ñIL&FS Transportation Networks Limited Q2 FY-16 Earnings Conference Callò

November 9, 2015

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MODERATOR: **MR. ANUBHAV GUPTA – ASSISTANT VICE PRESIDENT – RESEARCH, MAYBANK KIM ENG SECURITIES INDIA PRIVATE LIMITED**

Moderator: Good evening, ladies and gentlemen, thank you for standing by. This is Vivian the moderator for your conference call today. Welcome to the Second Quarter FY 2016 Earnings Conference Call of IL&FS Transportation Networks Limited hosted by Maybank Kim Eng Securities. At this moment, all participants are in the listen-only mode. Later, we will come to the question and answer session. At that time if you have a question kindly press ó*ô and ó1ô. I would now like to hand the call over to Mr. Anubhav Gupta from Maybank for opening remarks. Please go ahead, sir.

Anubhav Gupta: Maybank Kim Eng is pleased to host the Management of IL&FS Transportation Networks for the quarterly earnings call today. From the Management, we have Mr. Ramchand, Managing Director; Mr. Mukund Sapre, Executive Director; Mr. George Cherian ï CFO; Mr. Dilip Bhatia ï CFO designate and Mr. Krishna Ghag ï VP& Company Secretary and Head of Investor Relations.

I shall now handover the call to Mr. Ramchand for the opening remarks followed by the performance highlights by Mr. George. Over to you, Mr. Ramchand.

K Ramchand: It has been a tough year continuing from wherever we were last year. I think one of the biggest expectations everybody in the industry had was about dropping interest rates and I think while everything else seems to be on track interest rates drop does not seem to have caught up in the same manner in which the industry expected. Government continues to try its best to talk to banks to reduce interest rates because that is one of the key elements of the business where people will look for some support from both the government as well as banks.

On that note let me just run you through some of the quick highlights of the quarter gone by. If you actually look at the HY, between last year and this year, I think we have actually done better than what seems to be the outcome. We need to discount two things. One is the one-time gain that we had in the previous year, which was a large amount. That will keep happening in any particular quarter. and second is the fact that this time we have also been asked to do some provisioning. The board wants us to follow certain norms if there are certain outstanding amounts and we have to provide for them. This one-off will happen in the lifecycle of any infrastructure enterprise.

If you take exclude the above two factors, which we believe are one-time, and then you look at the PBT, I think last yearûs PBT without these two was at Rs. 159 crores and with these two was Rs. 387 crores for standalone. If you take out these two numbers, then we have Rs. 230 crores for the standalone for this year and Rs. 159 crores for the previous year.

So I think when especially you will all look at these numbers, you need to actually also take into consideration the aforesaid facts with these numbers and it will be better to compare the numbers without onetime impact which are likely to happen. Otherwise, the trend that one would look for probably will not be in the right direction.

As I said, the interest rate continues to be not very conducive. We have been expecting a large or a further pass-on of the interest rate reduction from the banks. Out of the 125 basis points given to the banks by the Reserve Bank of India, the maximum we have is between 30 and 40 basis points. Therefore, we have a long way to go as far as catch-up of interest is concerned.

We now have about 20 projects operational. These comprise about 9,500 lane kilometers and with the two projects that we will get commissioned it will be slightly more than 10,000 lane kilometers.

Our total 31 road projects comprises of 14,680 lane kilometers. Now we also have four projects which we were newly awarded. Two projects in Maharashtra namely, Amravati Chikhli and Fagne Gujarat Border, Ranchi Ring Road Phase 2 in Jharkhand and the ROB road project in state of Gujarat. During this review period, we have received the completion certificate for Sikar Bikaner and have commenced tolling on the project.

I think we will end FY16 with 22 operational projects, which will include Baleshwar Kharagpur and Jorabat Shillong. FY17 we will have 26 projects which are operational, which will include CNTL, Kiratpur Ner-Chowk, Barwa-Adda and Khed-Sinnar. The pending order book to be executed, which includes the Srinagar Sonmarg tunnel project and all the newly added projects is about Rs. 15,000 crores and these four projects, which we have acquired during the year account for about Rs. 5,000 crores.

