



“MEP Infrastructure Developers Limited Q2 FY 2016 Results Conference Call”

November 9, 2015





MEP Infrastructure Developers Limited
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ANALYST: MR. DHAVAL PATEL - ANTIQUE STOCK BROKING LTD.

**MANAGEMENT: MR. JAYANT D. MHAISKAR – VICE CHAIRMAN AND
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Moderator: Ladies and gentlemen, good day and welcome to the MEP Infrastructure Developers Limited Q2 FY2016 results conference call hosted by Antique Stock Broking Limited. 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 “*” then “0” on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Dhaval Patel from Antique Stock Broking Limited. Thank you and over to you Mr. Patel!

Dhaval Patel: Thank you Margaret. We would like to welcome the management of MEP Infrastructure Developers Limited and thank them for giving us an opportunity to host this call. From the management side we would be represented by Mr. Jayant D. Mhaiskar, Vice Chairman and Managing Director, Mr. Murzash, Executive Director, Mr M. Sankaranarayanan, CFO and Ms. Manisha Bihani, AGM Investor Relations. I would now like to hand over the call to Mr. Murzash. Over to you Sir!

Murzash Manekshana: Thank you Dhaval. Good morning everybody and wish everybody warm greetings for the Diwali season and extend a very warm welcome to all of you to our conference call of MEP Infrastructure Developers Limited to discuss our earnings for the second quarter and the first half of financial year 2015-2016. Just couple of minutes before we dwell into the financial performance for our first half, I would also like to give a very brief introduction of our company for the benefit of those who are joining the call for the first time. MEP Infrastructure Developers is one of the first few companies in India which started focusing purely on pure toll and OMT collection business. We have commenced our operations in 2002 as a legal entity and in the last 13 years grown to be one of the country’s largest tolling and OMT players. We have several flagship projects in our portfolio including the Mumbai entry point project, Hyderabad, Bangalore, Madurai, Kanyakumari which are the long-term projects and several other long-term pure tolling and short-term contracts. In the last 13 years, we have also successfully diversified our presence across 12 states in the country. We are pre-qualified by various entities including NHAI and other state road authorities to participate in the future growth story in the road sector. Till date the company has successfully completed 85 projects and we are operating currently 20 projects, so in all we have now successfully bid and operated over 100 projects. We maintain a very good mix of short-term and long-term projects and as we have stated in our earlier intentions we are steadily progressing towards the 70%, 75% of our topline coming from long-term tolling contract which gives a very stable and robust visibility and continuity to our story. Commenting on the results, we have had, as I mentioned, stable revenues during the current

quarter and we have focussed more on improvement profitability. After achieving PAT breakeven in Q1 of FY 2016, we have been successful in maintaining the profitability in the second quarter and have generated a PAT of 53 million that is Rs.5.3 Crores for this particular quarter. We are also very pleased to announce or share that we have declared a dividend during the first half current quarter of approximately 14.75% of our H1 profits which translates to 1% on a face value. This being a modest start, we hope to continue maintaining a consistent and a robust dividend sharing policy going forward in the future. I would also like to just take a couple of minutes before I hand over to our CFO, Mr. Sankaranarayanan for taking through the detailed financial numbers on the future opportunity that is there in the industry currently. As many of you all may be aware, the road sector is one of the key industries or sectors which seems to have a lot of momentum in the new government and which is basically holding the promise for future investments and growth for the country. So, basically we intend to participate in that opportunity. There are lots of good opportunities by way of long-term TOT contracts which are expected to come out in Q4 of FY 2016 these are 25 year concessions which basically provide long-term visibility and long-term sustainable profitability for people who participate in those projects. There are large projects and government intends to raise close to 55,000 Crores from these projects. Currently, I think around 12 to 15 projects have been shortlisted and we will participate in those projects as they come out from the government. I would also like to share that for projects that have already been tendered or announced there are close to 17 projects aggregating to close to potential of over 550 to 600 Crores of annualized revenues in short-term tolling and pure tolling contracts. So, we will look to participate in all these projects going forward and continue to have a steady growth and maintain our market share. I would now hand over the call to our CFO Mr. Sankaranarayanan to walk us through the Q2 and H1 financial numbers. Thank you very much.

