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IL&FS Transportation Networks

Q4FY17 Conference Call Transcript

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Moderator:

Ladies and gentlemen, welcome to the Q4 FY2017 results call of IL&FS Transportation Networks hosted by Emkay Global Financial Services. We have with us today, Mr. Mukund Sapre - Executive Director, Mr. Dilip Bhatia - Chief Financial Officer and Mr. Krishna Ghag - Vice President, Company Secretary and Head Investor Relations. 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 the operator by pressing "*" and then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Ms. Nikhar Jain. Thank you and over to you, Madam!

Nikhar Jain:

Good evening everyone. I would like to welcome the management and thank them for giving us this opportunity. I would now hand over the call to Mr. Mukund Sapre for his opening remarks. Over to you Sir!

Mukund Sapre:

Good evening all of you. Let me also thank you for joining this call. I will just run through the operational highlights first and then hand over the call to Dilip Bhatia, our CFO. Out of our total portfolio of 35 projects, we have 30 road projects and 5 Non-road projects. Of the 30 road projects, 23 road projects are operational. The Total length of all the road projects stands at around 14,016 lane kilometers.

In terms of CODs, we have commissioned three projects during the quarter, Chenani Nashri Tunnel (CNTL) achieved Commercial Operations on March 8, 2017, Khed Sinnar on January 31, 2017 and Rail Project, Rapid Metro South Extension on March 31, 2017. CNTL & Rapid Metro are amongst our Larger Projects.

On ground as of now, we have seven projects under construction. One is them is the ROB projectin Gujarat and another is the outer ring road stretch in Jharkhand both of these are annuity projects and Amaravati-Chikhli and Fagne-Songadh both in Maharashtra awarded by NHAI are BOT (Toll) projects. The construction is in progress for all these projects.

Meanwhile as we have been saying that there has been a shift in the bidding scenario and likewise we are also witnessing a relative shift in our business model, apart from BOT concessions we would and are looking for EPC opportunities as well. Given that, we have clocked EPC orders worth Rs. 920 Crores, from four EPC projects. We have got two projects combined together in Madhya Pradesh of Rs. 380 Crores for which we have received a LOA. So today in terms of our order book adjusted to our stake, stands at around Rs. 11,810 Crores for BOT, and Rs. 541 Crores for EPC. We also have international projects of around $257 million.

In terms of the numbers, when we convert everything to one single number collection, today we are somewhere around Rs. 9.55 Crores per day and we have seen that the traffic growth has been in the range of 5% as compared to last year, but if you take the last quarter it has shown an 8% growth.

In terms of financial closure, we were able to down sell some of our assets, where we had completed work on ground, Khed-Sinnar and Barwa Adda have been successfully down sold. In terms of refinancing and saving on interest cost and all our other initiatives, we had taken efforts and have completed refinancing in three of our projects. We issued NCDs and term loans for HREL which was around Rs. 715 Crores, MBEL (toll project) which is Rs. 1712 Crores and JRPICL of around Rs. 1730 Crores. All three projects have almost around 200-basis or little more of interest saving accruing to us.

Meanwhile, we had raised Rs. 750 Crores by way of rated listed NCDs

Now I will hand over the call to Dilip to run through the financial numbers and we can take questions after that.

Dilip Bhatia:

Thanks Mukund. Welcome to all of you. The financial results were declared yesterday. So I am sure you must have had a chance to go through them and analyze. Quickly, I will first look at the standalone numbers. The topline has seen some downward trend. The topline has been down by around 13% largely because of lower construction income. Some of our larger projects like CNTL, RMGSL, Pune Sholapur and Moradabad Bareilly have reached their completion. So to that extent the construction income has come down.

In terms of number of projects, new projects have commenced construction but there has been some gap in the old project completion and start up construction in the new projects particularly the Maharashtra projects and the other recently awarded projects like JIICL and ROBs in Gujarat. So that has led to reduction in the construction income but correspondingly it has also led to reduction in the overall cost, so while the revenue is down by 13% overall cost is also down by around 18% largely led by lower construction expenses. The construction expenses has also been lower because as the projects have reached final completion the savings in cost arising out of the recognition and other operating efficiencies has led to increase in construction margin in this year by around 20% and overall increase in the profit before tax. So we end up the FY2017 profit before tax of Rs.195 Crores.

