IL&FS Transportation Networks Ltd.

Q1 FY16 Earnings Conference Call

August 10, 2015

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	MR. GEORGE CHERIAN - CHIEF FINANCIAL OFFICER
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	MR KRISHNA GHAG - VICE PRESIDENT, COMPANY SECRETARY & COMPLIANCE OFFICER
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Moderator: Good evening ladies and gentlemen, thank you for standing by. This is Milan the moderator for your conference call today. Welcome to the first quarter FY2016 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 weÕll come to the Question Answer session. At that time if you have a question please press * and 1. I would now like to hand over this call to Mr. Anubhav Gupta from Maybank for the opening remarks. Please go ahead sir.

Anubhav Gupta: Hi, good evening everyone. 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 Karunakaran, Managing Director, Mr. Mukund Sapre, Executive Director, Mr. George Cherian, CFO, Mr. Drupad Upadhyaya, Vice President and Head of Investor Relations, Mr. Krishna Garg, Vice President, Company Secretary and Compliance Officer, Mr. Mittal, Chief Executive, Domestic Implementation and Mr. Prashant Agarwal, AVP - Finance and Accounts. I will now hand over the call to Mr. Ramchand Karunakaran for his opening remarks, followed Mr, Cherian who will share the performance highlights. Over to you Mr. Ramchand.

Ramchand Karunakaran: Thank you. Good evening everybody. Before I start, IÕm not sure whether you all have had an opportunity to go through the results that we provided to the exchange. However, we will run through the broad features of our results and as usual we will be open for questions post this call. ItÕs not that this call is the end all of everything that we will take from all of you.

Just to recap, we have had some updates during this quarter with respect to what we have been awarded. The latest of them were the two projects that we won in Maharashtra; both put together about 4,000 crores. Recently, as yesterday, we also signed a concession for another project in Jharkhand. As you know in Jharkhand, we have a holding company which is a joint venture with our group and the Jharkhand government and that has the opportunity to keep expanding its mandate. The government of Jharkhand keeps using that company to expand its mandate and provide new roads for implementation. The last one that we have got is a six laning project to Ring Road around Ranchi. Its about 24 kilometers. ItÕs got an annuity and the annuity as you all know is fixed at the time of the bid itself. So again for project cost of about Rs. 587 crores, we would get something like about Rs. 110-112 crores per annum. We also signed a concession agreement with the State of Gujarat, also on an annuity basis, for building eight road-over-bridges across the State of Gujarat. Here the project costs about Rs. 250 crores and their annual stake could be about Rs. 40-43 crores over a standard concession agreement of 17.5 years. Elsamex our subsidiary been identified as the lowest bidder in two projects for upgradation in Madhya Pradesh. So I think this quarter has gone pretty well for us.

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We have a few projects that are now in the process of either signing the concession agreement or having signed the concession agreement, working towards financial closure. Another update is that you probably know that we have been working on a project in Nepal that has been going fairly well. Weøve also reached some finality there. We have signed an MoU and term sheet which recorded our understanding during the concession discussion with the government of Nepal. That is a little similar to an annuity where they offer us a minimum revenue guarantee and anything above the minimum revenue collected is shared between the government of Nepal and ourselves. This is all through various stages. The last of them is that it finally got approved by the Planning Commission of the Government of Nepal and now awaits Cabinet approval. This is the one project where all the parties in Nepal are for going ahead with this project unlike many other instances where a large number of political parties in Nepal have been pulling projects in different directions.

This time we were actually expecting a few projects to be commissioned and though weøve applied for commissioning, I think we are pending the final approval for two projects; one is the Jorabat-Shillong and the other Baleshwar Kharagpur. These two projects are awaited and I believe they should be coming in very soon. If these two get done, then we will have about 21 projects operational during FY16, which means that along with Sikar Bikaner we would have commissioned three more projects. So thatøs how this quarter seems to be as far as projects are concerned. In the next financial year we will have commissioned another four and that probably takes us to around 25 projects. As on date, the order book is about Rs. 10,700 crores including SSTL. This does not include the four recently awarded projects and I think on an average, we normally have about Rs. 15,000 crores of orderbook split between NHAI and non-NHAI itøs about 61% for NHAI, 32% for non-NHAI and 7% is the long road projects which include the Metro in Gurgaon and the border check post in Madhya Pradesh. We have now commissioned about 16 check posts in Madhya Pradesh and both CCU units; two of them in Ghadchiroli have also been commissioned.

