

“IL&FS Transportation Networks Limited Q2 FY2018 Results Conference Call”

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Moderator: Ladies and gentlemen, good day and welcome to the Q2 FY2018 results call of IL&FS Transportation Networks hosted by Emkay Global Financial Services. 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 “*” and then “0” on your touchtone telephone. Please note that this conference is being recorded. I now hand the conference over to Ms. Nikhar Jain of Emkay Global. Thank you and over to you, Madam.

Nikhar Jain: Good afternoon everyone. I would like to welcome the management and thank them for giving us this opportunity. We have with us today Mr. Mukund Sapre, Executive Director and Mr. Dilip Bhatia, Chief Financial Officer. I would now handover the call to Mr. Sapre for his opening remarks. Over to you Sir.

Mukund Sapre: Thank you to all the participants for joining this call. Additionally, we have Mr. Harish Mathur, our Director Technical one of the key members of our team also with us. In terms of business, our total BOT road portfolio stands at 30 projects, of which 11 are annuities and 19 are toll aggregating to around 14,000 lane kilometers. In terms of operational BOT, we have 23 operational projects aggregating to 10,848 lane kilometers. In terms of EPC, we have 4 EPC projects aggregating to a cost of around ₹ 920 Crores. This number excludes Zojila Tunnel where we have been declared as L1 and are awaiting the LOI. Post that, we will add this to our EPC order book in hand.

In terms of order book, proportionate to our stake, BOT stands at around ₹ 11,378 Crores which we believe is sufficient for at least the next two years in terms of turnover and construction on-ground for us, EPC is at ₹ 537 crores and internationally, excluding Elsamex unit stands at around US\$ 254 million including our projects in Laos and Dubai. Interestingly, traffic has shown a good growth all around as compared to the corresponding period last year.

The traffic, in terms of PCU (Passenger Car Unit) has fallen by 10.32% on a quarter-to-quarter basis due to an extended monsoon but has grown 11.92% on a year to year basis. The gross average daily collections from toll and annuity has been flat on the quarter-to-quarter basis and up 20% on the year-on-year basis to around ₹ 9.56 Crores, split with 42% coming from annuity and 58% coming from toll, this is also on account of additions of new projects commissioning during the period. The numbers do not include any toll collection from our Noida Toll Bridge company and also from APEL, which we have divested.

To meet the requirement of our orders in hand, our equity need is around ₹ 1,046 Crores and in FY2018, we are expecting to infuse around ₹ 665 Crores and the remaining ₹ 381 Crores will need to be infused in FY2019 and beyond, primarily for Amravati Chikli Expressway Limited, Fagne Sonagadh Expressway Limited and Srinagar Sonamarg Tunnelway Limited.

The Sub-debt requirement is also around ₹ 814 Crores, of which ₹ 244 Crores goes in this year and the remaining ₹ 570 will go in FY2019 and beyond. The Company is qualified to bid for project worth ₹ 55,350 Crores. In terms of our continued efforts on divestment and churning of capital, we divested stake in two of our projects, we divested 10% equity in Gujarat Road and Infrastructure Company Limited for an aggregate value of ₹ 83 Crores, we continue to hold 16% equity in the project and we also divested 14.5% equity in Moradabad Bareilly Expressway Limited for an aggregate value of ₹ 80 Crores, we continue to hold around 85.5% equity in the project. As you are already aware, we are going to be taking a strategic approach on dilution and we continue to look at more options which will add value to our business and improve our valuations as and when incremental projects get operational. As of now, we are doing it in tranches.

Another important update, as we have been mentioning in the past, we have commissioned the second toll plaza on our Barwa Adda project and have started collecting toll in the 2nd plaza as well. However, the same will not be reflected in the September quarter, since the plaza got operational only on October 25, 2017. The second toll plaza is going to add-on at least ₹ 20 lakhs to ₹ 23 lakhs which will take the total collection to around ₹ 40 lakhs to ₹ 42 lakhs per day, which is definitely a significant improvement from the current ₹ 23 lakhs to ₹ 24 lakhs and as I said earlier, this is going to reflect in the coming quarters. The Company has also issued NCDs on October 30, 2017 for a total value of ₹ 150 Crores.