Now I just want to remind all of you that this is the first full year of Ind-AS adoption of the Company. So the financials of this year as well as consolidated finances of last year actually incorporates the Ind-AS adjustments which have been now necessitated because of the change of IGAAP and accordingly the FY2016 has been restated. We have ended the year with a healthy bottom line of Rs. 236 Croreson a standalone basis. So if I compare that with the last year while we had a positive PAT as per Indian GAAP when we convert them into Ind-AS adjustment it is differenr. The net results is negative of Rs. 97 Crores. I think a similar trend is on the consolidated basis as well.

The revenue on a consolidated basis has been almost flat. We have not seen any change in the revenue growth again largely because of the lower construction income from project completions, but one important and heartening fact is that the overall toll revenue and the finance income revenue has shown a continuously increasing trend. Last year, the toll went up by 32% on a rupee basis but on traffic basis last quarter we saw a healthy growth of 8% in the PCUs and for the whole year 5%.

The growth in the toll is also because some of our projects like Khed-Sinnar and Sikar Bikaner were partially operational in FY2016 and have now come into full operations this year and as Mukund said this has actually helped us increase our daily collection to Rs. 9.5 Crores, which is around Rs. 2.5 Crores higher than what it was in FY2016.

On a bottom line basis we complete the year with Rs. 149 Crores of profit at the consolidated basis, where our profits are attributable to the owners of the company. I think this is a new change in Ind-AS where earlier the minority interest was reduced and the profits are arrived. Now the profits are arrived at and then allocated between the owners and minorities. So Rs. 149 Crores is the total consolidated number versus a similar comparable number of Rs. 122 Crores last year.

In terms of the balance sheet I think due to Ind-AS adjustments, working adjustments particularly certain reclassification items like preference shares which were earlier part of the net worth are now taken as part of borrowings. In addition, and plus changing treatment of certain items like grant received and grant paid, wherein earlier grant received was considered as part of the capital reserve. Now the grant received is reduced from the overall asset value. There have been some adjustments in the overall networth of the company for that we have provided reconciliation in the results as well as in the presentation.

Essentially, the March 31, 2016, which is the first year of full Ind-AS conversion the networth, has gone down from Rs. 4380 Crores to Rs. 2700 Crores. A majority of that getting accounted because of the preference shares being reclassified as a debt. Also now as we are in a construction business with a long-term, unfortunately as per the IGAAP launch any receivables or any new loans, which are not coming back in a period of 12 months we need to expedite the credit loss provisioning which is because of time value of money. This is purely an accounting adjustment. This has nothing to do with the fundamental or the underlying cash flows of the SPVs and this has led to certain adjustments for trade receivables, loans and other financial assets as well as investment which is around Rs. 1000 Crores.

This has affected the opening network but given that these are more accounting in nature and primarily of money-related provisions we expect them to come back into the profit and loss account over a period of time. So essentially the entire Rs.1000 Crores is not a value lost, it is a value which has been provided but right now in the opening balance sheet it will be reversed and coming back to the company year-over-year or next three to five years' time.

Similar reconciliation we have provided for the consolidated numbers, again the story is pretty much the same here where the major adjustments are on account of the preference shares and Ind-AS adjustments on financial assets. So also in some of the investments again due to GAAP change there has been fair value adjustments done in certain investments, which have led to overall reduction in the profit and loss account. So this is the summary of the financials. I would be happy to take any questions and specific information that you need.

Moderator:

Thank you. Ladies and gentlemen we will wait for a moment while the question queue assembles. We take the first question from the line of Mr. Amit Rane from Dalal & Broacha. Please go ahead.

Question and Answer Session

Amit Rane:

Thank you for the opportunity. Sir, can you give the breakup of revenue, it is there on page number 16, but only construction income is clear there. So if you can give the other heads as well?

Dilip Bhatia:

Page 16 is reconciliation between I-GAAP and Ind-AS, is it what you are referring to?

Dilip Bhatia:

So if you look at the total revenue around Rs.5500 Crores is the Construction income, O&M is Rs.1073 Crores, toll revenue is Rs.666 Crores, the finance income which is annuity income is Rs.711 Crores which leads to a total revenue from operations of Rs.7984 Crores, which is as against Rs.6036 Crores in the last year.

Amit Rane:

Sir, can you give the corresponding number for the last year as well?