Along with these, we have won an award recently called the Global Road Achievement Award for the Trivandrum city road project. And I think that itøs an appreciation of the work that we have been involved in especially in the category of urban roads. There are very few experiences of urban roads in the country and I think this is one of those few instances where an Indian urban road has been actually selected amongst the large number of competitors across the world. The equity remaining to be invested about is about Rs. 550 crores. We believe that this should be not too difficult to input into these besides the new projects.

You may also know that the board of directors in the last board meeting had recommended a dividend of Rs. 4. We have an AGM on 26th August which will finally approve the payment of dividend and then it would be done in three weeks after that.

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Before I hand over the mike to George to run you through the numbers, everybody knows that this quarter hasn't been very easy and I think this is true not only for us but also for the whole industry fundamentally because of two reasons; one is I think the rate cuts that we had thought would happen did not take place last year and during this quarter and therefore there has been an additional interest which has been borne us, which is one of the biggest costs. The second is we continue to face banking issues in a lot of our projects because banks have become more stricter with disbursement than what they were in the past and I think there have been public statements on these. So I think if you look at it in an overall basis I would believe that we have done very well given the difficult circumstances that all of us are going through and with the new projects in hand we look forward a better performance in the future. With this, I would like to hand over to George and we will run you through the numbers.

George Cherian: Good evening everyone. You would have all seen the numbers that have been published. It is on the website. I will take you through the numbers pertaining to the quarter ending June 15th and also compare it with the numbers that existed for the same period of the previous year. If you look at the revenue from the operations, we have a total number of Rs. 947 crores as against Rs. 939 crores last year. But the previous year included the gain from the sale of our equity stake in one of our subsidiary companies of about Rs. 228 crores. So if you knock that off and look at revenue from operations per se, you would see that there is an improvement of about Rs. 280 crores through the construction route, the O&M income and also the additionally the fee income, which has gone up by about Rs. 58 crores.

Into the income from operations, you also have other income of about Rs. 125 crores in the current year mainly made up of interest income from loans to the subsidiary companies compared to about Rs. 50 crores in the previous year. Obviously this has been because there has been higher support from the parent to the SPV on which interest has been charged. So, if you look at it in the context of the total interest cost, the borrowing cost has been significantly higher, almost up by about Rs. 90 crores for the quarter and net of the interest income that we have generated, the overall increase in the quarter ended June 15 over June 14 is a Rs. 35 crore per quarter difference. Depreciation has been much the same. PBT, if you look at it in the context of the adjustment that I spoke about, it is marginally better than what it was in the quarter ended June 14. So the quarter has a PBT of Rs. 39 crores with a tax of about Rs. 3 crores, leaving us with a Profit After Tax of about Rs. 36 crores compared to Rs. 188 crores in the previous quarter.

I did mention to you about an increase in the interest cost and that is reflected also in the increase in the borrowing which has moved up from about Rs. 7,400 crores at the end of March to Rs. 8,051 crores at the end of June. Primarily, this has come about as a result of some support that the SPV's needed and also the working capital requirements at the

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corporate office given the fact that there have been some delays in the bank funding of some SPVs it has become necessary for the parent to support the SPV until such time that the bank funding is finalized. This has again affected the debt-equity ratio, which has gone up from 2.08 to 2.24, but we are hopeful that over the next few months we would be able to correct it substantially. The long-term and short-term borrowing is also therefore affected, because there has been a reliance on more of short-term in the interim and when we are able to correct this, we would then have an opportunity to pay back the short-term loans, rather than be stuck with it.

