector that we need to take corrective measures once the meter has started and I think it is better for us to really move ahead and do this. The same way if you take the case of Barwa-Adda or Khed-Sinnar, now we are authentic 15-20 months of approvals also given to us in terms of extension of time, which we can definitely convert into some numbers because this the same is account of land acquisition.

Teena Vermani: But why was the financial closure of these two projects delayed ï was it mainly on account of the equity commitment that we would have been required to put in or was there some other reason?

Mukund Sapre: All of us know that banking sector has been taking a call and so many things are happening and I think the major issue we believe is that after in spite of so many talks between MoRTH**,** NHAI**,** bankers and others, it was agreed that bid amount is usually 1.2x of project cost. Termination has been an issue in the sector, which all of you know and there was an agreement with all concerned stakeholders that it should not be a problem for up to 1.2x, like my Maharashtra projects, which are almost like 1.2x of the NHAI TPC, but the point is very simple that the underlying written communication of NHAI on the 1.2x project cost is very ambiguous, and lenders are not trying to take a call on this. Just to clarify, it is not about our capability to fund the equity, the reason has been more sectoral and more country-specific and we belive, more initiatives are being taken by the government.

Dilip Bhatia: Just to say that we are very clear in terms of equity funding. Also, just to add to what Mukund said, we have now firm tie-ups in place as far as these two projects are concerned which will ensure that in the next 6 to 12-months we get that much time to complete financial closure, and while the work will continue, we do not see any strain on ITNL balance sheet in terms of the funding for these projects except the committed and the scheduled equity and debt funding which is as Ram mentioned part of our next two ï three years equity and sub debt requirement for which sufficient tie-up of funds are already available at the holdco level.

Teena Vermani: So the sectoral issues which have been impacting the financial closure or delay from the side of the bank also, you believe that these would be addressed over a period of 6-to-12-months and it would help in achieving the financial closure?

Mukund Sapre: Yes.

Teena Vermani: Regarding the other operating income, what exactly does it contain? Is it mainly the interest income from the other SPVs or subsidiaries?

Dilip Bhatia: Yes, this is essentially the dividend and interest income from SPVs. If you look at ITNL as a holdco, apart from the construction income we have significant investments into SPVs which are essentially the operators of concessionaires operating Annuity or Toll Projects in terms of the loans or short-term support or the update we give to SPVs or their cash concession and distribution to us in the form of dividend. This is shown as other operating income, which is essentially part and parcel of my day-to-day business activities.

Teena Vermani: Just to get some idea on the consolidated numbers, I know that you are waiting for the IND AS adoption and it may take some time but you mentioned that the Toll income has been more or less flattish on a year-on-year basis and fee income you have not booked much in the current quarter and EPC we have seen some kind of decline as compared to last year. So can you throw some color on the Elsamex performance on year-on-year basis so that we would get some idea as to how the consolidated numbers would have come in this particular quarter as compared to Q2 of FY16?

Mukund Sapre: Actually, Elsamex has shown continual improvement and if you recollect that last year January-to-December we did around ú7-8 million PAT, last year with top line of around ú170-175 million, I think we will be definitely maintaining that and some improvements of 5%, 10% on top line and the PAT. Also on the Elsamex, as you know that we had some good interesting wins on Elsamex-ITNL JV which we are doing in Ethiopia and Botswana and that is really contributing to our revenues. So Elsamex will keep on growing, if you compare last three years I think we believe that we are on a growing curve and it will continue as we have sustainable jobs to be done on ground.

Dilip Bhatia: Also, I think just to correct what we mentioned earlier was that the Toll growth was flat quarter-on-quarter, but if you look at year-to-date Toll has grown by around 9%, which is a healthy growth rate. Also, the other point on the fee income, I think is that all of it is reflected in the standalone books, in the consol it does not affect us. So that is all, just to put things in perspective.

Teena Vermani: So taking into account the decline in the Construction revenues, prima facie the consol numbers as per you would have come lower than Q2 of FY16 or they are more or less similar to FY16?

Mukund Sapre: I think when we talk about construction, we are talking about three or four assets which are getting commissioned. Also, because of monsoon for the last three months, it will not reflect on the fact that we will be cutting short or falling short on the construction revenues for the year because I am also commencing construction of three or four projects on ground, which is going to add to the Construction revenue. We definitely believe that we are going to show growth on Construction revenues in the coming quarters. There is no reason to believe that it is going to go down.