Dilip Bhatia:

I think the O&M income last year was Rs.1240 Crores, toll revenue was Rs.503 Crores, finance income, which is annuity income, was Rs.805 Crores, Construction income was Rs.5411 Crores, and supervision fee was Rs.77 Crores last year, this year is Rs.24 Crores. So total revenue from operations is Rs.7, 984 Crores versus Rs.8036 Crores last year. In addition to that there is other income which essentially is the interest income and dividend and sale of investments which is Rs.4917 Crores this year versus Rs.321 Crores last year. So this is a full breakup of Rs.8402 versus Rs.8356 Crores.

Amit Rane:

Sir, what is the reason for decline in the annuity income from Rs.805 Crores to Rs.711 Crores?

Dilip Bhatia:

Essentially if you look at the annuity number, we break the annuity into three parts, the finance income, the O&M income and the rest goes towards reduction in the value of the asset. It is like a pure home loan concept, EMI concept, in the initial years where the interest is higher and principal recovery is lower. As we go along the interest will be lower and the principal liquidity will be higher because of the financial asset coming down because of the recovery on the annuity as the project will mature the interest income will be lower and financial recovery will be higher but this will be made up as we take new annuity projects go live they will add to the financial income.

Also I think one of the other reason is because in Ind-AS certain entities which were earlier consolidated line by line like Jorbat-Shillong and now are not getting consolidated line by line because they are joint venture and they are just getting added as a one-line adjustment in the profit and loss account. So to that extent the annuity income or finance income is not consolidated this year.

Amit Rane:

Understood and Sir why has our depreciation number gone up so much in consolidated and can you give some idea going forward what we can expect on this number because it is quite a a lot?

Dilip Bhatia:

So I think again depreciation as you know is the way we provide is there are two reasons, the way we provide depreciation is based on expected traffic over the life of the concession, we neutralize the traffic for the year divided by the expected traffic. As the traffic grows we will have a higher depreciation arising because remainder is higher but more a important factor is that couple of projects which were partly commissioned during the year in FY2016 like Moradabad Bareilly and Pune Sholapur had seen a full commissioning and full year of depreciation this year. Hence you see that they are large numbers but as we go along, I think we do not expect depreciation to go significantly higher because few of our larger projects, which are toll projects, which are essentially leading to the amortizations, have already seen one full year of depreciation in this year.

Amit Rane:

Okay, thank you Sir. I will come back for more.

Moderator:

Thank you. The next question is from the line of Teena Virmani from Kotak Securities. Please go ahead.

Teena Virmani:

Hi Sir. My question is in relation with the previous question, the breakup of the revenues in terms of construction and toll you have already specified; if you can tell us for the revenue for Elsamex during FY2017 and FY2016?

Mukund Sapre:

This year was it was around Euro 175 million and last year it was also somewhere around Euro 160 million

Teena Virmani:

Okay and in terms of future growth in the construction revenues now that most of the large projects are largely over, so the construction as mentioned, it would be more likely to be led by Amravati – Chikhli and Fagne-Sholapur and Ahmedabad ROBs and to some extent like you also had the Srinagar-Sonmarg project in your order book. So in a way like all these four projects would not be able to cover up for the decline in the revenues, which we may witness in FY2018 on account of completion of the project. So what is your sense on the overall construction revenues going forward?

Mukund Sapre:

If you take the order book in hand, it is around Rs.12000 Crores, which again takes a turnover of 2.5 years to 3 years. So what we are saying is that we still have around Rs.4000 Crores of job to be done annually. We have also added a new element of EPC projects, which will typically take 24 months for construction and it should contribute more. We have also got one large project in Laos which will help the growth on construction. There is no reason why construction should decline with so many projects in the pipeline for bidding, like today we have put in a bid for Zojila tunnel, which is almost Rs.5000 Crores. So that is what we have been saying, that construction will also be a predominant part for us in coming days and we do not see any reason that this will decline.

Dilip Bhatia:

Teena, one more thing you know if you see last year we have had very limited construction from Srinagar Sonmarg, we have almost nil from Amravati–Chikhli, Fagne-Gujarat was only 10%. This year we will have all these projects in full steam and these projects itself are more than Rs.10000 Crores worth of construction cost, where the construction work has already started. So as Mukund said we do not see any decline in the construction income considering the order book in hand and also the future plans in terms of looking at very large value complex EPC projects.

