



IL&FS Transportation Networks Ltd.

"IL&FS Transportation Networks Limited Q2 & H1 FY 2013 Earnings Conference Call"

November 06, 2012



IL&FS Transportation Networks Ltd.



Moderators:

K. Ramchand
Mr. Mukund Sapre
Mr. George Cherian
Mr. Danny Samuel

Managing Director, ITNL
Executive Director, ITNL
Chief Financial Officer, ITNL
Assistant Vice President, ITNL

Moderator Ladies and gentlemen, good evening and welcome to the IL&FS Transportation Networks Limited Q2 & H1 FY 2013 Earnings Conference Call. Joining us on the call today are Mr. Mukund Sapre – Executive Director, IL&FS Transportation Networks Limited; Mr. George Cherian – Chief Financial Officer, IL&FS Transportation Networks Limited; and Mr. Danny Samuel – Assistant Vice-President, IL&FS Transportation Networks Limited. As a reminder, for the duration of this conference, all participants’ lines will be in the listen-only mode and there will be an opportunity for you to ask questions at the end of today’s presentation. Should you need assistance during the conference call please signal an operator by pressing ‘*’ and then ‘0’ on your touchtone telephone. Please note that this conference is being recorded. At this time I would like to hand the conference over to Mr. Danny Samuel. Thank you. And over to you sir.

Danny Samuel Good evening, everybody. We apologize for the delay that happened due to the meeting not getting over in time. But we are here to present before you the highlights of the results and what happened during the last half year in our industry and this company. Just to add Mr. Ramchand who is our Managing Director is also on the call, and he would begin by giving you a small introduction on the business and sector highlights during last half year.

K. Ramchand Thank you, Danny, and welcome all the participants to this concall on our half year performance. I also apologize on behalf of the company and the board for having had to postpone the time of the conference call, mainly because the meeting could not start on time due to unavoidable circumstances and therefore there was carry forward of the delay. Apologies once again but I think that is the only bad news in the whole concall and rest of it is all pretty good given the circumstances under

which we are operating in where the environment continues to be tough. It has not been a very easy environment both in terms of operations, the monsoons and all the lacklustre performance or the slow performance of award from the infrastructure sectorial authority. I think you all know that we have a very healthy order book; it is around Rs. 10,000 crores as we talk today. We were expecting an interest rate reduction but that does not seem to have happened yet. We expected it in the first quarter, we expected it in the second quarter, where there has been some marginal changes, there is nothing substantial to push forward more healthy performance and as you will see that interest rates still continue to be a form of worry for everybody in this sector.

We have no financial closure pending for any project of NHAI; all of them are done and over with, we have also got the authorities approval for the financial closure. What we have are two projects which we are undergoing financial closure; both of them in Rajasthan awarded by the Ministry of Road Transport & Highways plus we still continue to have the bandwidth to bid for further three projects in NHAI.

Amount of equity remaining is about Rs. 1,300 crores for all the projects in hand and these mainly are for the new projects, most of the old projects have been fully capitalized on equity front and will be completed on time. I think, this year we are expecting a few commissionings to happen, mainly in Jharkhand, most of the annuity projects should get commissioned and this should bring about a fair amount of increase in the revenues and to our bottom-line. And I think we are also looking at completing most of our projects on schedule. Actually if there are any changes it will be on the positive side, we should be able to complete most of our projects ahead of schedule. I would like to now allow Mr. George Cherian, our CFO, and he will give you the highlights of our financial performance for this half year. We are all available

to take questions after that and we look forward to an interaction.

George Cherian Good evening, everybody. I will quickly take you through the results for the half year. We have consolidated revenues which grew by 26%, up from Rs. 2400 crores last year to about Rs. 3000 crores and on the back of that EBITDA has gone up by 35% to Rs. 996 crores from Rs. 730 crores last year. PBT has grown to Rs. 421 crores, up from Rs. 390 crores last half year and PAT is at Rs. 238 crores, up from last year as well.