The total equity that we need to put besides the equity required for the new projects is about Rs. 450 crores, which we believe is doable. We are also pleased to tell you all, that we were able to get the rights issue subscribed. It was oversubscribed by a margin and we believe that is a good sign and shareholders have responded pretty well to us.

Out of the total amount, I think the employees and the ILFS group employees contributed more than they were actually entitled to, which continues to prove that the employees and the group continue to have a fair amount of confidence as far as the progress and the profitability of this company is concerned.

With that I will let George run you through more detailed numbers and we can then open the house for questions. Thank you.

George Cherian: I will just run you through the numbers for the half year. Mr. Ramchand has given you a general idea about how the half-year has progressed, in relation to the previous year. I will just give you a little more of a break down into the various components which have gone into the results for the current half year.

The overall income for the half year is Rs. 3,500 crores as against approx. Rs. 3,000 crores in the same period of the last year. The significant increases were in construction income, which moved from about Rs. 1,700 crores to Rs. 2,100 crores. That was the single largest component, which increased. There have been marginal increases in the fee income that we earn, some of the O&M activity that resulted in additional income. The toll and annuity collections with some of these SPVs have collected tolls for the whole of last year and then they will come into play for the full year now as well.

On an overall basis, the total income has moved up by Rs. 476 cr. Among the cost elements, the major chunk is construction cost. Construction has moved up from Rs. 1,100 crores to about Rs. 1,400 crores, almost Rs. 300 crores up. However, the margins have remained constant and employee costs have remained more or less flat. There have been some increases in the operating costs. There have been increase in cost of materials in the Elsamex and some in the rail companies.

In other expenses, the increase is primarily because of the additional provisioning we have done for both, doubtful debts and receivables as part of the policy on providing for amounts that are outstanding for a certain period. So total expenditure has moved up from about Rs. 2,000 crores to Rs. 2,400 crores more or less the same as the income portion.

It is pertinent to note that last yearôs income included the gain from the sale of the stake in GRICL, which was about Rs. 228 cr. The result that we have now achieved is without that and after considering provisioning of about Rs. 70 crores. What has affected us significantly of course is the increase in interest costs. We did get a pass-on of some of the rate decreases that happened, but it was not very significant.

Additionally, there were further drawdowns that happened at the SPV levels for project progress. At the corporate office level also, the funding has increased because borrowings increased to support the SPVs where there were cost overruns pending submission of claims. So the PBT for the current half year is Rs. 109 crores as against Rs. 298 crores last year. Here again one needs to adjust for two aspects. One is the GRICL profit, which was there last year and the provisioning that we have done.

So one could adjust for both of those, close to about Rs. 200 crores. Therefore, the current half year is certainly an improvement on the operating front. Taxes are on an aggregation as I mentioned last time. So you would really not be able to compare one half year with the other. The sum total of this is that the half year has registered a PAT of Rs. 72 crores versus Rs. 237 cr. last year, based on the GRICL gain that was included last year and the provision for doubtful debts in the current half year.

This is the position on the consolidated results. On the balance sheet front, there has been an increase in borrowings. I mentioned to you that borrowings have gone up and most of the borrowings are to provide support to the SPV in terms of cost over runs, which the banks are not funding. We expect that these amounts will come back to us eventually once the process of submission of claims happens. In the normal course, these amounts should come back through the SPV being able to return these amounts to the corporate office which will again reduce the debt both at the SPV level and then once we return the money to the corporate office, we are again able to return that to the lenders and reduce our borrowings as well.

Barring that, there has been some increase in the receivables; again, this is because wherever support is being provided to the SPVs, unless the money comes back to the SPV, they are not in a position to settle the dues, which have been billed by the parent. But all the receivables that we are talking about are within the group, not really anything that has to be received from outside therefore we expect that we should be able to collect it over a period of time and not have any write offs on account of that.