Teena Virmani:

Okay so in terms of execution for Amravati–Chikhli you mentioned that it was only 5% to 10% for FY2017, so the completion is likely to be by FY2020 for the Amravati–Chikhli, Fagne, Sholapur and Ahmedabad ROBs?

Dilip Bhatia:

Yes.

Teena Virmani:

Okay, so within this FY2018, FY2019 and FY2020 these projects are likely to get to work?

Dilip Bhatia:

Yes.

Teena Virmani:

In terms of Srinagar Project what was the percentage of the order book executed in FY2017 and how do you see the execution going forward for this particular project?

Mukund Sapre:

Generally what happens in a tunnel, initially you do a total scenario analysis and plan, which takes time, so now we have carried out blasts from both the sides and we have every reason to believe that it will be far more faster than what we have been doing until now because you need to access the road, you need to create a portal and then you need to start digging up the tunnel. So both locations of portals we have now gone into with blasting and have done already 15 to 20 meters so which is why this time you will see far better progress on the SSTL also.

Teena Virmani:

Okay and it is likely to increase after may be FY2018 once you reach major milestone?

Mukund Sapre:

Yes.

Dilip Bhatia:

That project we will complete by April 2020 and we are on target to achieve that completion date.

Teena Virmani:

Okay, but given the fact that Chenani-Nashri has also got delayed because of some or the other reason which were not in the control of company, so that kind of delays can also impact Srinagar project also because sometime there may be winter, sometimes there may be some kind of political tension or what are the other reasons of – one year delay, is it expected in this kind of project or seems to be on line?

Mukund Sapre:

I would look at it a bit differently, because CNTL we have been sharing that we had midcourse correction when the contractor was asked to go and we took over. I do not foresee any sort of thing happening in SSTL and we are far better mobilized in totality, so as I said we believe that we will maintain the date. There should not be any reason for delay.

Teena Virmani:

Okay and if you can also specify the pending order book from Barwa-Adda, Kiratpur Ner and Khed-Sinnar because I believe these three projects only minor construction might be left and they will be getting over by FY2018 I believe?

Mukund Sapre:

If I try to put a number it should be around Rs.1000 Crores because Barwa-Adda also we have moved our application for the second toll plaza commissioning which we should get very soon. In Khed-Sinnar also some work is left out like three-four bypasses. So if I add on these numbers it should be somewhere around Rs.1200 Crores which will get this year itself.

Teena Virmani:

Rs.1200 Crores for all three of them put together?

Mukund Sapre:

Yes.

Teena Virmani:

Okay and what kind of margin, do you see for the international project in Laos which would basically be a part of Elsamex itself, so what kind of margins of the operating level do you expect to maintain?

Mukund Sapre:

As far as Laos is concerned, I think we should be in the range of 12% to 15% and for Elsamex they follow the January - December financial year, so we closed it around Euro 6.6 million PAT on a Euro 175 million topline.

Teena Virmani:

Okay and on the EPC side like on a standalone basis, you had guided for almost 14%-15% kind of operating margin and more or less in that range, so on the EPC side of the domestic orders which we are executing, what kind of operating margins are you expecting in those projects?

Mukund Sapre:

In terms of what we say that overheads and profits should be somewhere around 12% to 15% and that is the range for the EPC jobs also.

Teena Virmani:

Lastly after including the debt of these projects like Amravati, Fagne and Ahmedabad and to some extent Srinagar, what would be your consolidated debt look like or what would your debt equity look like after including the debt from these projects?

Dilip Bhatia:

I think in FY2018, we will see with the InVIT getting concluded some significant reduction in the debt. In addition, these projects which we are developing namely, Amravati-Chikhli, Fagne Songadh and SSTL will draw the debt over two-and-a-half to three years period, so in FY2018 they will not have any significant debt except Rs.1000 Crores to be drawn. The InVIT will help us to reduce debt by around Rs.3500 Crores. So in FY2018, we will see reduction is this plus also the projects which have been commissioned particularly, CNTL and Khed-Sinnar, they have already started repayment of debt. As we go along we think that the new debt, which we will draw on these three or four projects, will more or less match with the debt to be drawn as the existing projects will also be repaying their debts over the next one-and-a-half to three years period. InVIT will be a net reduction on the debt, which we are looking at today.