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

Viral Shah: First of all, a clarification; in other income in the notes you have mentioned that you had sold some stake in Elsamex. Could you clarify on that Rs.140 crores?

Dilip Bhatia: This is a transaction which is necessitated from a regulatory requirement point of view, ITNL holds some stake in Elsamex and the rest was held by our subsidiary in Singapore. Given the current FEMA guidelines, RBI has requested us to unwind that and accordingly, the ITNL stake has been transferred to the fair value in accordance with the new accounting standards of

IND AS to the subsidiary which is IAPL in Singapore and that is reflecting the gain in the books.

Viral Shah: So basically in terms of understanding, we still continue to hold 100% stake?

Dilip Bhatia: At the consol level, yes, but at ITNL standalone level, we do not hold any stake in Elsamex right now.

Viral Shah: So can you explain the structure of what was earlier and now in terms of Elsamex?

Dilip Bhatia: ITNL continues to hold Elsamex at an indirect level, it is not a direct holding now, and we are consolidating all our holdings into our subsidiary in Singapore which will now be the flagship company for all our international operations.

Viral Shah: So that subsidiary in Singapore will be holding around 100% stake, right?

Dilip Bhatia: Yes.

Viral Shah: That in a way would be holding some percent of the stake of Elsamex or maybe 100% stake of Elsamex, that is the right way of understanding, that will be a step down subsidiary of the Singapore, right?

Mukund Sapre: Yes, that is the thing. Actually, we believe that value creation in IAPL at Singapore is something which is going to help the Company in a big way and we need to factor in on those numbers also. So, IAPL had a 23% stake earlier and with the additional 77% stake now transferred, IAPL holds 100% now.

Viral Shah: Rs.140 crores if you remove this one-time adjustment of Elsamex, then there would be a loss for the quarter, right, is that understanding correct?

Dilip Bhatia: I think we shared this earlier as well, if you look at the business model of ITNL as I said in my last call also we said that we essentially are a holdco, holding investment in various SPVs and there are different ways of taking value out of SPVs, one is either in the form of distribution, which is in the form of dividend but which is not tax efficient, other is in the form of capital gains which is essentially recognizing or realizing the profits built in those SPVs because that is tax efficient for us, they are long-term gains subject to lesser tax in India. So, it will not be appropriate to say that the gains on sale of investments from SPVs, will be a one-off item, these are all a recurring part of ITNL business because projects are maturing, some projects have really run up that initial course of stabilizing period, we have been with the projects for long and we have supported them. So now wherever possible we need to start churning these investments so that we are able to realize those gains built on those projects in a very tax efficient manner.

Viral Shah: What would be your standalone gross debt this quarter and last quarter?

Dilip Bhatia: Around Rs.9,350 crores for the current period and last quarter it would be roughly around the same, may be (+/-100) crores.

Viral Shah: This Rs.140 crores has not been used for repayment of debtors, right?

Dilip Bhatia: It has not been used.

Viral Shah: What will be our debt as well as working capital requirement going forward, because what I believe is say Rs.440 crores of equity investment is required in the SPV, so that also has to be funded, right, so there is a possibility of debt going up going forward?

Dilip Bhatia: If you see our last three quarter, I think the debt has been in the range of Rs.8,900, Rs.9,200. All our incremental requirements of equity are funded through internal accruals either in the form of profits or in the form of cash flow realized from SPVs through stake sell and all. While we have the requirement to fund , the equity and debt over next three-year period, for the SPVs, there are a lot of initiatives which have been planned which we are working on and will lead to a substantial release in investments locked in as SPVs, InvIT is one of them, we are looking at four assets to be transferred to the trust, we have made significant progress in that, we have got in-principle approval and are now in the last stages of completing the documentation and we hope that before the end of this fiscal, we should be in the market. This will lead to a substantial release of cash flows for ITNL in the form of equity as well as in terms of loans and debt given to the SPVs. The APEL which we divested to Cube Highways in this quarter is moving very strong towards the closure of the deal, we hope to complete that in next one monthọs time, that will lead to a cash flow of Rs.140 crores and total debt reduction of Rs.600 crores, then some of the refinances which Ram mentioned earlier, and we are now in the next six months working on a pipeline of five projects where we are looking at refinancing, we have got in-principle sanction for two of them and two are in the pipeline, one more we pick up, these refinances not only help reducing the overall cost of funding in the SPV also leads to release of the loans given by ITNL to these SPVs, which will be another significant source of cash generation from the release of cash from the SPVs. So we do not expect the debt numbers to go significantly higher from here, in fact, we should be looking at deduction of the debt numbers as we go in the next 18-months.