Management In terms of the income that we booked this year we have had some bifurcation on what constituted the total income. If you look at the consolidated financial performance of the company for the first half year, of the total income which constitute around Rs. 30 billion., 20 billion was from Construction, 0.87 billion was from PDF and Supervision fees; 0.57 billion was from O&M income, 4 billion was Elsamex revenues and Toll and Annuity Income contribute around 4.14 billion and other income was 0.77 billion . So all put together we had an income of 30.272 billion and that is the composition of the total revenue that we had for the first half year. We are ready to take on any questions that you have, any queries or any comments that you have, we all are available to reply to that.

Moderator Thank you, sir. Participants, we will now begin the question-and-answer session. If you wish to ask a question you may press * and 1 on your touchtone telephone. Participants are requested to use handsets while asking a question. We have the first question from the line of Devang Patel from Avendus, please go ahead.

Devang Patel If we look at NHAI's awarding plan, there were a lot of EPC projects lined up this year. How does our business outlook look in the context of that? Will we have any limited participation in the

EPC contracts or are we going to completely stay away from that?

Management

Actually, if you look at what they are planning is that the whole EPC award is being brought by NHAI will be limited to two-lane road development and balance is going to come on BOT in terms of either toll or annuity, which constitute all the four lane and six laning business. So we believe that there is a fair amount of BOT bidding expected to happen and we would definitely like to concentrate on the BOT happening for us and we believe that taking the present environment where all of us are looking at projects almost in similar fashion, We find that projects which we feel are unviable all our friends and participants are also feeling that it is unviable on BOT toll, so that is a good sign for us and we might have some semblance of sensible bidding in future. I believe that a few projects are going to get lined up and we should see some activity happening on the BOT front also. So, as of now we still try to concentrate on the BOT portion because the competition is going to go in a big way on the EPC, you would have seen the lists like for Rajasthan, for every bid 60 to 70 bidders are qualified whereas in BOTs number of bidders are coming down. So we believe we will have a fair space for us on the BOT portion.

Devang Patel

What is the spell in terms of order inflows for this year will be? Will we be able to match last year's inflows?

Management

Definitely yes. That is what I think. Why not? Because if you look at the project which are going to come and when everybody is looking in a very like-minded frame that increases chances for people who have been conservative like us and the recent example was one BRO annuity, we were L3 there but I do believe that we will be able to clock in orders in line with last year's order enhancement for us.

Devang Patel If you look at the standalone balance sheet our borrowing is going up as and when we keep investing in new projects. So any thought process on how to churn the projects to keep growing the balance sheet?

Management We are trying to work on that and see to it. that we have a very optimum capital structure. So one method would be securitization and churning at SPV level and throwing up something at the holding company level or standalone level. We have 2-3 matured assets which we can look into, to see that, we can raise some additional resources over there. One is like APEL- Andhra Pradesh Expressway limited where annuity is there and we also have some mature toll assets. We are working on those two things to see to it that we garner something which could helps us to move forward on this.

Devang Patel Is there any possibility of us exiting some of these projects next year or is it the securitization option that we will look into this first?

Management Our objective is very clear, it is a long-term asset play, so no exit on any of the assets, and it will be churning of the finances. We are very clear that we want to have a very long term asset play on the subject, so no exit, no dilution, it will be capturing of interest arbitrage or creating some instruments or creating some spread for us and additionalities for us.

Devang Patel Lastly, in terms of the lender engineers fees and project development fees that we charge from the SPVs has there been any change in the structure given that competition has been very intense our success ratio would have gone down in the past year, are we making any changes in the fee structure to compensate for that?

Management This is one subject which always needs a clarification, that this was never an additionality in terms of the landed project cost,

which SPV incurs. What we are saying is that we were taking all these services through outside consultants and were ending up paying 8% to 9% throughout the cycle up to commissioning, which we have said that we have created our own soft skills and that we are self-sufficiently attending to it. So I have a regular pay-bill, yearly pay-bill for that but I can capitalize this sort of expenses on the SPV, which I was earlier outsourcing. So this was not an additionality what we had created or something. This is always payable, is being paid by all competitors also. Only thing is now we are saying we have 400 engineers and we are self-sufficient to attend to all this. I am not outsourcing, I am giving the job from SPV to ITNL I am doing it. So we have brought in some semblance and numbers on that which are market-driven numbers for such services. So do not see any issues on that.