Teena Virmani:

The size of the InVIT is expected to be around Rs.3500 Crores?

Dilip Bhatia:

The size of the invit is around Rs.4200 Crores out of which the debt is around Rs.3500 Crores and the rest is equity and sponsored loan.

Teena Virmani:

Right, okay Sir. That is it from my side. I will come back in the queue.

Moderator:

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

S. Sivaramakrishnan:

Thanks for taking my question. My question was more on the standalone numbers. So standalone debt has increased by almost Rs.2000 Crores in this financial year. Could you explain the main reason this has gone up so significantly? Second, would be on the refinancing of debt that you have undertaken for the three SPVs, which has resulted in almost more than 200-basis point cost reduction. So how much of this will help elevate some of the pressure from the standalone balance sheet in terms of how much of debt could be up streamed or how much promoter debt could be repaid through this?

Dilip Bhatia:

The standalone debt has gone up by Rs.2000 Crores essentially again I said one, there is almost 50% classification of preference shares into borrowing, so earlier they were part of a networth and now they form part of the borrowing. Two, I think part of the debt has gone up because we have taken some debt on our standalone balance sheet and infused the same into SPVs to pay high cost debt. We have also been looking at how we can really optimize the entire interest cost and bring down the cost of debt. If you recollect we did Rs.750 Crore NCDs issuance in ITNL on March 31 which is at a very competitive market rate of around 9.5% and that has been used to retire some of the costly debts in SPVs. We have infused that debt in SPV, so while on the standalone basis you will see the debt should have probably gone up and at the consolidated level it will be the same, but what has helped us, is to reduce the cost of borrowing at the group level significantly.

On the refinance part, the deal has helped us in three ways. One to reduce the cost of borrowing wherein we have got 200 to 250-basis points reduction in interest cost of the SPV. Two, we have been able to elongate the maturity profile of the debt in line with the earning profile of the projects, so essentially when we finance the projects at the time of financial closure the loans we take for a shorter period as compared to the concession period. Further, refinance helps us to match the entire debt profile and maturity profile in line with the income profile of the projects, so that the account is naturally taken care of and third it also helps us to upstream the debt at the consolidated level. Put together on three projects, we will have around Rs.350 Crores coming to ITNL from refinancing.

S. Sivaramakrishnan:

Okay just one clarification, your presentation talks about Ind-AS numbers both FY2016 and FY2017, so the preference shares would be included as part of that even in FY2016 numbers right?

Dilip Bhatia:

Right.

S. Sivaramakrishnan:

So the Rs.2000 Crores increased from FY2016 to FY2017 does not include into increase because of preferring share is being added separately correct me if I am wrong?

Dilip Bhatia:

I think the 9000 plus 750 should be the debt for FY2016 and 11,670 for FY2017.

S. Sivaramakrishnan:

Okay and one more question was on the receivables, if I look at standalone numbers, the receivables have gone down by almost Rs.800 Crores. So could you just elaborate more on that?

Dilip Bhatia:

If you recollect, we have been talking about two projects which are, Khed-Sinnar and Barwa-Adda, where the financial closure was done, but the down selling of the same was entirely pending and that led to ITNL putting in lot of money or lot of receivables getting built in. This year we were able to tie up the down selling in both the projects and have drawn down significant portion. This has helped us to unwind some of the receivables locked up in these SPVs.

S. Sivaramakrishnan:

So the entire decline can be attributed to that?

Dilip Bhatia:

Also, I would say in terms of good cash flow management of the SPV where the receivables have been done away and are no longer there.

S. Sivaramakrishnan:

Okay. One question was on the InVIT, ITNL was one of the first companies to start the road show and where are we in terms of time-line for launching the InVIT?

Mukund Sapre:

So, we are pretty much on track for the InVIT, we have received all the necessary approvals. The assets we are putting in are from three regulatory authorities, key authorities, NHAI, MoRTH as well as from the Jharkhand Authority. All the three have given the necessary approvals and we have taken a slightly different route of private placement instead of public offer. So as of today we are looking at transaction materializing in the near future. We hope to complete the entire transaction in the quarter one of this year.

S. Sivaramakrishnan:

Okay, so the current quarter basically?

Mukund Sapre:

Yes.

S. Sivaramakrishnan:

Thanks a lot.

Moderator:

Thank you. The next question is from the line of Biswarup Mohapatra from Future General Life Insurance. Please go ahead.