M. Sankaranarayanan: Thank you Sir. Good morning everybody. I am Sankaranarayanan. Before I dwell upon to the financial performance, I would like to wish a very happy Diwali to one and all. Now, I will take you through the financial performance of the company. During H1 FY 2016, the company clocked a turnover of 9,682 million which is 968 Crores on Q2 FY16. The company showed an EBITDA of 2998 million for HY FY 2016 and we got a good cash profit from this particular H1 which is exactly around 830 million and this is because of our improved and consistent performance from our long-term projects and on an improved performance from various other projects also. The PAT has continued to be positive and we have also declared a dividend of 1% per share in this HY FY 2016. Now, on a quarter wise comparison, if you see the turnover almost remained flat, despite monsoon effects and also due to completion of projects on short-term tolling side. In case of SMYR, our joint venture company for Delhi entry point, there were some traffic restrictions we faced towards

Independence Day and other festivities. It is compensated by the good performance from the other projects, so the turnover remains flat around 4,824 million. So, if you see the EBITDA margin on a quarter wise quarter basis, there is a slight dip of around 2%, the reason being monsoon and also towards negative impact of WPI which affected our toll rate. Now, if you compare the EBITDA margin for the half year versus whole year of FY 2015, there is an improvement of around 7.3% which is also due to the rate hike in Mumbai entry point which has come in post October 2014 and also we have implemented the weight based tolling in all OMT projects and there is also a good amount of increase in traffic in some other projects. Our PAT, as I said earlier has continued to be PAT positive for the second consecutive quarter and that cash profit of the company has gone up as compared to last financial year, so I think with that I would put the forum open for question and answer session. Thank you.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Ashish Shah from IDFC Securities. Please go ahead.

Ashish Shah: Good morning gentlemen. Could you dwell a little on the Chennai Bypass claim that we are in the process of getting from the government, what is the most recent status and by when do we expect this to get resolved?

Jayant D. Mhaikar: Good morning Ashish. This is Mr. Mhaikar here. First of all let me apologize for the delay on patching on the call. I wish all of you a very happy Diwali. On the Chennai bypass basically, the company has made decent progress in terms of settling the claims. What we have done is that we have consistently followed up with the authorities in the last quarter and even in the quarter before that. As far as the quantification of the claims is required the quantification is more or less completed and as I had mentioned in the last call, the total amount is larger than the actual claims what we have made. So basically, the amount of receivables from the authority vis-a-vis what we have to pay is more or less the same or more on the authority side receivable to us. As far as the closing of the contract is concerned we have been consistently following with the authority. In the last month, there was a meeting which was held at the Chairman's office where we had briefed the senior most official of NHAI, requesting them to foreclose the contract and if at all there were any small teething issues in terms of completion of any project facilities or any of the claims by either of the parties which needs to be settled, those be settled subsequently. However, the foreclosure is something which we have very rigorously pushed, in fact we had written a letter to the authority at the end of October, where we wrote specifically & signed that we would like to exit on November 1. The authority candidly replied saying: please do not exit right now, we are in the closure of the (inaudible) 11.57 settlement, please hold on for

another few days and we will give you the settlement ASAP; So, I believe latest by November 30 or December 15 we should be able to foreclose the contract. However, claims settlement may take a little longer.

Ashish Shah: Sir in terms of first half consolidated numbers what would be the impact at the PAT level for this project?

M. Sankaranarayanan: Chennai we continued the same methodology of recognizing amount payable to the authority. For this particular quarter the total amount which has not been recognized for Chennai is approximately 60.87 Crores for the half year. It is in the similar methodology what we have started from November 1.

Murzash Manekshana: I think to answer your question Ashish, if you saw our financial statements since March last year and June & September this year, the methodology the auditors have now adopted is that given that the quantification by the independent engineer has been completed and submitted to NHAI and quantification indicates a number larger or equal to in the range of our claim amount they have not further provided the payable to the authority in the books, so by that definition to answer your question, there is not a negative impact that largely comes in the quarter-on-quarter now, rather than what has already been accumulated and held in the books which will get reversed when our claims get approved by NHAI.