Cash and bank balances include a host of types of balances because they include fixed deposits, which have been provided by way of security to lenders who have lent to the parent company. They also cover a significant amount in terms of debt service reserve accounts for the SPVs which have refinanced their borrowings over the last two or three years. There is some balance in the current account, which remains in every SPV as part of the month end balance, which is required to pay off creditors or meet statutory dues in the beginning of the following months.

Therefore, largely, we do not really have idle cash lying around. The emphasis is to make sure that everybody uses cash as efficiently as possible, considering the fact that we have been borrowing money.

Moderator: Thank you. Ladies and gentlemen, we will now begin the question and answer session.

The first question is from the line of Ashutosh Narkar from HSBC. Please go ahead.

Ashutosh Narkar: Two questions on your leverage and the amount of equity, which will be required for new projects. So the first one just to understand, would we continue to kind of source new projects given the current leverage scenario and if you could give me what would be the incremental equity required for the new projects? I understand Rs. 450 crores is the one for the old projects if that is not right, correct me?

Management: Ashutosh, I think the way we are looking at is in terms of movement of business for us. I think one thing which we are clearly acknowledging was that asset churning is something which is going to be key for us also as we need to have a program where we are implementing on the ground. We have completed ourRights issue recently which will take care of Equity Requirement to a certain extent. We are in talks with some investors on few of our assets, which can be offered, which have rather significant operational history with it. The good thing is that now divestment limit has changed from 74% to 100% by government, which is going to help us.

If you look at the equity requirements, in Maharashtra, we will need only 50% to start with and the equity requirements are going to flow in, coming at least 18-24 months. It is not that we need equity on the new projects, which are just going to come for implementation on the ground. Generally, we can drawdown upon contributing upto 50% of equity and also 25% in some cases. If you take equity requirement in that fashion and that we need to dovetail our asset churning, I think we are on track, something where we are saying there is a good visibility.

Unfortunately, I am not able to go into details on asset churning as to how things are happening as we are not allowed to provide forward looking numbers/details as a Company Policy. If you look at excluding SSTL almost like Rs. 40,000 crores of asset will be completed as such. We had just one dilution a year back and we would have loved to really match this dilution on a quarter-to-quarter basis, that would have been our wish list. But, I think as we are highlighting every now and then, asset churning is something which will be part of our ongoing approach and that is where we believe that we should be able to meet our new leads also.

Ashutosh Narkar: Sir, just a very housekeeping one. You said Rs. 450 crores is the equity required in the old projects, right and the recently new ones, which we have acquired what, would be the total equity contribution required.

Management: If you really look at the awarded cost is around Rs. 5,000 crores and if I go by even 30:70, what we will need is around Rs. 1,500 crores of equity, which is going to be required in coming two years and there also ways of looking differently on this. Meaning we can look into different options on that count and create a way for us on that front.

Ashutosh Narkar: One more question was let us look at over the next two years or three yearsô timeframe, is there an internal target where we want to see our leverage position, say we want to be at around 2.5 or 3 times and this is where we think we have a comfort level?

Management: I think the point we have been always mentioning is that as our portfolio will be almost completed in 2017, we will be seeing these ratios turning around and start decreasing. But at the same time you also need to take into account that, I am not able to talk on forward looking numbers but I think our asset churning also will address few numbers in coming days which will bring the confidence that the numbers are going to look different as we achieve our objectives.

Ashutosh Narkar: So it would be fair to assume that some of these asset amortizations would happen during the current year or second half of this year.

Management: We would love to complete that.

Moderator: Thank you. The next question is from the line of Nitin Arora from Emkay Global. Please go ahead.

Nitin Arora: My first question is can you tell us how much amount of claims are still pending from the SPV level which are getting funded by the standalone balance sheet by taking debt?

Management: I think all the claims, which are funded by parent balance sheet stands somewhere around Rs. 2,000 crores.

Nitin Arora: Sir, if I am not wrong the GRICL stake sale was in Q1 FY15. Is that correct?

Management: I think so, yes.

Nitin Arora: So in the Q2 FY16 we have booked Rs. 125 crores worth of claims in our standalone construction revenue from the SPV, where the SPV does not have any confirmation from the authority from where he has to get the claim. So donĝt you think this is a little aggressive accounting?