Biswarup Mohapatra:

I just wanted to know what is the consolidated debt as of now?

Dilip Bhatia:

Consolidated debt?

Biswarup Mohapatra:

Yes.

Dilip Bhatia:

It is Rs.31000 Crores.

Biswarup Mohapatra:

Okay, so if I remember correctly it was around Rs.26700 Crores last quarter, so part of the increase would be because of the preferential shares that you mentioned?

Dilip Bhatia:

Right.

Biswarup Mohapatra:

Okay and is there any additional draw down because of the fixed debt that has gone up?

Dilip Bhatia:

I think the projects which last year were in the full stages of construction like KNCL, Barwa-Adda, Khed-Sinnar etc where we had tied up the funding has led to debt increase, also I think it is important to note the Ind-AS related adjustment, some of the entities which were deconsolidated and some of the entities we are which are now consolidated line-by-line item wise are different, the debt has also slightly increased due to this.

Biswarup Mohapatra:

As you mentioned this year we will see the maximum debt, the debt will go down from here right, I mean that is what the expectation?

Dilip Bhatia:

Yes.

Biswarup Mohapatra:

Thank you Sir.

Moderator:

Thank you. The next question is from the line of Teena Virmani from Kotak Securities. Please go ahead.

Teena Virmani:

Thanks for taking my question again Sir. Just wanted a rough idea on the expected toll collection from Barwa-Adda and Kiratpur Ner once the projects have become fully operational?

Dilip Bhatia:

Barwa-Adda and which was the other one?

Teena Virmani:

Kiratpur Ner?

Mukund Sapre:

Barwa-Adda actually what we are collecting today is around Rs.24 – 25 lakhs per day, but you need to understand that the toll is now being collected at one location for the entire length. We have approached the government for commencement of the 2nd toll plaza and the file is under consideration. I think in the next NHAI EC meeting they are going to put up the same. We will be allowed to start collecting toll at both the plazas and therefore we are saying that we would be somewhere around Rs.46 to 47 lakhs per day collection. To start with it is very low as to build the traffic it takes a little bit more time. .

Teena Virmani:

Okay and on the margins on a consolidated basis if we see the margins on a consolidated basis for FY2017 are fairly high and in the range of almost around 39%. So is it on account of certain adjustments or is it in relation to Ind-AS or any specific reason by which the overall margins on a consolidated basis are coming out to the quite high?

Dilip Bhatia:

If you look at the EBITDA margin as percentage revenue for FY2017 at a consolidated basis is 43% as against 35% last year. I explained earlier that in some of the projects, which have reached final completion this is largely because of the higher construction margin, some of the projects, which have reached the closure completion. We have had some recent increase in the margin benefits due to cost efficiencies as well as the de-escalation of collection of certain cost. Plus also this year compared to last year we had higher profit on sale of investment that has added to increase in the margin, also the dividend income from subsidiary has gone up this year compared to last year. That also has added to the margin. Similarly items like toll income and finance annuity which are like full costs are there, but any increase in margin increase, so if you look at the toll income, toll income has gone up by 32% compared to last year, absolute terms Rs.160 Crores, so that is also adding to the increased margin in the overall basis.

Teena Virmani:

But if I exclude the other income which would basically comprise the stake sale related income or the dividend income from subsidiaries even after excluding that other income, the operating margins, the EBITDA margins are coming in the range of 39.6% for FY2017.

Dilip Bhatia:

Revenue from operations, which is Rs. 7984 Crores for FY 2017 and Rs.8036 Crores for FY 2016, the construction margin, which is essentially the construction income and others, has gone up from 30% to 35%, so that is a 5% increase in the construction margin. The rest of the increase is coming because of the toll revenue increase and finance income increase and then there is an increase in the other income by around 30% this year. So essentially increase is in construction 5%, the toll income going up, toll and other related revenue going up and the other income going up at 30%. Hence you have seen the overall margin is going up.

Teena Virmani:

Right and if you can just let me know Kiratpur Ner or maybe I will come back in the queue Kiratpur Ner expected toll collection once it completes?

Dilip Bhatia:

I also want to add one more thing, if you look at on a consolidated basis, we have also had significant savings in the expenses, so the operating expenses have gone down from Rs. 580 Crores to Rs. 556 Crores. Employee benefit has gone up from Rs. 491 Crores to Rs. 522 Crores which is hardly 3% - 5% increase, so the income has gone up, the expenses have either remained static or they have come down because of which all margins have gone up.