That essentially is a summary of the results for the quarter compared to the previous quarter and on the consolidated front, total revenues have been Rs. 1640 crores versus Rs. 1564 crores. Essentially, the changes are very similar to what I spoke to you about in respect of the standalone. The sale of shares in GRICL is a significant contributor to the results of last year and adjusted for that, the EBIDTA has remained more or less constant at about 36-37% and interest has gone up. That is because of a drawdown in respect to projects which are under construction. PBT has moved down significantly from Rs. 147 crores to Rs. 61 crores. Again, as a result of mainly the readjustment for the sale of shares in GRICL. PAT is similarly affected and the debt equity has moved up. Itõs now at 80:20; itõs marginally higher than what it was in March, which was at 79:21. Total net debt has gone up from Rs. 23,500 crores to Rs. 24,800 crores mainly as a result of drawdowns and partly as a result of the increased borrowing at corporate office.

Drupad Upadhyaya: Quickly, I would like to re-emphasize a few things. The EBIDTA level, like George said, if we take out GRICL revenues out of the stake sale revenues in the corresponding quarter last year, then I think we are at a similar level or rather better in this particular quarter. The interest rise has actually impacted the corresponding comparable profit for the quarter. I think barring that, on pure revenue, pure EBIDTA margin level we are similar if not better. Thank you so much and I think we would now like to open the floor for questions.

Moderator: Certainly sir. Ladies and gentlemen, we will now begin the Question Answer session. If you have a question please press * and 1 on your push button phones and await your turn to ask the questions when guided by the facilitator. If your question has been answered before your turn and you wish to withdraw your request you may do so by pressing 1 on your phone. Ladies and gentlemen if you wish to ask question you may please press * and 1. We have our first question from Mr. Ashutosh from HSBC Mumbai. Mr. Ashutosh please proceed.

Ashutosh: Hi Ram, Hi Drupad. Just two questions. First one; a couple of data points if you can share? One is; what is the total debt in the standalone level which we have given to our subsidiaries, second one is what is the capitalized interest expense which we have got

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in our numbers in the P&L account. The second question was in terms of the leverage on balance sheet - how comfortable or where do we see ourselves kind of restricting on taking new projects? Is it 4.2 right now or is it somewhere in the standalone level that we donœt go beyond 2.5 or force the equity dilution, so if you can give that indication?

Ramchand Karunakaran: So the first question about the standalone. SPV debt has been about Rs. 2, 600 crores. That has been given to the SPVs. The debt equity at the consolidated level is currently at about 4.3. I think thatœs probably the level with which we are going to be around given that there will be investments coming up and you are mostly working on 80:20 ratio in terms of equity and debt funding. I will just come back to you on the exact number of interest capitalized in the quarter. The interest capitalized is prospective and that number is in the region of about Rs. 180 crores, but I will confirm that.

Ashutosh: Adding on to the claims question, would it be fair to assume that the current leverage position is unlikely to come down without an equity dilution over the next two year timeframe given the kind of additions which we are doing, correct?

Mukund Sapre: As we have been saying, we need to look differently at the way we have been doing our business and as you see, there are 3-4 corrective measures that we will be taking. One, we have realized that there has to be some asset churning, which we did one like GRICL. I think we would be looking into two or three assets which we believe will bring some value and take out some debt out of our balance sheet. So, we will be actively moving along that direction. We will be looking at one or two securitizations where we believe that we have now that sort of maturity to do and refinance annuity within a very proper structured manner which gives us a benefit of at least 150 basis points on interest borrowing. And to add on, will be the Rs. 1,000 crore resolution that we have taken which we believe should come on the table. So, technically we believe that the levels are going to hover like this for at least 1.5-2 years from now and then once we have the whole portfolio almost ready by 2017 then there that the debt levels are going to come down. So you can assume that it is going to continue in this fashion for at least sometime, but we are very conscious of this so all our new equity needs, we will be doing through asset churning.

Ashutosh: Thank you gentlemen all the best.

Moderator: Thank you for your question Mr. Ashutosh. We have our next question from Mr. Nitin Arora from Emkay Global. Nitin, please proceed.

Nitin Arora: Hi Sir, good evening. My first question is related to the fee income. How much of the fee income has been left to be booked from the existing projects and also the fee income which you have won on two projects recently. You stated that the concession is

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already signed. So how much is the existing income less and how much you want to book it from the newer projects?