Moderator

Thank you. We have the next question from the line of Nirav Shah from Antique Stock Broking, please go ahead.

Nirav Shah

A couple of questions. First thing on the fee income of around 2.1 million that we had in this quarter. Second, if you can just give us the break-up between projects and any projects where fee income is pending to be charged so that we can come to know how much fee income will look like in Q3?

Management

Nirav, fee income came from mostly the new projects which were like Kiratpur Ner Chowk, Sikar-Bikaner, Beawar-Gomti project and Baleshwar Kharagpur project. Apart from that we also had some amount of fee income which regularly comes to us, some projects which are won earlier and from where there is a supervision fee. But I think if you break most of them apart, the regular fee constituted around Rs. 26 crores which is basically the base number. There are sometime increases in it because of the O&M upfront fee and which comes in for some of the projects and the other fee constituted Rs. 184 crores which is as I said

mainly the new projects but there's one or two smaller projects also and some other group companies wherein there were some fee that came.

Nirav Shah Can we get the breakup of this, how much fee was charged from Kiratpur and Sikar-Bikaner?

Management I can share the break-up with you offline because their will be too many numbers.

Nirav Shah We mentioned that around Rs. 1000 crores is the pending equity requirement. Which are the projects where most of this major part of the equity requirement is pending for these Rs. 1000 crores?

Management For the balance commitment of Rs. 1300 crores mainly for the new projects which have come in recently because there is not much of equity which has gone into any of these projects.

Nirav Shah So we can safely assume that for projects that are commissioning in FY 13 entire equity has been already infused?

Management I think it all adds up to all this 4-5 new wins, where we need this equity to come.

Moderator Thank you. The next question is from the line of Abhinav Bhandari from Elara Capital, please go ahead.

Abhinav Bhandari I had a couple of questions; one is on Elsamex and Yu-He, can you share the half year performances, both on the top-line and bottom-line?

Management On Yu-He our actual numbers were in line with the projections that we made. In Yu-He our top-line for this quarter in USD millions, for the first half was around USD 29 million and the PAT was around 5.2 million..

- Abhinav Bhandari** What is your share?
- Management** Our share would be 49% of the same.
- Abhinav Bhandari** This is in USD million you said?
- Management** Yes.
- Abhinav Bhandari** And on Elsamex?
- Management** Elsamex had a top-line which was consistent with last year and we have Rs. 400 crores of top-line and they had a bottom-line of about a million Euros. So the performance is consistent with what was there in the last year. Their margins are around 7% for this half year.
- Abhinav Bhandari** During the quarter did any of the operational project undertook a tariff hike?
- Management** . For the first half the Gujarat projects got a tariff hike; both the Gujarat projects which is Ahmedabad-Mehsana and Vadodara Road, tariff hike generally happens around April each year and WGEL is October, that will happen in the next quarter . That were the only two projects which came and had a tariff hike for the first half year.
- Abhinav Bhandari** What is the kind of expected number there on West Gujarat on the tariff hike side?
- Management** Generally, it would be in line with the inflation, so it should have around 8% escalation
- Abhinav Bhandari** Some of the companies have gone in for refinancing of their debt, I mean some of your competitors as well. Any thoughts on that particular front on some of our toll projects?

- Management** Yes, it is a very difficult subject that how you time it, we are looking into one or two opportunities as I said earlier but the timing of this attempt of course needs to be evaluated very carefully and we are doing on one or two assets only as of now. Maybe we will be having better scenarios later as we anticipate reop rate revision maybe in January or March.
- Moderator** Thank you. We have our next question from the line of Shashikiran Rao from the line of Standard Chartered Securities, please go ahead.
- Shashikiran Rao** Regarding the Yu-He Expressway, is there any reason why you have not in your consolidated numbers?
- Management** In our consolidated numbers 49% of all the balance sheet item and the P&L get consolidated. There is a proportionate consolidation that we do for Yu-He.
- Shashikiran Rao** But in terms of your presentation, you have mentioned your income from toll and annuity, if you look at that it works out to some Rs. 211 crores. That does not include Yu-He revenues, right?
- Management** Toll and annuity income which is portrayed includes Yu-He revenues also. The Toll and annuity total income for the half year is around Rs. 415 crores which includes Yu-He income.
- Shashikiran Rao** For the second quarter?
- Management** For the full half year I think their income in terms of rupees came to around Rs. 77 crores.
- Shashikiran Rao** I was just working the numbers out. If you include the Yu-He which works out to some Rs. 80 crores if you take, that alone would be around Rs. 217 crores of toll revenues alone and if you include the annuity revenues, it should be around Rs. 280 crores. So where is the disconnect?