Viral Shah: In terms of bonds which are going to be listed, can you quantify what is the amount we are looking at raising?

Dilip Bhatia: We have the board approval for Rs.5,000 crores, okay. We are in touch with or in discussion with lead bankers and merchant bankers, we are yet to finalize the terms of what should be the base amount and the greenshoe option. As Ram mentioned earlier we made a significant progress in terms of getting those credit ratings for the bonds and also developing the necessary documentation, subject to that, we should be hitting the market in the next four weeksô time.

Viral Shah: If possible, could you share what is the rating on the bond and coupon you are looking at?

Dilip Bhatia: Too early to say, for the rating we are looking at some credit enhancement, so we are working and talking to various parties in terms of credit enhancement, it will be a credit enhanced bond, we are targeting for AA+. Coupon will depend on how the market conditions are moving, but I think it is all work-in progress.

Viral Shah: There is toll being stopped at Noida toll bridge because of the order of Supreme Court. Any update on the same?

Mukund Sapre: Actually the Supreme Court had asked the CAG to come and verify our claim and that the returns have been met. So the CAG is currently evaluating all the papers and the documents that we have provided to them. We believe that it will take at least another 30-days for CAG to be able to arrive at consensus on whether the returns have been met. We are fairly confident because we have also given them our own calculations. The CAG should come back with a view that the returns have not been met and the Supreme Court will therefore allow us to resume Toll Collection after that. So, that is basically where we are. So I think December will go, but probably sometime in January we should see the Supreme Court coming back and giving us a favorable response.

Moderator: Thank you. We will take our next question from the line of Vinay Jain from Karma Capital. Please go ahead.

Vinay Jain: I just had a couple of questions: So you mentioned about the standalone debt. So what would be the gross debt at the consolidated level?

Dilip Bhatia: On the consol level, it will be around Rs.26,500 crores.

Vinay Jain: You mentioned about the arbitration cases which you have filed for your three projects. So how much would be the consolidated amount we are looking to get?

Mukund Sapre: Actually, we have filed three cases as of now and all three are under arbitration. We believe that the arbitration awards should start happening from Q1FY18 onwards and we should close the year with all the three awards happening and we have filed large claims, but we hope that it will be somewhere around Rs.2,000 crores which we should definitely realize.

Vinay Jain: The other thing was regarding the commissioning of one of our very important projects which is Chenani-Nashri. So we have been seeing some delays happening, so by when can we expect the commissioning of the project?

Mukund Sapre: As you know these four months have been a big struggle, only after demonetization things have really improved, in terms of nothing happening in the state. It did affect us, but I think the tunnel is completely ready, all the paving, heaving**,** everything has been done, we are just putting the cables for firefighting and the Toll Plaza. So we believe that we should be finishing by December end and let us hope, that this being a very important project, we might have very important dignitaries to inaugurate this project. So December end is our target and most probably we will meet it.

Vinay Jain: You mentioned about refinancing of a project at Rs.8.25%. Which project was it for?

Dilip Bhatia: This is one of the Annuity project, HREL.

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: Can you please indicate the status on the arbitration claim that you had already accounted for in the books of your accounts - projection of Rs.2500-odd crores, what is the status on that, how much amount is expected to be coming from NHAI on that and timelines on that?

Mukund Sapre: As I replied in the last question, we are saying that on two of the awards arbitration proceedings, the cross examination of witnesses is on, and third has done away with the cross examination because the documents are only going to establish, so there will be no cross examination of this, so that should curtail the process. So that should happen somewhere around Q1FY18, the first one should come, and the other two should come in Q2FY18 and Q3FY18, and as you believe on what you have read everywhere, that they are saying that 75% of arbitration award will be paid against bank guarantee once awards are in hand. So we believe that we should see some cash flows for us in terms of 75% of awards in Q2FY18, Q3FY18.

Dilip Bhatia: Just to clarify, these claims are not on our books, so they have not been accounted for, only a portion of the claim where we have made significant progress based on the claim process have been taken in the books of the SPV, no claim has been accounted in the books of ITNL.

Vikas Garg: But out of those claims which have been filed earlier, there were no arbitration which were in favor of the company already which would have moved quite fast in the new contracts things?