Mukund Sapre: Technically, if you would analyze most of the work to be done on the ground we have gone through the detailed engineering phase and so apart from the project management that we charge, we will not have too much on that count. The new projects are initially going to be in the range of 2.5% to 3%, but the point is very simple that as of now we are not planned, because we are under incorporation of the SPV and once we sign the concession agreement, then only this detailed engineering is going to start. So, technically we know that our fee income will be in the range of 2-3% of the new wins which are going to come, but I can say that those are not going to come in next quarter. Maybe quarter 3 or quarter 4 you will have some amounts flowing from this otherwise these are regular PMC mandate what we have as per the work to be done on the ground. So I donꞌt see too much of jump or its going to remain at more stagnant levels. Apart from SSTL, where we have now started on the ground and as tunnel is now ongoing continuing process there we will have some larger PMC amounts flowing, but detailed engineering if you ask me most of the projects which are on ground are barely in advanced stage of construction or completion, we donꞌt have too much of detailed engineering fees to be accrued over there.

Nitin Arora: My point was that if you can share some amount on that? So 150 crores is the mandate which you will not look at it, but from the existing lets say Srinagar-Sonmarg as well how much is the total left to be booked for remaining of the three quarters.

Ramchand Karunakaran: Generally, I think, PMC should be in the range of Rs. 20-40 crores. We will come back to you on this.

Nitin Arora: Okay. My next question is that in your presentation it states about the equity requirement of about Rs. 550 crore plus and so that includes the Srinagarï Sonmarg that I wanted to know. Second thing; in the project which you have recently won, how much is the incremental equity requirement, which will be there for the next two years?

Mukund Sapre: Actually when we are saying Rs. 557 crores which is indicated taking into account all the mandates in hand including existing, but not the new ones. New ones is something we will work on the financial plan; you know as per the concession agreement mandates one can even take a view that I bring 51% on the table and look for 49%, but that is all depending on how we churn our assets, how we work on our cash flows, how we work for securitization, monetization, but one can take an assumption that if we have to live within concessional framework within the bidding conditions, within the award conditions we can restrict ourselves to 51% of the 30:70 structure of new projects. But the call will be

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taken depending on how asset churning is going to take place and which quarter itӧs going to happen in.

Nitin Arora: Sir, at the starting of the call you said there has been some delay by banks in terms of funding for your projects and thatӧs why we increase the lending from the parent level. As far as we understood that any which ways the equity needs to be put in by parents, because the SPV is not having any income to support the equity requirement. So is it something that we have paid also the debt part, which banker would have paid initially? 20% if I am actually putting in so it has gone more than the 20% what the project entails at this point?

Ramchand Karunakaran: In some of these projects the interest which was supposed to be capitalized as part of the project cost has actually been exhausted because interest rates went up and the banks are not willing to actually fund the larger interest during construction. We have been asked to put or fill up the gaps in order to complete the projects. Particularly this has taken place in Jorabat-Shillong and the Chenani Nashri projects so these two projects we have actually had to put in additional money, which will actually come back when we actually get reimbursed from NHAI through a claims process. So two of these instances where the IDC estimated in the financial plan has been exhausted and the lenders are not willing to fund the additional IDC which is there due to the project.

Nitin Arora: In terms of tax outgo in a quarter, which on a standalone level has come down, but on a consol level it has been a little higher so can you state some reasons for that? The PAT rate for this quarter has been 7% on a standalone level I mean very high on the consolidated level.

George Cherian: The consolidated taxes are always an aggregation of taxes across various entities. So if you have taxable profit in one of the subsidiary companies, you will not be able to set it off against the losses in the other company. So you will just aggregate all the numbers that you have and come to a number for all the consolidated results, which is not going to be represented in terms of a percentage to the income. That will work only in the case of pure standalone income where you will apply the applicable rates in terms of either a long-term capital gain or short-term capital gain depending the composition of your income.

Nitin Arora: In terms of the traffic collection you said some of the traffic road numbers what you have witnessed in the projects, because I think Ahmedabad-Mehsana saw some reduction in the initial quarters and then it has picked up. So what is the portfolio growth in terms of collections?