- Management** The total Yu-He revenue that came into our book for the half year is around Rs. 77 crores out of 415 crores which was total toll and annuity revenue which came into our book for this half year. So the total toll and annuity revenue is Rs. 415 crores, of which Rs. 77 crores was Yu-He.
- Shashikiran Rao** Of that Rs. 77 crores you have consolidated proportionately?
- Management** No, Rs. 77 crores is our proportionate share.
- Management** Out of 415 of revenues which are in consolidated, which forms part of toll and annuity income, Rs. 77 crores is the proportionate sale of Yu-He revenue that came in our book.
- Shashikiran Rao** That is in half year, right? **Moderator** Thank you. The next question is from the line of Parikshit Kandpal from Karvy Stock Broking, please go ahead.
- Parikshit Kandpal** I just want clarity on this fee income. So for the first half you have totally around Rs. 221 crores, right?
- Management** Yeah.
- Parikshit Kandpal** If you see the last year we have done around Rs. 572 crores. So what is the visibility in the second half in terms of fee income now?
- Management** Fee income, as you would know generally depends on new projects coming in. Some we won during the fag end of last year, there was some part of the income which came in the first quarter as well as in the second quarter. As far as the remaining projects are concerned there may be some due fee income which has come in, because there are some regular fee income which comes in from supervision projects as pointed out earlier and some of the O&M projects also. But otherwise bulk of the fee

income would come in if we have further projects wins in the remaining half year.

Parikshit Kandpal If you see from the existing portfolio, is there any pending fees from the new projects, the ones you mentioned, the 4 projects: Kiratpur Ner Chowk, Sikar-Bikaner, Kharagpur and all, is there any residual income to be recognized during this second half?

Management There might be some small fee income based on the amount of work, because the fee that we recognize on these is again linked to some designs or some specific work which is done. So in case there is some specific work which is pending then there will be some fees which might be remaining from one or two of these projects.

Parikshit Kandpal Typically, when we have very high EBITDA margin on the fee income, we do not have as of now visibility in the near-term in terms of new projects, so the outlook for the second half in terms of overall profits, so does it not look little bleak in the context that we have a very fantastic first half, so second half in case fee income has not been able to match up to the last year second half, so there could be a big load in terms of overall profitability for second half?

Management I think we do have little bit of visibility on this count also. As you would have seen that we are already L1 for the RMGL Phase II metro project and there are balance works to be done on ground to achieve the milestone for booking these incomes. We will have fair amount of numbers going in for balance two quarters also. So I do not see too much of a dip on this to create an alarm on this account.

Moderator Thank you. We will take the next question from the line of Jitesh Bhanot from Emkay Global, please go ahead.

Jitesh Bhanot My question basically pertains to the overall awarding activity firstly. Sir just wanted to understand in the near-term we were expecting some of the projects which were lined up in November. Are they looking on schedule from the NH side?

Management I think the way we understand that a lot of preparatory things are happening and maybe the activity should pick-up and we still believe that as you would have seen there is always a lumpiness and we are getting ready for that sort of lumpiness to happen and we still believe around 3,000-4,000 kilometers will fall in place by the time we try to close this year. So that is going to be a good scenario also if such sort of lumpiness in such scenario is going to come. We are positive on that count as things are being worked out for DPRs and all those line upto around 3,000 kilometers.

Jitesh Bhanot Secondly, on the metro project that we won, can we understand what kind of accounting treatment does the company envisage on that front, how will be the booking go in terms of fees and in terms of construction revenues on the metro side?

Management It should be similar to what we have in the road side as well except that the engineering is mostly then done by the IL&FS Rail which is our subsidiary because they have the expertise rather than us doing all of the stuff, part of it is done by us then and there is a part which is done by IL&FS rail.