Teena Virmani:

Okay.

Mukund Sapre:

Kiratpur Ner should be somewhere around Rs.75 lakhs per day, but that is on the date of commissioning. We are still one-and-a-half years away.

Teena Virmani:

By beginning of FY2019, the project should commission?

Mukund Sapre:

That is what we are saying.

Teena Virmani:

Okay, fine Sir. Thank you.

Moderator:

Thank you. The next question is from the line of Rahul Kapoor from Kapoor Sharma & Company. Please go ahead.

Rahul Kapoor:

Old preference shares which are at very high cost which is due for redemption in 2019 and 2020, does the Company have any proposal to prepay these preference shares?

Dilip Bhatia:

Rahul, if you look at the preference share while you may see the coupon being higher, the actual cost is lower, because they were issued at a premium of Rs.10/-, so the coupon is actually 50%. A portion of the preference shares is coming up for redemption this year, so they will be redeemed fully. The remaining preference shares, we do have an option, we can talk to the investors and see. We will definitely take a call as we go along. Managing the cost of debt has been one of the key areas we are looking at, so we will definitely look at the interest rate arbitrage option. Point is well taken and it is already on our radar.

Rahul Kapoor:

Other question was about metro rail in Gurgaon because the phase I also is a considerable loss and now you will commence for phase 2. Is there any proposal to get some employee preferential for the fixed cost?

Dilip Bhatia:

As you rightly observe in phase 1 also we have a loss, these kind of projects are long gestation projects. We know the concession is 99 years and that takes time looking at the habits of people moving from cars to this kind of mode of transport. The phase 2 has just been commissioned. We expect that phase 2 will have leg up effect on Phase I and as well as whereas initiatives have been taken by management to really improve the ridership. As far as the other question is concerned, I think we keep constantly evaluating options with our partners including state government in terms of what could be done to improve the viability of these projects, so definitely when there is any such thing which the management is deciding or is contemplating, we will let investors know about it.

Rahul Kapoor:

So has the government come up with any kind of proposal or your thoughts with the government on some kind of interest subsidy?

Dilip Bhatia:

We missed you. If you can repeat?

Rahul Kapoor:

So, my question was regarding the high interest cost on the metro rail in Gurgaon, are there any kind of talks on with the Haryana government about any kind of interest subsidy for this project?

Dilip Bhatia:

There are many measures which we are talking to them about, I do not know how many of them are going to fructify but you are right that this is also one of them, let us see in the coming days and we will tackle that and I think we have to work on bringing down the interest, but as of now and as I said it is an ongoing dialogue with the state government, there is nothing in hand.

Rahul Kapoor:

Another project, which is the Madhya Pradesh border project, is there any kind of cost reduction or revenue increase whereby you can reduce the cost a lot there?

Mukund Sapre:

Our understanding on the subject is that once the GST is rolled out, we think we will have a fair amount of negotiations which is possible, so we may have some corrective measures definitely on ground by July when GST rolls out, because this sort of integrated collections will need a redefinition and rescoping, so that will be the opportunity and window available to us and we will do in that period definitely.

Rahul Kapoor:

Thank you so much.

Moderator:

Thank you. The next question is from the line of Biswarup Mohapatra from Future Generali Life Insurance. Please go ahead.

Biswarup Mohapatra:

As you have mentioned the average daily toll collection is now at Rs.9.55 Crores, so since most of our projects has already commissioned, so what is the steady state run rate where do you see it and what would be our stake adjusted run rate going forward?

Dilip Bhatia:

I think the current Rs. 9.5 Crore is not stake adjusted.

Mukund Sapre:

I believe that you are seeking how this Rs. 9.5 is spanning out?

Biswarup Mohapatra:

Yes, I just want to understand?

Mukund Sapre:

We will climb to around Rs.11.9 Crore next year and will be climbing to Rs. 14 Crore next to next year that is how it should go up, after considering the 5- 7 projects on ground, which are going to get completed.

Biswarup Mohapatra:

And you are looking at traffic growth of mid-single digit?