Mukund Sapre: In fact these are the first three arbitration issues which the Company has gone into as we had issues on land acquisition, otherwise we had one or two arbitration award which happened in our favor was long back on the Thiruvananthapuram project and the other was on the Jharkhand project where they were accepted and the government is going to pay. But those are approved by government notification and one was arbitration award. As of now these are the three new ones and we do not have any other pending arbitrations.

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

Nirbhay Mahawar: Two-three basic questions, sir in your Road Projects. You listed around Rs. 8 crores daily is your collection on toll/annuity. This is the gross collection or your economic interest collection?

Dilip Bhatia: These are gross collections.

Nirbhay Mahawar: What would be our economic interest collection?

Dilip Bhatia: Around 80% will be our economic interest in this.

Nirbhay Mahawar: What would be our share of associated debt for this Rs.6.5 crores daily for these projectsé let us say you have got Rs.26,500 crores of consolidated debt. So apart from the operational asset debt, what would be the debt breakup for various entities?

Mukund Sapre: We will come back on how much is the operating asset debt and how much is the balance under construction.

Nirbhay Mahawar:: How do you see this Rs.6.5 crores in Q2 FY17 moving by Q1 FY19, how do you see the revenue build up for your share if you can give us an approximate and how will it translate into your operational debt also ?

Mukund Sapre: It should be somewhere around Rs.12-13 crores per day gross, even gross level will improve now because all these projects which are getting commissioned are 100% owned by us.

Dilip Bhatia: All these projects which will get commissioned are 100% owned by ITNL. So for example CTNL project which will get the COD in next 1-month time has an annuity of around Rs.1.8 crores per day which will straightaway go the cash flow.

Mukund Sapre: The percentage will come down.

Dilip Bhatia: Going forward when we say, the percentage will improve, is because significant projects going forward like Khed-Sinnar, Barwa-Adda, KNCEL (Kiratpur NerChowk), CTNL (Chennani Nashri), all are 100% owned by ITNL.

Nirbhay Mahawar: So let us say today your economic interest is Rs.6.6 crores versus Rs.8 crores, so would it be fair to expect around Rs.11.5 crores out of the Rs.13 crores which you are planning to receive?

Mukund Sapre: Yeah. Definitely yes.

Nirbhay Mahawar: During that time, what would be your consolidated debt level?

Dilip Bhatia: Balance debt to be drawn on their projects, is around Rs.10,000 crores. So when we are at Rs.26,500 crores, you assume that Rs.10,000 goes, that is Rs.36,500 crores. Again, this includes the debt of holdco as well, so if we take that out which is Rs.9,300 crores then we are talking about the all projects getting fully completed in 2019 so these are all operational projects debt of Rs.26,000 crores where the daily revenue of Rs.11.5 crores to Rs.12 crores.

Nirbhay Mahawar: This debt will be your share of debt or overall debt in the company?

Dilip Bhatia: Again overall debt, so again if I have to take 10% out from that, 26,000 minus 10% so we are talking about 23,500 as against Rs.11-11.5 crores per day.

Nirbhay Mahawar: In your previous concall, you have mentioned that your cost of debt is around 12%. So how do you see this moving in next 1.5-years?

Dilip Bhatia: I think in both fronts, one at the standalone level and also the consol we are targeting for minimum 200 basis reduction in the cost of debt. One is at the consol level particularly, since the SPVs are maturing, the annuities are being received, and as I said, we are aggressively working on refinancing, in every refinance deal we get a minimum deduction of 200 to 250 basis points in the rate, that is on the SPV level, and as I said five or six projects currently are being considered for refinance, two of them are already very-very advanced with term sheets in place. As far as the holdco is concerned, we mentioned about the bond earlier. The bond as we complete will also lead to 200 to 250 basis points reduction in the debt cost of the company, and if it is at the full amount which we are able to garner, it will be more than 50% of the total outstanding debt. So we will have a significant downward impact on the overall cost of debt of the company.

Nirbhay Mahawar: So 10% blended cost of debt would it be a fair number or it is too optimistic or realistic?

Dilip Bhatia: With the current trend in the market and the economy I think what we should be targeting that and we should be able to achieve the same in the next two yearsô time.

Nirbhay Mahawar: Just to sum up, you are saying that around Rs.11 crores per day would be your daily collection, you are talking about roughly around Rs.4000 crores annual toll and annuity revenue and you are saying you will have interest cost of Rs.2400 crores on Rs.24,000 crores debt, am I missing something on this or this looks reasonable numbers?