Jitesh Bhanot Thirdly, just wanted to understand has there been any change in the long-term outlook on the margin front because when we do look at your standalone construction margins consistently over the last 4-5 quarters the company has been doing close to 9%-odd on an average basis in terms of EBITDA margin. Is that the margin that we are looking out even in future for the Construction segment?

Management This 9% you are saying is for the construction?

- Jitesh Bhanot** Yes, without the fee income.
- Management** If you look at construction the biggest thing which comes in is how you allocate your cost, because most of the resources that we put in, some of these resources are also allocable against the fee that we book. So if you do the expenses allocation correctly, the margins on the construction are actually high.
- Jitesh Bhanot** Just to kind of corroborate from the first two quarters when I do work out your fee income numbers, your first half fee income on the standalone side was close to Rs. 400-odd crores and as you guided in an earlier question to a participant that your base number in terms of fee income is like Rs. 26-odd crores on a recurring basis. I get a number which is close to Rs. 350-odd crores which is coming from the newer projects. Even if I take from the earlier projects I still get a number close to Rs. 300-odd crores which seems like 10% of the total project cost of the new projects which we have won. So that number seems to be on the higher side than what we expect it to be.
- Management** I do not know what analysis is going into that conclusion of 10%. May be you can take these numbers off-line from Danny. As we know that it is not in the ranges what you are talking of for all the new projects and all. So, may be we can take this offline.
- Moderator** Thank you. We have the next question from the line of Rakesh Vyas from HDFC Mutual Fund, Please go ahead.
- Rakesh Vyas** A few questions from my side. If you can just highlight the status of two projects, mainly Hazaribagh-Ranchi and Moradabad Bareilly as to whether they are on schedule or we would probably see early commissioning, any status update on that?
- Management** Hazaribagh-Ranchi project, you need to look into two components; one is Ramgarh Bypass which was a change of

scope and for the balance length which is more than 80%. We have already completed the road other than Ramgarh bypass and the recommendation for COD is being considered. IE has sent a recommendation in favor of the company to issue the COD, so I think we will be doing a little bit ahead of time if this COD falls in place for us. All the test and completion everything has been completed. And if I try to now to include even the Ramgarh Bypass which was a change of scope, we were to get some three kilometers of land which is going to come by this month end. So even the Ramgarh Bypass also will be done by December end or January which is the original SPCD. On the Moradabad-Bareilly again we need to bifurcate into two components: one is the Bypasses and one is the overall widening which is more of a Brownfield and the Bypasses as Greenfield. The land acquisition has got a little bit delayed on the Greenfield part of it but Brownfield which is around 60 kilometers or 70 kilometers we have already completed four laning and quite ahead on that. The Bypasses land is coming in pieces so we are targeting that, we should complete around 80% of total length to be able to go to NHAI for seeking toll commencement as the concession allows that and we are trying work in that direction so that at least by given dates we pitch in for 80% completion, so moving in that direction.

Rakesh Vyas So effectively both of these would probably start toll collection when you reach 80% level. So Hazaribagh-Ranchi as you mentioned is almost there on that number?

Management Yes, that is an annuity.

Rakesh Vyas So you will get proportionate annuity, I am just trying to understand?

Management If you look at the circulars and precedence on the NHAI where they have clarified that wherever the land has not been given by the NHAI on event of land delay, the annuity given in complete annuity. So the circulars are not ambiguous on that count and we do believe that we need to give an undertaking to complete thing, and the complete annuity will start, but as I said that even within that SPCD we will try to deliver Ramgarh Bypass also, if the 2-3 kilometers of land falls in place which we believe is going to come.

Rakesh Vyas My second question actually pertains to the securitization. So we are looking at securitizing a couple of assets but I am also trying to understand, are we looking at takeout financing because some of your competitors are doing it through IIFCL, etc., which is more like a different kind of securitization than a bond issuance which we are probably looking at?