As mentioned earlier, we are still awaiting the LOI for the Zojila project, we believe that the government is working on some approval process and once that comes through, we will be able to add on around ₹ 4,900 Crores to our EPC order book. In terms of the coming opportunity, there are large programs that have been chalked out by the government which talks about there being a lot of opportunities available with an investment of up to ₹ 6.29 lakhs Crores by 2022.

We believe that with this sort of order magnitude, all of us which includes most of our competitors will have enough to bid. We will also protect our margins by being selective and bidding for better margin projects only. We believe this is definitely going to help us in a big way and in the coming days, as we also want to create a portfolio with EPC and hybrid annuity projects as well, the only thing to watch out for is the size of the hybrid annuity projects, we will be conscious of this because we believe that ₹ 800 crore to ₹ 1000 crore is the space where we can compete as compared to struggling in the ₹ 400 Crores to ₹ 500 Crores space, which are currently being bid. Mr. Gadkari has also been saying that from 30 km per day he wants to touch 40 kilometers per day and that is definitely going to be good for us, as far as our operations are concerned. With this, I will hand the call over to Dilip so that he can run through the financials and then we are available for any of your queries. Thank you.

Dilip Bhatia:

Thanks Mukund for the comprehensive view of the business. I think the financials have already been uploaded on the website and on the stock exchanges, so I am sure you all would have got a chance to

go through them. Quickly, during the quarter, the total income stands at ₹ 1,020 Crores, which is better than the June quarter by around 2%. The profit before tax shows a very healthy growth reported at ₹ 85 Crores as compared to ₹ 35 Crores in the last quarter and ₹ 78 Crores in the corresponding quarter last year. We had no current tax because there are benefits that are being given in terms of capital gains and tax relaxation, but there is definitely a deferred tax arising because of that and due to which the net profit stands at ₹ 60 Crores as against ₹ 24.7 Crores last quarter and ₹ 57 Crores of the September quarter last year.

In terms of the breakup, I think construction income has been slightly lower this quarter due to the subdued construction activity because of seasonality, but this drop has been more or less made up by higher fee and higher operations and maintenance income in this year. As Mukund said, we had divested minority stakes in two of our SPVs, which has given us some capital gains or some gains on select investments, which are part of the revenue. In terms of expenses, I think we continue to look at optimizing our cost, so expenses have remained where they were. Finance cost is slightly higher compared to last quarter because of a timing mismatch and hence some short-term borrowings have led to a higher finance cost. As I said, profit for the period is ₹ 60 Crores and for the half year, which is ended September 2017 is around ₹ 85 Crores. This is around a 15% improvement over the last half year ended September 2016. This is a brief snapshot of the numbers. We are now open for any questions and queries or clarifications that you may have.

Moderator: Thank you. We have the first question from the line of Prem Khurana from Anand Rathi. Please go ahead.

Prem Khurana: Thanks for taking my question. My question was with respect to the impact of the recently implemented GST and our toll numbers, so this number had come down in 1QFY18 and seems to have been coming back, but then if I compare these numbers with 4Q FY2017, if I will assume that you would have had some toll fee hike in this quarter, the number seems a little weak, so does it mean the GST impact is there and the numbers are yet to improve and I think you have had numbers for October in place so have the numbers improved even further from there?

Mukund Sapre: I will re-phrase the question, whether because of GST our toll incomes have been impacted? Is that what you asking?

Prem Khurana: Yes Sir and is the impact still there, the numbers had come down because of GST implementation people were saying there has been a commercial drop and I understand it has recovered to an extent, but is it recovered in full or is the impact is still there?

Mukund Sapre: What we have observed is that when GST was introduced there was a little bit of slip of 20 days and subsequently, I think the traffic has gone up and in terms of traffic we are also seeing an improvement in growth in almost all of our projects on a Pan India basis.