Ashish Shah: So, there is no incremental negative impact that is coming in the P&L?

Murzash Manekshana: Not of the substantial nature. It is the operating impact that comes which is smaller.

Ashish Shah: On the Delhi Entry Point project, how are we accounting for that in the consolidated accounts, is it line by line consolidation?

M. Sankaranarayanan: It is line by line consolidation under Indian GAAP, 25% of line by line gets added over P&L balance sheet.

Murzash Manekshana: Having said that I understand from our auditors KPMG that going in to next year with the index, application of IFRS imposition there will be only a single line equity pick up, profit pickup from next year onwards, so unfortunately we are caught between two periods of accounting regulations, changes, where today we are doing a line by line pickup but next year onwards it will be single line equity pick up methodology that will be adopted, just to give a heads up on that.

M. Sankaranarayanan: To add to that from FY 2016 onwards we need to consolidate the books of accounts in the year, our net worth will be more than 500.

Ashish Shah: Lastly on the Mumbai entry point project, the report which was expected from the committee is probably getting delayed further, any clarity we have on what is the thought process in the government on the exemption of vehicles or otherwise on the Bombay Entry Point project?

Murzash Manekshana: The current status was the committee was extended till October 31 to provide the report. What we understand though and we have not yet got formal communication as yet on that, is that the committee has completed their assessment and submitted their internal report to the relevant teams or how they need to submit it. The actual outcome of that we are awaiting and we expect development very soon again in and around Diwali. I think by November 15 we should hope to have something but to give you heads up I think the committee has completed its study and in my understanding done the relevant submission internally as they need to do.

Ashish Shah: Lastly there is this one project Phalodi Ramji, we have also reflected that in the addition to the short term contracts for one year whereas it is also one of our SPVs right?

Murzash Manekshana: I will explain it to you. If you see the first page where we have the overall pan-India mapping done, we have explained and also in the second slide #6 that this project was a long-term project as late as September 17 given that this is also a Q2 and H1 kind of position or result representation we thought that for that quarter it needs to continue in the long-term tolling contracts but going forward from next quarter onwards it will move in to the short term tolling contract market.

Ashish Shah: So approximately, you can say second half of this financial year onwards it would be in the short term tolling and would reflect in the standalone rather than reflecting as an SPV?

Murzash Manekshana: To answer your question because it is a same project we have continued it in the same legal entity, it will continue in the SPV but come in as a short term tolling contract.

Ashish Shah: Lastly can you give me the standalone and consolidated debt numbers for MEP IDPL?

Murzash Manekshana: The consolidated net number is around 3090 odd Crores and the standalone number is close to around 375-400 Crores. It might be that debt has reduced down to 2520 Crores and we have as you are aware certain small debts in some of our SPVs and the balance debt lies in the holdco.

- Moderator:** The next question is from the line of Dhaval Patel from Antique Stock Broking, please go ahead.
- Dhaval Patel:** Sir, my question is regarding the toll rate hike cut that we would have got on our project, would you please tell us what projects we have got a toll rate hike and to what extent?
- M. Sankaranarayanan:** In case of OMT as you know there is a 3% increase plus a share of WPI because last year the WPI was negative and there is a slight impact on the toll rates which is being given to the OMT projects. We got the normal 2 to 3% across all the OMT projects.
- Dhaval Patel:** Sir, in terms of pure traffic growth could you give us the growth in terms of traffic from the key projects, the entry point, Madurai to Kanyakumari and Chennai bypass if possible?
- Murzash Manekshana:** Sure from Chennai bypass perspective I will appreciate if we leave that out given the current issues that we are having because the traffic growth rate becomes irrelevant as part of first lane, so but from a MIPL perspective we have seen a good uptake and the traffic is in the range of around 4.5 to 5% growth and from Madurai to Kanyakumari we are seeing growth rate in excess of 6 to 7%.
- Dhaval Patel:** Sir, in terms of the bid pipeline specifically from the state, could you quantify in terms of what is the bid pipeline for short term toll contracts and OMT contracts?
- Jayant D. Mhaiskar:** As given in the presentation slides if you look at slide #14, while it is not given by state at the NHAI level there is a strong pipeline of approximately 16 projects and if you look at it, large part of those coming from all over including Jharkhand, West Bengal, Madhya Pradesh, Uttar Pradesh, Gujarat, Karnataka, as standard NHAI projects come they are coming from all over the country, then there are close to two RHRDC Projects coming from Rajasthan, smaller MSRDC new project that is also coming up for bidding, these are all for bids that are already out and for which bidding will happen in the next two to three months.
- Dhaval Patel:** Sir, post this also do we see any pickup in toll collection or OMT project from states and which are the states where we see on a probably one year two year horizon, that there will be a lot of projects coming up which states do we see them?
- Jayant D. Mhaiskar:** I think Jharkhand, Madhya Pradesh, West Bengal, Uttar Pradesh these all states are trying to model themselves more and more towards the NHAI, MCA and use that to come out with many more longer term OMT and state level tolling projects.