Dilip Bhatia: Yes, that should be okay.

Moderator: Thank you. We have the next question from Amit Rane from Dalal & Broacha. Please go ahead.

Amit Rane: My question is on the Infrastructure Investment Trust, the presentation says some registration is pending. So can you give some roadmap going forward like any timelines how we are planning to go forward with this?

Dilip Bhatia: As I said earlier we have got the in-principle approval, we have moved significantly forward in terms of putting the necessary structure in place, the documentation is in place, the registration is a process which we would have to go through with SEBI in terms of registering the trust, the trust has been set up and established, we have now filed with SEBI for registering the trust is a process which we hope to get shortly, and after that we will take necessary steps in terms of talking to the market and getting the project ready for launch.

Amit Rane: Also, sir, you said about four assets are to be transferred to the trust. So can you quantify these assets approximately?

Dilip Bhatia: We are looking at four assets with the total asset size of around Rs.4,000 crores.

Moderator: Thank you. The next question is from Sagar Parekh from Deep Financial. Please go ahead.

Sagar Parekh: How much is the sub-debt (back-to-back debt) given to the SPVs at the standalone level from Rs.9,350 crores?

Dilip Bhatia: The total amount which have been invested in SPVs either in the form of short-term loans or in the form of sub-debt as part of project cost which is interest bearing to a large extent is in the range of Rs.3,500 crores.

Sagar Parekh: The bigger projects, which would be these projects ï Barwa-Adda, khed-Sinnar like that, if you can give us the breakup of that Rs.3,500 crores?

Dilip Bhatia: We will have a project wise breakup but I think essentially this will include large projects which is like Moradabad-Bareilly, PSRDCL (Pune Sholapur), CNTL (Chennai Nashri), Barwa-Adda and Khed-Sinnar.

Sagar Parekh: So these are the major ones and once these are operational, can we assume that this number will slowly decline once these projects become operational?

Dilip Bhatia: It will, I think to the extent there are short-term loans given to support the projects either for the cost overrun or for initial phase of the projects and projects once they completed and start attaining maturity, the revenue builds up, claims are realized, a portion of short-term loans will come back. Sub-debt will continue because that is part of funding the project and means of finance, that continue till the end of the concession period. But, also, I would remind you that we will have new projects coming up which will also need sub-debt. So we expect this kind of level of investment will continue in this project.

Sagar Parekh: So Rs.3500 would be like a sustainable kind of number, it will not go up neither it will go down?

Dilip Bhatia: I would not say it would not go up, if you are asking a question ñis it drastically going to go upò then I am saying it would not be, but it will be based on the projects progress and the new projects we win. This is part and parcel of financing these projects. So it is part as routine business activity for us.

Mukund Sapre: In fact, refinancing will see to it that whatever interest arbitrage we receive , it will enable interest to come down which in turn is all going to flow up to the holdco.

Sagar Parekh: As of now, all projects operational level, you said that Rs.11.5 crores per day would be our share of cash collection?

Mukund Sapre: In terms of defining the full, we are not considering the two Maharashtra projects and the other new wins, no. This is on the portfolio that we are going to complete up to FY18-19. You are right that in that portfolio, every number converted to a single number Annuity and Toll we are talking of some Rs.13-13.5 crores of gross and maybe around Rs.11.5-12 crores would be our stake.

Sagar Parekh: The debt would be Rs.24,000 crores for all projects put together at the SPV level and the standalone debt will be separate?

Mukund Sapre: Yes.

Moderator: Thank you. The next question is from Vipul Shah from Sumangal Investments. Please go ahead.

Vipul Shah: How much money can we realistically raise from this investment trust and what will be the end use of that?

Dilip Bhatia: Roughly around Rs.2000 crores will be the fresh money which we will be raising from the investors in InvIT which will be used to repay some of the debt which SPVs have and also to buy the equity stake from the sponsor, the trust will use this money first to buy the 100% equity stake in those four SPVs from the sponsor and also trust will infuse money to SPVs who will then use them to repay the additional debt.

Moderator: Thank you. The next question is from Vishal Periwal from May Banc Kim Eng Securities. Please go ahead.

Vishal Periwal: Sir, we have roughly 8-9 projects which are under the authority of NHAI. Now, after this demonetization which was done and we could not get Toll revenue, so is there any way we can be compensated for the lossé can we claim for that?