- Prem Khurana:** What kind of numbers can we work with on a stable basis in terms of traffic on our roads across our portfolio on a stabilized long-term basis?
- Mukund Sapre:** Can you re-phrase the question?
- Prem Khurana:** Sir, basically I want to understand what kind of numbers should we work with in terms of traffic growth across our portfolio on a long-term basis, a stable number that we can work with for our assumptions?
- Mukund Sapre:** In terms of long-term growth, I think there is a lot of documented and detailed studies available which states that if you consider a span of around 15 years, we can see traffic growing at an average of 8%.
- Prem Khurana:** 8% including inflation toll fee hike or 8% is the traffic growth and then inflation would be over and above that?
- Mukund Sapre:** I am purely talking about traffic growth being 8%.
- Prem Khurana:** But as a target we have hardly seen that kind of number, at least for the last four or five years if I look at the long-term average, so there have been quarters wherein the number has been in double digit, but if I look at the long-term we have not seen any company deliver more than or any road deliver more than 8% to 9% kind of growth and toll income, which essentially includes both inflation as well traffic growth, so do you think an 8% traffic growth seems to be on the higher side or is there anything that we are missing in our portfolio, which is what would drive numbers for us?
- Mukund Sapre:** I am unable to comment on the portfolio you are looking at but as I said, for our projects, we believe that this traffic growth is achievable considering the entire operational concession of 15 years of our projects, we also documented studies on some of our projects which show such toll collection. The government also helped by recasting the indices which had been negative in between, which is what could have hit tolls a little, but we are again back to 5%, 6% and most of the concessions have a toll increase of a fixed 3% plus 40% of the prevailing inflation. We definitely believe that this sort of growth rates are getting achieved and even toll flows in that fashion.
- Prem Khurana:** Sure, we were working on InvIT so any progress there, is it still in work?
- Mukund Sapre:** InvIT is definitely on the anvil. The issue is some taxation issue and we believe that the subject is going to get addressed in the coming budget, so we will have more clarity post the budget only.
- Prem Khurana:** Sure and the portfolio stays the same one toll and the rest annuity, right?

- Mukund Sapre:** Yes and as stated earlier we have progressed very well as far as the InvIT is concerned but are awaiting more clarity on the tax issues which is going to be attended to in the coming budget, so we will go ahead with our plan which has already been chalked out.
- Prem Khurana:** Sure Sir. Thank you. That is it from mine.
- Moderator:** Thank you. The next question is from the line of Vipul Shah an Individual Investor. Please go ahead.
- Vipul Shah:** You said that your toll and annuity income per day is around ₹ 9.55 Crores gross, right?
- Mukund Sapre:** Yes.
- Vipul Shah:** So that is consolidated, I suppose?
- Mukund Sapre:** Yes all projects put together.
- Vipul Shah:** So all our joint ventures as well, right?
- Dilip Bhatia:** Yes this number includes all our projects, our subsidiaries, associates and joint ventures.
- Vipul Shah:** So ₹ 9.55 Crores is gross, so when you net out our share what should be the figure that we should be looking at?
- Mukund Sapre:** It will be around ₹ 7.5 crore to ₹ 7.75 crore roughly.
- Vipul Shah:** So that figure has remained static, so after the Kashmir Tunnel has become operational, why has it not gone up Sir?
- Dilip Bhatia:** The last number we gave you, ₹ 7.6 crore net collection is comparable to ₹ 9.56 crore gross collection for the current quarter, our Kashmir Tunnel has added ₹ 1.80 Crores per day.
- Vipul Shah:** If I remember correctly before this Kashmir Tunnel become operational, this figure was also the same roughly ₹ 9.5 Crores only?
- Dilip Bhatia:** No I do not think that was the number but let us check and come back to you shortly.
- Mukund Sapre:** Please note that the collection does not include our Noida Delhi project and our APEL project, which has been divested, but we will come back to you.
- Vipul Shah:** Sir should I take it with offline?
- Mukund Sapre:** Just give us two minutes by the time we answer some other questions.