Mukund Sapre:

Generally we observe that traffic is growing at 6%. We have seen an 8% growth as compared to the previous quarter, an average of all assets, otherwise few of them have had wonderful growth, so I think any toll project you take has a long-term around 15 years story and we always talk of a CAGR of 8% or 8.5%.

Biswarup Mohapatra:

Okay and Sir my next question is on the weighted average cost of borrowings now since you have refinanced few projects, so what is your expectation, how much is the interest cost and percentage terms will come down?

Dilip Bhatia:

On a consolidated basis we have around 11.5% cost of borrowing, the effect of the refinance will be only seen in this year, apart from these three projects we have around four, the projects where we actually are working on refinance. Jorbat Shillong, which is a complete annuity project, Pune Sholapur, which is a toll project are looking good, with two years of maturity. RIDCOR, our Rajasthan toll roads project, the refinancing discussions are already on with various investors and finally CNTL, which will be ready for refinancing towards the later part of this year, so around Rs.8000 Crores worth of refinance to be done in this year and each of these we expect around 250 to 300 basis points interest cost reduction. So overall basis I think we see anywhere between Rs.250 Crores and Rs.350 Crores of interest cost reduction to be achieved on a full year basis. Of course the three projects which we have done now will have a full year benefit as and when we do it may have a benefit for that part of the year, but overall basis from Rs.350 Crores including what we have done inhouse should be the benefit on interest cost reduction. This is only because of refinance. Obviously the projects which mature and go operational we have a constant dialogue with our bankers in terms of readjusting the rates and reducing the interest cost. That is the ongoing process and will continue.

Biswarup Mohapatra:

Thank you.

Moderator:

Thank you. The next question is from the line of Amit Rane from Dalal & Broacha. Please go ahead.

Amit Rane:

Thank you for the opportunity. Just wanted to know what are the drivers going forward for EBITDA margin from here?

Dilip Bhatia:

I think on EBITDA, the drivers remain pretty much the same, as Mukund explained earlier, one is on the BOT front, we already have projects which are operational, which are on ground and there will be construction income. EPC will be adding more to the EBITDA, internationally we had two projects, which are already with us, there is one in the Laos and one in Dubai, the Dubai Court where we are close to the financial close, so these are the new projects and they will drive the revenue and accordingly the EBITDA margin.

Amit Rane:

On the debt front, where do we see our debt one year down the line Sir?

Dilip Bhatia:

I think both on standalone and consolidated business I think we are pretty much as we have earlier also said that we have peaked out this year, so I do not see any significant increase in fact, but they are coming down in this year because of the InVIT and overall debt coming down on the consol basis.

Amit Rane:

Sir post this InVIT how much of the revenue could be impacted because those assets will be transferred to InVIT right, so the revenue from those assets will go to – you will not receive that portion right?

Dilip Bhatia:

So I think InVIT as we see would be more or less revenue neutral or even positive to some extent. It is again these projects, which are annuity projects have some finance income coming in at the same time the finance charges and other charges and other expenses, so on consolidated basis we do not see significant impact on a net basis in the revenue.

Amit Rane:

Thank you Sir.

Moderator:

Thank you. Ladies and gentlemen that was the last question. I now hand the conference over to the management for their closing comments.

Dilip Bhatia:

We thank you all for being with us. I think as I said this was the first year of transition to the new accounting standards. We being a large company, have multiple projects across multiple geographies, of course it has led to some adjustments into the opening reserves on the balance sheet, but what the management believes that these are all due to IGAAP adjustments, which we are required to comply with and follow certain accounting norms, all the adjustments will come back into the P&L over time, so there is no value lost in these projects.

In the coming year, as I said I think few key management targets we are looking at, as Mukund explained on the four projects, which are on ground, speedier and faster execution within cost. The refinance of Rs. 8500 Crores with the help of our partners and bringing the overall cost of debt down. InVIT has been strategically initiated, so these are couple of initiatives which we are working on. This year we have seen a healthy growth in the toll and the annuity income and we see that continuing going forward, so on the business side we remain cautiously optimistic for the next year. As Mukund explained earlier focus should be apart from BOT also on the high value EPC projects and we will probably look at one or two large projects where we can add value and generate significant margins and benefits for our shareholders. With that I thank you all and if there is any clarification or comments you can write to us or you can get in touch with Divya or Krishna and we will be happy to provide that.

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. Thank you.

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2. Blanks in this transcript represent inaudible or incomprehensible words.

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