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Drupad Upadhyaya: See, the toll annuity collections you should look at it from YOY comparisons and that has gone up about 9%. Now this quarter as you know there have been floods in some areas and because of these collections have been affected. Barring that, the total collection numbers that actually have been at Rs. 6.8 crores on a SPV level.- unadjusted for our stake Ahmedabad Mehsana, if you look at it; the collections despite the flood have been at 2.26 million per day. Vadodara-Halol has actually picked up in this particular quarter vis-à-vis the previous quarter.

Nitin Arora: Drupad, when you said 9% is it for the volume growth or the total revenue growth?

Drupad Upadhyaya: No, revenue growth.

Moderator: Thank you for your question Mr. Nitin. We have our next question from Mr. Anand Vyas from Bajaj holdings. Mr. Anand please proceed.

Anand Vyas: Thank you for the opportunity. I just want to know one thing; why do Elsamex revenues are falling over the last two years?

Mukund Sapre: In Elsamex, we had done a topline of 165 million Euro with 6% PAT and it was flat this time last year and this year we are very confident that we will be able to do better than what we have been doing. So basically I donǿt see that it has been falling or something. It has been almost the effect is only because of the exchange rate. That is what George is prompting me to answer you.

Moderator: Thank you for your question Mr. Anand. We have our next question from Mr. Vikas Garg from L&T Capital. Mr. Vikas please proceed.

Vikas Garg: Thanks for taking the question. I think most of the questions have been answered. Just two questions; one is the financial covenants on the SPV. I assume most of the bankers would have some financial covenants at the SPV level, but would you also have some similar covenants on the standalone company level be in the form of debt equity or any other benchmarks over there? So thatǿs one and second question is that if you could give us some specific timelines on the capital raising or the fund raising at the standalone company level? We have seen that QIP was to be done last year, but it has been delayed for a longer time and also given the fact that we are sitting on so many Annuities as of now which can be securitized. So what can be the specific timeframe on the standalone company level which can give us some visibility upon the cash flows coming in.

George Cherian: Well the SPV covenants are the individual accounts which the lending banks specify. As far as the corporate level debt is concerned, there are some covenants in

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terms of debt equity and debt plus guarantee to equity, which are tested on a half yearly basis. So those covenants are something which we endeavor to meet each time and we did that in March as well. We expect that going forward with corrective action we will be able to meet that.

Drupad Upadhyaya: The second question is regarding the QIP equity raise and the timing around that right. As you know, the stock currently is quoting significantly below book value. Any equity raise is obviously subject to market conditions and second; if you dilute right now, you might not have significant headroom for coming back to the market later for growth capital. It might not be fair to the existing holders as well to dilute below book through QIP. While we are mindful and we will definitely pursue some form of equity raise and recapitalize ourselves, but we can only say that can happen any time before March. Any specific timeframe prior to that might be difficult to meet.

Vikas Garg: On those other specific plans of churning over the assets and also doing some one or two deals of securitization, what is the likely timeline or visibility on that?

Mukund Sapre: I think again we would say that again we are targeting some things in this year so that you see a lot of things happening before March to really put this due diligence time for investors to look into something very difficult to take a call as of today, but we are talking for a few things here and there and you can take it up to March and board approvals and those sort of things also get involved. So you can take March as end limit for our target or something.

Vikas Garg: Last thing on the first question on the covenants and all so are we seen in compliance of the covenants at the standalone company level or would there be any breach on the standalone numbers.

Ramchand Karunakaran : Actually we kept it twice a year March 31st if I am not mistaken and September 30th . So I think we donõt do this daily; it is difficult to tell you as if we are in compliance or not as of today. So, we can only tell you that we definitely are sure that by September 30th deadline will be within that.

Vikas Garg: There is no default on it?

Ramchand Karunakaran : There is no default on it.

Moderator: Thank you for your question Mr. Vikas. We v our next question from Mr. Amit Jare from Cambridge Securities. Mr. Amit please proceed.

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Amit Jare: Hello sir, can you please throw some light on the interest cost and we have seen in this quarter it has been quite on higher side and if you just throw some light how will it behave in coming quarters in FY16?