- Vipul Shah:** You can go ahead with other questions Sir.
- Moderator:** Thank you. Our next question is from the line of Debashish Paul an Individual Investor. Please go ahead.
- Debashish Paul:** Thank you for giving us this opportunity. I have two questions. One, with regard to the Ind-AS impact, if we have to see what would have been the result because if we can see the results there is some ₹ 120 odd Crores of income, which is included as a onetime income in other income, so if I exclude this income as other income and not the operating income there is a loss for the quarter, so does that mean that this is an operational loss? My second question has already been answered but what is the status of the InvIT?
- Dilip Bhatia:** It will not be correct to look at Ind-AS in isolation because there are certain reversals and there are certain provisions that need to be made. There are certain impairments that we do, so these are embedded as part and parcel of our result. For example, as far as the loans and advances are concerned, if you have to reverse the positions separately, in case of revenue on Ind-AS, in the revenue itself there is no separate amount. So it will be difficult at this stage to give you what is the exact impact of Ind-AS on our results. Impairments is only one item, but there are other items, which we entail provisions or result in reduction of revenue, which as stated earlier are part of the same item itself.
- Debashish Paul:** Sir am I right in saying that we are reporting an operational loss for this quarter?
- Dilip Bhatia:** No, that is why I said you are not right. I think as I said if you just look at one item, which is for example the other income, but there are other items as well, which are clubbed under respective heads, which are not visible to you here. Having said that, I can say that we are not reporting any operational loss.
- Debashish Paul:** Thank you Sir and just one small suggestion. In case it is possible, if you could publish some press release, which gives us an idea about the operational results.
- Debashish Paul:** Operating profitability after removing this one time item?
- Dilip Bhatia:** No, I am saying this is not one time. Now since we are following Ind-AS, there will always be an additional income every quarter or will be an additional expense. Every quarter it will happen. It is not one time.
- Debashish Paul:** Just on this tax issue Sir can you just highlight or give some light as to what is the issue in InvIT?
- Dilip Bhatia:** Recently, in the last quarter itself in the budget of FY2017, the rule 11UA was modified and in that on May 7, 2017 new guidelines about 11UA came, but essentially it says that in case there are

transactions happening below the book value, then the book value is still the consideration and both the parties, the buyer and seller both are paying tax on the notional income. Now in our case particularly when infrastructure assets are sold, they are not sold on the basis of book value they are sold on the basis of future cash flows. So in our case, one or two assets have low book value hence the taxation impact is coming, which we are trying to address.

Debashish Paul:

Thank you.

Mukund Sapre:

Coming back to the earlier question, which one of the investors had asked about the impact of our Kashmir tunnel, Chennai Nashri Tunnelway Limited in the per-day revenue, so FY2016, the daily per day collection was ₹ 7.83 crores on a gross basis and in FY2017, which included CNTL annuity, the number was ₹ 9.18 crores on a gross basis and currently the number is ₹ 9.58 crores.

Moderator:

Thank you. Next question is from the line of Harshita Arora from Cube Highways. Please go ahead.

Harshita Arora:

Sir on the call I heard that the finance cost has gone up due to an increase in short term borrowings, so just wanted to understand the debt profile currently and why has there been an increase in the borrowings?

Dilip Bhatia:

So, the total debt of the company stands at ₹ 11,900 odd amount on a standalone basis, which is slightly higher than say the June quarter. I think, as I said earlier that we are continuously refinancing our debt and there may be some timing mismatches in between the maturity and the new debt, which is coming in and that is probably being funded by our short term debt, which could be at a higher cost. Hence there is an increase in the finance cost.

Harshita Arora:

Sir from the last quarter how much has the debt increased you told about ₹ 11,970 crore is the current debt, so what was the number in the last quarter?

Dilip Bhatia:

It was around ₹ 11,700 crore.

Moderator:

Thank you. Next question is from the line of Atul Desai an Individual Investor. Please go ahead.

Atul Desai:

This question is regarding the losses that toll companies faced last year during demonetisation and the government had promised to make good for the 30 or 40 days period where toll companies were not able to collect, so has IL&FS Transport recovered from the government the dues that were due or are they still pending?