Management: No, the concession agreement has two key elements to it, once the IE certifies what sort of extension is feasible and then you take the cognizance of what has been done on the ground. I think these are tenable numbers and in terms of percentage, what you are claiming or what you are booking is hardly any number on that count. Therefore, we believe that it is a very conservative approach and IE is the mechanism for all this monitoring of concessions. Once established that there is a delay in land acquisition and extensions issued by IE in favour of concessioner because of the land acquisition problems or environmental clearance problems, we definitely believe that this is a completely conservative way.

Nitin Arora: Sir, my question is with respect to leverage now. Assuming that now we are at Rs. 80 crores to Rs. 100 crores PAT on the standalone, we have raised about Rs. 740 crores of by rights issue now. And assuming this Rs. 450 crores equity requirement spans out in the next two years, then ideally assuming that you do not expect much of the claims get funded by the standalone balance sheet, do we start assuming that the somewhat standalone debt will start peaking out from this year onwards?

Management: I think that is what we were saying, that once you take into account some sort of asset churning approach to this, you would find things happening in that fashion. Because one good thing is that, let me touch back on that part also, that whatever ordinances have come on arbitration gives a soothing feeling on the table that you will not be taken for such long overdrives of 5 years and 10 years.

If you look at the changes to India Arbitration Act and the Ordinance, one can really hope that this is going to get settled in the coming one or two years. So, that is the timeframe horizon we are talking about and also asset churning is going to help us. There are two three elements to it. As you would see that we have large annuity assets, which are operational, but we have still not done the refinancing of those assets.

So these are two three things, which is securitization, refinancing and asset churning. If you add all of them, and then look for this, you would see what we are speaking out of picking up standalone debt has also happened and consolidated debt will completely look different once we have achieved our objective, which we are targeting for this year.

Nitin Arora: Sir, is there any number you can share in terms of asset churning target including the securitization part, which you mentioned?

Management: You will have to excuse me on that count because unfortunately forward looking is something, which I cannot disclose; this is something we are in talks with concerned people. But we can tell you that our sight is very clear that how we want to go about it and one can really look into fill in the gaps and that will give answers also.

Nitin Arora: But sir, that is also very clear that we will not stop taking any projects. Is that a correct understanding?

Management: We would keep a target for us and you need to take into account that again this hybrid model, which we believe is going to be very good for the sector. Because we believe that, the equity requirements almost go down to 10% of the project cost. We also believe that the awarding mechanism will be linked to the project cost, and then it is lenders, NHAI, bankers and us, who will be on one platform on the total project cost and that should bring the confidence of lenders who are really shying away on element of 1.2x of their cost or 1.3x of their cost. So hybrid is something where need of the equity will go down and lenders should come back and definitely we would see that we try to catch the turnover which we can achieve with our churning plans and our equity requirement plans.

Nitin Arora: Sir, in terms of the fee income I think this time the fee income also get recognized from Amaravati Chikhli project despite we have not achieved the financial closure there. So can you tell us that what is the total fee income left to be booked and without achieving the financial closure can we book the fee income?

Management: Yes why not because as far as I am concerned we have already completed the detailed design on the ground. We are also quite ahead of award of work, so if I take out that component of what has been done on ground, it suffices what we have done. And also there will be some bandwidth which will be operating with them because technically the fee income is something like success fee, the detail engineering, the design engineering, the back up support, the project management construction, which was being paid to consultants on that count is being done completely in-house and that is how it comes in. So, you can take a bandwidth of may be 5% to 8% in totality of this, which can be monitored.

Nitin Arora: Sir, in the second half can you tell us what is the total fee income left to be booked?

Management: I have still not worked out those numbers but as I was saying that total fee income for the overall project cycle up to completion should run into at least 5% to 8% or 9%. So that is how the residual element can be taken.

Nitin Arora: Okay and just last two questions from my side. What would be your average cost of BOT portfolio now you must have seen some reduction in the interest cost?