George Cherian: Interest has been one of the factors for one of the quarters resulting to be in what they are. There has been a need to increase borrowings because there is some support that is needed to be provided during this time although itҳ partly offset by the interest income. This is expected to be corrected over the next few months and by March we should probably be coming back to more even fields.

Amit Jare: Another question; when do you expect the income from the just commissioned projects to compensate for this high interest expense?

Drupad Upadhyaya: The projects cash flow has been structured in such a manner that the repayment- and say average concession period is 20 years, operational period is 17-18 years; then you structure the repayment in such a manner that aims at repaying the entire debt by 10 or 12 years time. There is a certain revenue catch up period to be provided for. Regarding, the interest-expense right now, there are two things, one is the absolute level of interest has gone up because the consolidated debt has gone up since you were drawing down debt for executing projects on the ground. The revenue starts flowing once the project becomes operational; the debt will start getting repaid dependent on the revenue which might or not be in line with the projected numbers. But there is no direct correlation in terms of the interest being recompensated by revenue in some format that you are saying.

Amit Jare: Okay sir, thank you.

Moderator: Thank you for your question Mr. Amit. We have the next question from Mr. Vishwaroop from Future General Life. Mr. Vishwaroop, please proceed.

Vishwaroop: Thank you very much, good evening. I have also a question on interest-expense. Actually the consol level the expense has increased from Rs. 450 crore last year to Rs. 559 crores this quarter. So basically if I look at the schedule, there it says that the capitalized interest has been lowered by almost 85 crores. So I imagine that is the main reason why we have such high interest expense in P&L this quarter. So could you please elaborate whether this 85 crores lower capital adjustment as you mentioned earlier because of bankҳ restriction, is it one of a thing or this can continue for next quarter. So I just want to understand this 550 odd crore run rate will continue for a few quarters more or will it come back to around 450 or 470 kind of run rate.

George Cherian: The interest which hits the P&L account in the consolidated accounts for SPV is generally on account of two factors, since we do service concession accounting, any

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interest that pertains to annuity projects will directly hit the P&L account. Number two is that while interest is capitalized during the construction phase and all old assets, the moment the assets are capitalized, you have interest cost getting debited to the P&L account. So it is basically a factor of combination of these two factors that determine what is the interest cost that you take into your P&L account.

Vishwaroop: Sir so if understand correctly, the lowest capitalization is because of its one or two projects that you mentioned, right. One is CL that you said.

George Cherian: Any toll projects under construction will have interest capitalized on it, until such time that the project is capitalized. Whereas in the case of annuity projects that you undertake, interest gets debited to P& L account right from day 1.

Vishwaroop: So why is the increase all of a sudden, this quarter, is what I want to understand?

George Cherian: When you draw down debt and it depends on what kind of projecté you have debt for a toll project, obviously the increase in debt that you have drawn down will also result in increase in the interest cost.

Vishwaroop: So we can assume this kind of figures going ahead so for a few quarters.

George Cherian: This can change. Once the asset gets capitalized then the interest charge will become higher in the case where toll is there. So it depends on the combination of the profile of the asset thatõs there at any point in time.

Vishwaroop: Thank you.

Moderator: Thank you for your question Mr. Vishwaroop. We have the next question from Mr. Naveen Jain from JM Financial. Mr. Naveen, please proceed.

Naveen Jain: Good evening everybody. I have a few questions, one given that we are given so many projects which are now operational, have you identified any projects which we can monetize in any form by either selling equity or by way of securitization over the course of next three or four quarters, and then we start negotiations around that.

Mukund Sapre: We have a clearer idea which has one, we should pose foré those are the ones we will take it forward from here. In a way the answer is yes, that okay, three or four assets are there on which we will initiate dialogue or are initiated and may be in coming two or three we will have the outcome coming out of it.

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Naveen Jain: Sure sir. What is the kind of money that can be realized by that process that we will make in next 6 months or 9 months?

Mukund Sapre: See unfortunately you know, forward looking things, that is why you would have found us very restrained on talking and things coming ahead of us. So forward looking is something I will not be in a position to comment, that is the board policy.