Mukund Sapre: So we will be paid for whatever losses are incurring. To start with I think they will first pay the interest and the O&M cost and then subsequently it will be settled on the overall losses as recorded with some traffic background and some relativity will have to be generated. I think they are talking of immediately starting Toll on 2nd, that is one. They are saying that they will work out the numbers on our interest outflow and the O&M cost for that period and then work on the loss. So technically, answer is that we are covered under the concession agreement to the fullest on this point.

Vishal Periwal: Any quantum that you can share if it is available or what can be the claim amount?

Dilip Bhatia: In our case it should be somewhere around Rs.1.5-2 crores per day of Toll revenue.

Vishal Periwal: On the under construction project, can you give some more clarity on your CNTL project in J&K, how the situation after this J&K, are we seeing any major development because the situation has improved as what is reported in media. So, any development that you can share on that project?

Mukund Sapre: As I said that, at least we have moved with construction, we did have some slow progress because of the issue but we have planned that December end we should be completing CNTL (Chennani Nashri). We have one more project in J&K which is SSTL (Srinagar Sonamarg). But generally, we suffered because of transportation of material not moving or something like that but otherwise we were able to work on site. It has affected some equipment movement or material movement or that sort of thing which got stuck at borders. But if you really ask me that ñDid somebody come and stop our work at site?ò Then answer is very clear that, ñNo, they are not touching the progress on that count.ò

Moderator: Thank you. The next question is from Rita Tahilramani from Edelweiss. Please go ahead.

Rita Tahilramani: You mentioned about the refinancing of two of your current projects. So how much is the debt on these projects currently?

Dilip Bhatia: This is Rs.1800 crores and Rs.1750 crores, so Rs.3500 crores.

Rita Tahilramani: The remaining four projects, how much is it?

Dilip Bhatia: There will be Rs.1300 crores, Rs.1700 crores and Rs.900 crores, that is around Rs.4000 crores.

Rita Tahilramani: So we are expecting on an annual basis interest saving of approximately from the InvIT total Rs.26,500 crores, of that Rs.4,000 crores we are saying it is InvIT another Rs.5,000 crores on the bonds and remaining there will be refinancing of Rs.7,700 crores, so the interest cost there will be approximate saving of almost Rs.1800-2000 crores, is it that?

Dilip Bhatia: No-no, on the Rs.7,700 crores, if you were to take 2%, it will be Rs.150-odd crores. Yes, for the InvIT you are saying, if the projects going to InvIT the reduction will happen, net of Rs.4000 crores or Rs.3,800 crores will come down and that to the extent there will be debt reduction, but please also understand that there will be an equal revenue reduction because the assets will go out of ITNLs books.

Rita Tahilramani: So post the InvIT and holdco there will be debt of almost Rs.18,000 crores on our books?

Dilip Bhatia: Yes.

Rita Tahilramani: This arbitration project which you mentioned, are these NHAI projects or some other authority as well?

Dilip Bhatia: These are mixed; some from NHAI and some from state.

Rita Tahilramani: These projects are still not awarded to us, these arbitration awards are in the favor of the company or we are still to file?

Dilip Bhatia: We have not got the award yet, I think they are a matter of under arbitration and these are all NHAI projects.

Rita Tahilramani: So in 7-months we expect the awardings to start taking place maybe in Q1FY18?

Mukund Sapre: Our estimate is that it should start with Q1FY18, you are right.

Moderator: Thank you. As there are no further questions from the participants, I now hand the conference over to the management for closing comments.

Dilip Bhatia: We thank you all for your participation and asking very insightful questions. As Ram said, I think going forward a lot of initiatives are being taken at the company level and the management is working on the same, execution remains the key for us and we will see in this year two of our large projects getting operational which is CNTL (Channani Nashri) and Khed Sinnar. Looking at the overall debt and reducing the overall debt size which we initially mentioned though InvIT or through stake sale. Reducing the cost of debt through various initiatives of refinance or bonds, also are key initiatives which the management is focused on and working towards for the next 12-to-18-months. So given the little bit of movement on the banking side, the financial closure movement, I think we see next 6-months and after that we will see continuous improvement in the operating parameters of the company. We thank you all for your participation.

Moderator: Thank you very much. Ladies and Gentlemen, on behalf of IL&FS Transportation Networks, that concludes this conference call for today. Thank you for joining us and you may now disconnect your lines.