Mukund Sapre:

Part of it is still pending, we have received the amount for some of our SPVs, but the government has committed that they will pay, it is only a question of quantification, so we are submitting all the records that they have been asking for and it is sooner or later that we will get it and the government is also committed that they will pay.

- Dilip Bhatia:** They have been paying but not in one go to all the concessionaires. One by one they are bringing in project by project after collecting all the details, they are getting it rated through their local offices, and later on, I think in the next one year we should be in a position to collect whatever the entire loss that has been incurred on that account.
- Atul Desai:** For IL&FS Transport what would be the amount that we would expect and where does it reflect in the balance sheet if it is outstanding?
- Atul Desai:** Is there any estimate of the amount or you can share just a broad number like ₹ 50 Crores, ₹ 100 Crores?
- Dilip Bhatia:** It is around ₹ 38 Crores.
- Atul Desai:** Thank you.
- Moderator:** Thank you. Next question is from the line of Vipul Shah an Individual Investor. Please go ahead.
- Vipul Shah:** What is our consolidated debt level as of today?
- Dilip Bhatia:** We are not giving any consolidated numbers, but our debt level of consolidation is not different from what we gave in March. I would say that much because since we are not disclosing the consolidated numbers, but in other magnitude we are close to what where we were in March.
- Vipul Shah:** So what was the March figure I do not recollect?
- Dilip Bhatia:** It was around ₹ 31,300 crore.
- Vipul Shah:** Consolidated debt trajectory over two to three years will be more or less same or it will go up?
- Dilip Bhatia:** We have various initiatives, which we are working on. We will see a substantial reduction in the consolidated debt. InvIT itself is going to reduce the debt by ₹ 3,000 Crores. We are also looking at certain divestments, which are in different stages of execution including an asset that itself is going to reduce the debt by another ₹ 2,500 Crores, so as we go along we see the consolidated debt going down from where we currently are.
- Vipul Shah:** Lastly what is the average daily collection from the recently completed Kashmir Tunnel?
- Mukund Sapre:** ₹ 1.75 Crores per day.
- Vipul Shah:** What is our share in that?
- Dilip Bhatia:** 100%.

- Vipul Shah:** Thank you Sir.
- Moderator:** Thank you. We have the next question from the line of Gopal Agarwal of RBL Bank. Please go ahead.
- Gopal Agarwal:** Just wanted to know one thing that there are certain few claims from NHAI, which was achieved in chunks during FY2018, any status update on that part?
- Mukund Sapre:** We are on track in terms of what we committed and what we got in FY2018. One of the SPV, which was in arbitration has completed the arbitration proceedings and we are now waiting for the final approval to come in. Similarly in other cases as well, substantial progress has been made in terms of the arbitration, so I think, as we mentioned earlier this financial year we expect around ₹ 500 Crores plus to realize from claims.
- Gopal Agarwal:** Sir what is the tentative claim amount approximately as on date, which is to be claimed?
- Mukund Sapre:** The claims, which have been filed with the NHAI are a significantly large number around ₹ 4,000 Crores.
- Gopal Agarwal:** Sorry could you repeat Sir once again?
- Mukund Sapre:** I think the order of magnitude will be around ₹ 4,000 Crores.
- Gopal Agarwal:** ₹ 4,000 Crores?
- Mukund Sapre:** Yes. For all the projects put together.
- Gopal Agarwal:** Okay Sir.
- Moderator:** Thank you ladies and gentlemen. Please note the management has to leave, so if there are any further questions, you may please call the investor relations team. I would now like to hand the floor back to the management for closing comments. Over to your Sir.
- Dilip Bhatia:** Thank you everyone for joining this call though it was on short notice. The numbers have been uploaded on the website. Any questions or any clarifications you may need, please contact the investor relations team and we will be happy to provide them to you all. Thank you.
- Moderator:** Thank you. Ladies and gentlemen, on behalf of Emkay Global Financial Services that concludes this conference. Thank you for joining us. You may now disconnect your lines.