Naveen Jain: Sure sir. No problem. My second question was on standalone interest cost which was about 250 crores in this quarter and the EBITDA was only about 160 odd crores. So this interim period till the time you bring down the debt levels of the standalone entity, the interest cost is incrementally will get funded by the debt, is that a right understanding?

George Cherian: The EBITDA for standalone is Rs. 288 crores.

Naveen Jain: Including the other income?

George Cherian: Yes including the other income and so there is interest out of that which took off Rs. 245 crores. Otherwise you knock off Rs. 110 crores from Rs. 245 which is 135, and then knock off with 110 crores from 288, in a way that you want to look at it.

Naveen Jain: Sure. So basically to fund this interest cost we are not required to take debt per se. Thirdly you mentioned that given about 2600 crores loans to SPVs which is a quasi equity thing I believe? Is that right?

George Cherian: No it is not quasi equity, that is a way of sub debt. This is support that has been provided to the SPV which will come back to you at some point in time.

Naveen Jain: So out of this, what is the kind of amount that can be expected to come back let us say over a course of next two or three years?

George Cherian: Let me clarify the total debt to the SPV is Rs. 2600 crores. It is not what we have given in one quarter.

Naveen Jain: I understand, so what I want to understand is that over the course of next two years or three years how much of that sub debt we expect to be repaid to the parent.

George Cherian: I think we should be getting most of it back in the two year time frame.

Naveen Jain: What is the total equity we have invested in all the processes taken together by end of this quarter?

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George Cherian: Total equity invested is about 4500 crores to 5000 crores.

Naveen Jain: That is the ITNL share right?

George Cherian: Yes.

Naveen Jain: Last question. We had a good quarter in terms of project additions, we had significant amount to of projects in this particular quarter so going forward for the rest of this year or let us say FY17 what is the kind of further projects that we would be targeting or we might looking at in terms of your strategy moving forward.

Mukund Sapre : In terms of one direct answer as we stated in the opening remark when our MD said that we are ahead in negotiations on Nepal so that is going to add on as a large number. So the good part of Nepal is that most of the loan is going to get used from Indian Loc which has gone to Nepal Government. This loan is to be given to project at 3%. But at the same time, this almost brings around 8000-9000 crores is still a add-on and we are hoping that this should happen on coming three four months .As of now this is the indication we are getting whatever negotiations that we had with the government and authorities and I believe today it has gone for cabinet committee approval on that count. Other model which is hybrid which government has been talking, so we are getting to look at those hybrid things also which are going to come for bidding because that also brings down drastically quite a lot number in the equity requirement. So on an average we would love to still clock around 5000 crore per annum which let us see in coming days how does it pan out.

Naveen Jain: Okay. What is the kind of equity that Nepal project would need?

Mukund Sapre: Nepal will need hardly anything, it is a five year project so if I translate that the number is not that big.

Moderator: Thank you for your question Mr. Naveen. We have the next question from Mr. Sandeep Piyo from Research. Mr. Sandeep, please proceed. Mr. Sandeep

Sandeep Piyo: May I know the update on Zojila Project

Mukund Sapre: We have completed that bid. Unfortunately we were the single bidder and our bid was returned back unopened. Now the government has again given an advertisement and they are saying that you need to submit the bid in November. It is a single stage bid with two envelopes technical and commercial. So we were single bidder last time and let us hope that this time few others are joining the list.

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Sandeep Piyo: The second question was, what kind of IRR do you expect in the new project in Maharashtra?

Mukund Sapre: 16%.

Sandeep Piyo: Thank you.

Moderator: Thank you for your question Mr. Sandeep. We have the next question from Mr. Siddharth from UTI Mutual fund. Mr. Siddharth, please proceed.

Siddharth: Thanks for taking my question. You mentioned this pending equity commitment of 557crores and that includes Srinagar Sonmarg. Because the Srinagar Sonmargé the project cost seems to be quite high, 3300 odd crores. So the equity commitment should be of course of 600 crores in that project itself. Is it correct that this part is not included in your number?