Management: As we said that we just got around 20-30 basis point from few bankers, it remains at around 12.5.

Nitin Arora: And sir, in terms of Elsamex we have seen reporting a quarterly run rate of even about Rs. 350 crores, Rs. (+300) crores. So first two quarters we have seen remains light but in the next two quarters do you think that Rs. 300 crores plus kind of a revenue run rate is possible on Elsamex?

Management: I think whatever we have planned for this because they run on January to December I think they are on track for whatever plan we have done for topline and the PAT coming from them. They are definitely on target.

Moderator: Thank you. The next question is from the line of Lokanathan Balaguru from JM Financial. Please go ahead.

Naveen Jain: Hi, this is Naveen Jain here from JM Financial. Sir, I had couple of questions. One, you mentioned that you have taken some provisions in this quarter to the extent of about Rs. 70 crores. Can you please throw some light as to what this pertains to?

Management: Actually, one is the small bus operations what we are doing and going through the agreement what we have signed, I think we are supposed to give a subsidy to the senior citizens and the school children who board the bus and buya monthly ticket. Though the document is very clear, and when we took over the operations, they were paying this money to even MSRDC who were earlier operating the buses. So that number has really climbed to around Rs. 60-70 crores from this and we are still running the corridors of government to get that concessional money which is to be paid by NMC back to us. We have very little progress as of now and that is why auditor said that let us be more conservative and put something on that.

Second, we have done one project with Spanco, which was our partner. They were holding around 26% and we had sorted out all issues. We have commissioned around 17 of them, total 19 will be commissioned, and we have redrafted the scope of 24 check posts. If you add on these two, I think it will account for the major provisioning made.

Naveen Jain: Secondly, you mentioned that there are about Rs. 2,000 crores receivables from SPVs. So I just wanted to understand what is the process for these claims for your SPVs to get from NHAI and at what stage we are in? I just want to understand what is the timeframe in which we can get this money?

Management: I was saying just in last answer was that with the ordinance on the Indian Arbitration Act and the changes done I think it really shows a light at the end of the tunnel for all such cases because it really stipulates a timeframe. So if I go by this new law, and assuming that nobody is going to settle my claim and I have to go for arbitration, then I would put a timeframe around 2-2.5 years now. That is how it is going to go, because you have a dispute resolution mechanism already defined in the documents. So like to quote for Moradabad Bareilly, we have completed all the possible dispute resolutions and we have subsequently asked for arbitration proceedings. We have appointed our arbitrator, NHAI has appointed their arbitrator; they have put in an umpire in place and we had one round of discussions, and now we have to go with the statement of claims and others. So technically, I would say that we should look at around timeframe of 2 to 2.5 years.

Naveen Jain: This amount sits in the standalone receivables, I mean debtors, right?

Management: The funding to the SPVs is done from the holding company. So it sits as a loan to the SPV and the SPV then has to pay that money back when they realize the amount.

Naveen Jain: Okay, even the debtor levels seemed to be going up quite a bit at the end of last year it was about Rs. 2,700 crores, it has gone up to about Rs. 3,300 crores. I am talking about standalone balance sheet?

Management: Yes, that is right. One of the things which is responsible for that is where SPVs have needed support pending receipt of money from the authorities they will not be in a position to settle the amounts due to the Company and therefore they will be a receivable until that money is realized. There were also a couple of SPVs where financial closure had not happened. So that money will come up as soon as the financial closure takes place.

Naveen Jain: And could you share an update on your Nepal project what is happening there?

Management: I think we had lots of rounds of negotiations as their BoT law allows them to negotiate. So, I think ultimately all of us after completing a detailed project report could zero on an MRG, Minimum Revenue Guarantee, where it is believed that we could reach the levels and there were two-three contingent things on this. The earlier Committee chaired by Vice Chairman, Planning Commission, who did endorse award of the work and now the change of the government has taken place and subsequently there is one PIL too in the court. So, we believe that is a good development also because let it get validated by court while the new government is in place.