Management I think we will have some component for this take-out financing happening on those. Two projects were already executed through take-out financing from IIFCL: one is EHEL which is Hyderabad Outer Ring Road; and there is one more project that we have done. So I think we selectively do it for both. In some cases which may not get a good rating and may have other concerns in relation to a bond issue, we go ahead with take-out financing from IIFCL or such similar bodies, otherwise we try and refinance it through a lower and fixed cost debt.

Rakesh Vyas So the first preference normally is the bond issuance?

Management Yes.

Moderator Thank you. We have the next question from the line of Pulkit Patni from Goldman Sachs, please go ahead.

- Pulkit Patni** Just a book-keeping question. On consolidated, depreciation for this quarter has come down quite significantly compared to previous quarter. Any particular reason or any change in accounting for this particular adjustment?
- Management** I think one of the other reason is that one of our joint venture project which is in China, we have just implemented the recently approved accounting standards of the ICAI which accounts for it on a sales value method. So we have taken a retrospective benefit for a quarter in this half year.
- Pulkit Patel** I am not sure I got that. Can you just repeat? What exact adjustment?
- Management** I said that starting from April, the Institute of Chartered Accountants actually had depreciation changing from units of usage to a sales value method and we had implemented that for all our projects except the Yu-He Expressway. So we have taken the benefit of this treatment during this quarter. So that is why you kind of have one quarter extra benefit that kind of lowers the depreciation run rate quarter-over-quarter.
- Moderator** Thank you. We have a question from the line of Parvez Akhtar from Edelweiss, please go ahead.
- Parvez Akhtar** You were saying that for the Greenfield portion of the Moradabad-Bareilly, there has been some delay. So as per your expectation when do you expect the project to get completed now? Obviously, this will be as per the revised schedule but still what would be your guess of an estimated completion date?
- Management** The first quarter of next year.

- Parvez Akhtar** Sir, just one book-keeping question. I missed the break-up of the consolidated revenues for H1. If you could please repeat it?
- Management** The half year total income was 30272 million, which is 30.272 billion, of which construction income was 20 billion; PDF and Supervision fee was 0.87 billion; O&M income was 0.57 billion, Elsamex revenues were 4.02 billion; Toll and Annuity income was 4.14 billion; and other income constituted 0.77 billion.
- Moderator** Thank you. We have the next question from the line of Ankush Mahajan from KR Choksey, please go ahead.
- Ankush Mahajan** In the construction order book, could you tell me the break-up, which are the major projects we have recognized the revenue and what I get the revenue books on J&K, that is Chenani Nashri Tunnelway is quite low in this quarter. And what was the reason that order book is not moving in Kerala?
- Management** Kerala, it is only one project what we are doing and almost completed, there are a few remaining things: one road overbridge and one fly-over, balance things are almost nearing completion, so it does not add too much to construction part of it.
- Ankush Mahajan** What is the break-up sir, can I get it for the Construction income?
- Management** Within construction income I will give you the major items which contributed. I think the biggest contributor was Chenani Nashri, the J&K project, which contribute around 16%; Pune-Solapur contributed only 11%; Hazaribagh-Ranchi around 8%; Gurgaon Metro Project contributed around 15%; and rest all contributed I think between 2 to 5% each.
- Ankush Mahajan** The consolidated debt at this level is Rs. 12,000 crores. Can I get an idea what would be the range at the end of '13 & '14?

- Management** That will depend on how much of construction progress happens. But if you look at today the amount of Rs. 10,000 crores of outstanding order book, which is a proportionate share, of which around Rs. 1300 crores is the equity that is going to come in and there will be some amount of grant which will flow in, but otherwise you can probably safely assume that almost like 7000 to 8000 of the current order book would be debt which would get added on in the next three years. But the rate at which it will get added on will depend on how much of construction progress happens on each of these projects.
- Moderator** Thank you. As there are no further questions I would now like to hand the floor over to Mr. Danny Samuel for closing comments.
- Danny Samuel** We thank you all for coming on to this concall at a short notice even after we rescheduled the call and thank you all for the encouragement that you give us to continue on our strides. Thank you all once again for having spared your time.
- Management** Thank you.
- Moderator** Thank you very much sir. On behalf of IL&FS Transportation Networks Limited that concludes this conference. Thank you for joining us, you may now disconnect your lines.