Drupad Upadhyaya: No actually since it is an annuity project, it gets funded 80-20. 80 is the debt and 20 is the equity. In the 20 we also have the discretion ofé the bankers would allow you to fund some portion of it through sub debt. Further, we hold only 49% in this, you know the balance is held by another entity. So of this 557 crore of pending equity commitment, more than 50% is for the rapid metro phase 2 project and the balance is for SSTL and the KNCL.

Siddharth: Okay and what will be the sub debt portion in SSTL?

Drupad Upadhyaya: SSTL sponsor sub debt portion should be close to about 450-500 crores

Siddharth: On the two new projects, aggregating to around 4000 crore project cost, so that again would be funded in 80-20 I think.

Drupad Upadhyaya: No actually there are four projects of which two are toll and two are annuity. Two toll projects have a grant. The other two are annuity - the Jharkhand and the ROB projects. Again they can be funded in 20 (equity):80, (debt). So the equity requirements for all the four projects including the grant will be roughly will be 20%.

Siddharth: This should be over a period of three years?

Ramchand Karunakaran: We have to bring in 50% and then you can expect disbursement to start. So you can stretch to two years and two and half years.

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Siddharth: Second question was on this 2600 crores debt that is outstanding to the SPVs, how much of this would be to SPVs recent financial closure which has not happened or IDC has got exhausted, how much of this 2600 will be towards a short term meeting bridge financing of SPV which we can expect to come back in the next 12 months.

Ramchand Karunakaran: Actually we do not have data right now, we will have to get back to you. But I would expect it to work lightly upwards of 500 crores.

Siddharth: So this is fair to assume that once these issues are resolved, this should come back to the parent company.

Ramchand Karunakaran : Yes.

Siddharth: The interest that SPVs pay is charged on the sub debt which is 125 crores of other income in Q1, is this all realized income or some part of it will be accrued and you knowé

George Cherian: Some part of it is accrued because obviously if they need cash paying this, they do not have the cash to pay right now.

Siddharth: 125 crores or 100 crores could be expected to recur in the subsequent quarters?

George Cherian: I think it will go on for a little while, any another quarter or so.

Siddharth: Okay. Thank you for this.

Moderator: Thank you for your question Mr. Siddharth. We have the next question from Mr. Sagar Parekh from Deep Finance. Mr. Sagar, please proceed.

Sagar: Hello sir.

Ramchand Karunakaran: Hi how are you?

Sagar: Personally can I have the breakup of your debt in terms of operational and non operational and within operational then you can have the debt break up between annuity and BOT Toll?

Ramchand Karunakaran: I will come back to you on that break up. Get in touch with Drupad and he will give it to you.

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Sagar: Okay sure, no problem. You mentioned that out of the 8050 crores standalone debt, 2600 is back to back debt given to SPV which means that 5600 crores is the pure standalone debt. Am I correct?

Ramchand Karunakaran: Yes.

Sagar: So on a 4000 crore topline, you have a 5600 crore debt on your standalone operation. Even if I take about 15% EBITDA margin from that, on a 600 crore EBITDA you know you have 5600 crores debt on that. so roughly about 600 crores of interest also. EBITDA to interest is about 1x right?

George Cherian: Yes.

Sagar: So any plans to reduce this number? 5600?

Ramchand Karunakaran: That is what we talked about a little while ago. As the SPV starts repaying debté

Sagar: But as SPV starts repaying debt the Rs. 2600 will come down but your standalone still has Rs. 5600 crores of debt.

Ramchand Karunakaran: 5600 crores right? We are also looking at raising equity at some point in time. So that is something which is a combination that we will go towards that.

Sagar: Okay sir I will get back to Drupad for the breakup in terms of debt.

Moderator: That was the last question. I would like to handover the conference over to Mr. Anubhav Gupta. Please go ahead sir.

Anubhav Gupta: Thank you and I would like to thank all the participants for dialing in today. Also special thanks to the management of IL&FS Transportation Networks who could spare the time today and do the call with us. Thank you everyone.

Ramchand Karunakaran: Thank you.

Moderator: Ladies and gentlemen this concludes the conference for today we thank you for your participation and for using Tata Docomo conferencing services. You may please disconnect your lines now thank you and have sizzling evening.

(This document has been edited for readability purposes)