So, I think the whole homework is ready, all the documents are being submitted and letôs see that it takes a move. And as of now, as there is a critical link of some Letter of Credit (LOC) on subsidized rates coming from Indian government to Nepal to really fund that project. So I believe that we need to give at least 3-5 months of this, we would also be slow on that account as of now because let the things settle down. LOC is one critical part because that gives an insurance to us also because you go on a government backed project. So I would give around 4 to 5 months of time to settle down on all these aspects of it and then maybe we will have some go at it, assuming that it comes out of Supreme Court by that time.

Naveen Jain: Sir and one last question. So over the course of next 12 to 18 months do we have any broad target as to how many kilometers you would like to add in terms of new projects?

Management: Generally, Rs. 5,000 crores of add on every year helps us to move on in the planned way. We already achieved the target for this year and as I said that now the main concentration is going to be hybrid, which is definitely far more less equity sensitive as far as we are concerned. Whatever indications you take from the market, the government is saying that they are going to award at least Rs. 8,000-9,000 crores, 30% of that coming to BoT. In addition, competition has gone down quite a lot because if you see there are 2-3 bids for any of the opportunities coming on the BoT part of it. So, we believe that there is a reason for us to see enhanced returns expectations and good awards in coming days and target will be a rolling target of what I was talking about.

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

Lalitabh Srivastav: Basically two small questions. First of all help me understand the reason for a very healthy topline growth that we see on a standalone basis both on a YoY and QoQ basis? And secondly, I understand that we are trying a lot on monetization or securitization efforts like that, but assuming nothing of this sort happens during say FY16 because of whatever reasons, the market conditions or whatever, then if nothing of this sort happens. Then what will be the consolidated leverage and cash flows for ITNL for FY16 if you can give an indication? Thank you.

Management: I think there are two things. As we said that construction is going at many locations, we could move on with the construction. Therefore, that has added and even the tolling revenue has gone up if you take into account the revenue on annuities. In terms of do nothing scenario I think we still should be closing on almost same levels where we are today. We do not see any reason that why it should go beyond this. But if you take ñdo nothingò scenario, why one should take a ñdo nothingò scenario? Because there are various options, it is not only asset churning for us but also securitization and refinancing, all probabilities are in front of the company and as long as company is taking right steps in right time, it should yield the results what we are looking for.

Lalitabh Srivastav: Sir, can you just broadly tell us how much gains you got from improvement in tolling revenues and how much from the construction revenue part?

Management: There are around 10% rise in the toll collection and construction contributes around 20%.

Lalitabh Srivastav: 20% is the growth you saw on construction revenue?

Management: And around 10% from the toll annuity revenues.

Moderator: Thank you. The next question is from the line of Chitresh Khare from BNP Paribas. Please go ahead.

Chitresh Khare: I just wanted to know the updates about ZozillaTunnel project which we are about to submit in November and also on the Rapid Metro Expansion project II so for which do we have the financial closure in place as we have got the equity now? So what is the status for these two projects?

Management: Zozilla, the first time was a single bid, the second time was a single bid and now it is for a re-bid. If we will it be getting ready for the third time, I do not know. As far as this RMGL South is concerned we are already financially closed. So the work is under progress and South is already financially closed also. In fact, when we started the work long back, it was financially closed.

Chitresh Khare: Like the three projects, Jorabat-Shillong, Baleshwar-Kharagpur and Sikar-Bikaner so by next quarter we can see them commercially operational?

Management: No, Sikar-Bikaner we are already collecting toll. For Jorabat-Shillong, we have already applied for COD as of April, when the Minister had dedicated the project to the nation. In addition, BKEL, we will be applying for the completion in this month end. Therefore, as far as this year is concerned, we will see a COD achieved on all the three projects this year.

Chitresh Khare: And also for the Thiruvanthapuram City Road project III, sir?

Management: You are correct, that is going to be a big achievement.

Chitresh Khare: Okay, so all the three would be commissioned? And also sir, what is the status of Chennai-Nashri, are we on track to complete it by May or we are seeing some delays or something like that?

Management: No, I am happy to report that we are on track. In fact for the audience and for all my friends on the call, I would like to share one very good statistic, which ICRA has come with. If you take the implementation performance for FY15, the projects completed, the Companyọs share is 35% and if you take FY14 on implementation performance, our share of completed projects is 25%. And if you take half year June 2015 then we have 78% of completed projects. So one thing is very clear that, on implementation itself we stand out, that is what we believe.

Chitresh Khare: And also like any chances of making losses because of projects getting delayed in like next year or so because we see a lot of fluctuation in profit from Rs. 2 crores to Rs. 60 crores and then may be because of various reasons. So as a shareholder I was also concerned about that?

Management: No, as we are saying that there is an issue of cost overrun funded because of clearly demonstrable allocation of that cost towards the concession authorities. They have cleared and the documentations are there**.** We believe it is a periodic thing, it is more of a mismatch of cash flow. Otherwise asset churning cycle is something we need to take into account. That is what we have been saying nothing else because GRICL happened on first quarter and you just take out that GRICL, the whole story looks completely different.

Chitresh Khare: Sir, one last question I have, sorry for lot of questions. Like as you were saying the bids are getting reduced like 2 to 3 bid per project, but still IRRs I see is around 16% to 18% and why are we not targeting for (+20%) in terms of IRR?

Management: That is what we said, that we will shoot up and we will target that. So I do not know, we have not won anything as of now.

Moderator: Thank you. The next question is from the line of Siddharth Krishnan from UTI Mutual Fund. Please go ahead.

Siddharth Krishnan: Last time during the con call, you had mentioned that around Rs. 500 crores is the loan that you have extended from the standalone balance sheet to fund delay in achieving financial closure at couple of SPVs. So just wanted to understand have you achieved financial closure in these SPVs?

Management: Let me clarify that it is not that financial closure was not achieved, the financial closure was achieved but only one or two down selling were yet to happen which will happen may be within the next 15 days or so. In fact we are moving very well on the progress on the ground on those two new projects.

Siddharth Krishnan: Okay so the situation is not I mean the situation of banks has it improved in the sense that are they more acceptable towards looking at road projects now?

Management: The struggle continues if you really ask me. That is what we were saying that may be hybrid should bring them more aggressively on the board as far as lending of banks are concerned. That is our guess as far as our company is concerned.

Siddharth Krishnan: But for the two new NHAI projects you are saying that I mean the response has been good from banks?

Management: Definitely, yes.

Siddharth Krishnan: One clarification I needed. You mentioned Rs. 2,000 crores of pending claims, which has been funded from the standalone balance sheet. But on your P&L you have just booked it in two quarters right which is around Rs. 400 crores put together. So this Rs. 2,000 crores is not flown through your P&L in the standalone balance sheet as of now?

Management: Yes, you are right.

Siddharth Krishnan: So that is roughly like quite a small amount in that sense, so this should be recovered in any case?

Management: Yes.

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

Chinmay Nundre: Khed Sinnar and Baleshwar these two projects basically we were not getting the funding. So I think you just answered that those projects are still not got the funding, right?

Management: We are talking of down selling on Khed Sinnar, you are right. We are already financially closed as some part of down selling is almost closed now. That is what I was clarifying.

Chinmay Nundre: Okay and sir I wanted to understand like your standalone debt has increased by Rs. 400 crores so that is because of the support by SPV or it is like increase in working capital because the execution was on the higher side because of the SPVs?

Management: No, this is what we are saying that we have supported these two projects on ground and that is the number which is gone there for really achieving the target and milestones on the progress for Barwa Adda and Khed Sinnar.

Chinmay Nundre: Okay, but we had also I mean as of last quarter also we had supported and because of which the we had additionally put in around Rs. 500 crores in both these projects. So why again this quarter we have the standalone data has increased by Rs. 400 odd crores?

Management: The work is in progress on all these projects on grounds. It is not that it was a static number. So if you take ongoing circle as far as the cash flow cycles are concerned, that is how it comes in.

Chinmay Nundre: Okay and what could be I mean target debt of standalone entity as of say FY16 if we are not able to monetize any asset?

Management: I think we should be where we are today. In terms of ratios we should be there only.

Chinmay Nundre: Okay so near Rs. 8,500 odd crores?

Management: I think so, yes.

Moderator: Thank you. The next question is from the line of Prasana Agarwal who is an individual investor. Please go ahead.

Prasana Agarwal: Can you update on Kenya Project?

Management: Kenya project we were L1 and then government ended up putting a different matrix for evaluating the project. We did contest in the legal framework available in Kenya. A Petitions Committee accepted our contest and they have advised the government to rebid the project. So we are waiting for the rebid to happen.

Prasana Agarwal: And sir, what will be your toll and annuity collection in FY17 and FY18?

Management: Rs. 12.75 crores per day.

Prasana Agarwal: In FY17 adjusting your stake?

Management: Yes, what we are saying is when we complete all the projects barring one which is SSTL by middle of 2017, the daily collection, which is total yearly collections divided by 365, daily annualized collection will be around Rs. 12.7 crores per day.

Moderator: Thank you. We have a follow on question from the line of Nitin Arora from Emkay Global. Please go ahead.

Nitin Arora: Sir, on the rights issue money, can you throw some light, how we are going to utilize it in the second half, how much can go for the equity requirement or will it go for a debt reduction or again the rather an increase in the debt I will be putting more money at the SPV level in terms of settling the claims and all?

Management: The entire rights issue, the objective was to bring the debt down and look at adjusting debt equity ratio. So barring some few crores for issue expenses, most of the money will go towards debt reduction.

Nitin Arora: So sir, ideally then debt should come down by FY16 end and should not remain at the same level; assuming that I do not do any stake sale?

Management: No, what we also said was that there will be some project related and SPV related support. So from thereon, while some debt we will contract, it will remain at the level where we are today.

Moderator: Thank you. The next question is from the line of Chitresh Khare from BNP Paribas. Please go ahead.

Chitresh Khare: So, I had same question like the right issue money is only going for debt or for the new project we can also use it for equity? And also one more question was for the rail project. As I see currently for the first phase we are already having Rs. 100 crores of loss in the rail project. So by when we are expecting it to grow profitable so that we can see some profit on book for the rail project and also for how long will be the J-curve for the second phase also for the Rapid Metro?

Management: Actually on the Rapid Metro, we are working on various options and you will call it asset liability mismatch. As far as I am concerned I would call it a cash flow mismatch because we are sitting on a 99 years of concession and unfortunately the real estate development in Gurgaon is something which should have been going in a different way. It had almost halted and what was to be exploited, we are sitting only at around 40% of it.

Then there are few important things and important parameters in terms of ridership coming up is that we have to address some disbursement issues at various stations. There is one national highway crossing and we are very proactively meeting all those service-oriented companies where we are fighting with share auto rickshaws. So, if I look at where we started and where we are today, it almost shows that we were at around 20,000. Then our fare was increased from Rs.12 to Rs.20, so we saw a dip of 5000-7000 and now we are back to around 35,000-36,000. And in an environment where we are saying that this is Cycle Day or Pedestrian Day, as long as we are able to address this little bit of cash flow mismatch, I think we are looking for an asset which has a 99 years of concessional life. So, we are definitely working on that and we will see to it that we address it in a manner where we achieve the objective. In terms of the proceeds of the right issue, it is somewhat fungible because on the last question, we said that we are repaying debt and you can take the cycle that if required, the equities can come and it is a fungible thing.

Moderator: Thank you. Ladies and gentlemen, that was the last question. I would now like to hand the conference over to Mr. Anubhav Gupta. Please go ahead, sir.

Anubhav Gupta: I would like to thank all the participants for dialing in today. In addition, special thanks to the management of IL&FS Transport for doing the call with us. Thank you everyone once again.

Moderator: Ladies and gentlemen, this concludes the conference for today. We thank you for your participation and for using Chorus Call Conferencing Services. You may now disconnect your lines. Thank you.

This document has been edited for factuality and readability purposes.