Dhaval Patel: Sir, we have also said in our slide that our margins have improved due to introduced to weight-based tolling. Could you quantify the impact of that as in how much extra revenues have we been generating because of overloading?

Jayant D. Mhaiskar: I think depending on the stretch Dhaval, and depending on the mix of heavy vehicles in that stretch versus the overall revenue mix, it varies. So stretch to stretch it is different but we have seen an uptick on a category level of approximately 8 to 10% and on a gross level close to 2-3% but as I said, it varies depending on project to project, different projects are throwing up different kinds of numbers.

Dhaval Patel: Yes Sir, I completely understand because probably commercial stretch would be throwing up a higher number as compared to Mumbai Entry Point.

Jayant D. Mhaiskar: Mumbai Entry Point there is no weight-based tolling uptick that we are really envisaging a lot.

Dhaval Patel: Sir, could you throw some light on the hybrid annuity model and would we be participating in that kind of a model and also on the TOT model if we would be participating at all?

Jayant D. Mhaiskar: I think TOT model most definitely we will look to participate and TOT model is a tolling and maintenance like the Mumbai Entry Point or the securitized OMT kind of a model. It is a longer term model. We are profitable with long-term contracts and we will look to participate in that. We are open and evaluating certain strategic joint ventures with international players wherein we will be able to participate with them both on the financial contribution and maybe on some of maintenance or major maintenance kind of technology side. We are in advanced discussions with some players on that. With respect to hybrid annuity you will appreciate that at the end of the day hybrid annuity is a pure EPC contract, there is no tolling component in that, so it is an EPC contract which is made a bit more favorable and easier for players to participate because of the advance that the authority will give by way of the two-and-a-half year initial authority and also the 10% mobilization advances they are proposing to give, which reduces the financial impact on players but we are studying it. It is not top of strategy for us because we are very keen to participate in the tolling contract that will come out as a result of this hybrid annuity projects but we may again as part of some strategic tie up look to participate in the EPC projects going forward.

Dhaval Patel: Okay, but that is not on the top of our list. Sir, on the TOT side of the project is there any progress from the authorities' side? Are we seeing anything?

Jayant D. Mhaiskar: Yes, I think our personal discussion with the authority in the last week when we were there in Delhi indicated that they are pretty much up the curve, I think they have finalized and ironed out some of the points that were open in the MCA which they were working with industry participants and potential investors to solve and they have submitted a draft already, we expect, their initial target is to announce before December end, but I think by December January definitely it should be out.

Dhaval Patel: Sir, is there greater number of participation for TOT kind of projects, would that impact the number of projects that would come out on toll collection or OMT because at the end of the day it is coming from the same kitty I would say.

Jayant D. Mhaiskar: The beauty of the entire model that the government is trying to implement is, today, if you have a target to invest 150,000 Crores under EPC and hybrid authority as the government, 50,000 Crores, 30% of that, they are trying to use TOT as a funding mechanism which means that the money that they will raise through the securitization on the TOT models which are all existing 104 short term tolling contracts they will reinvest that to do a hyper implementation of their EPC and hybrid authority. At the end of the day, any EPC contract and hybrid annuity contract will come back for maintenance or for the long-term TOT post the first two to three years COD kind of cycle, so it is a self sustaining and self fuelling cycle and I don't think it is a shrinkage. On the contrary, it is a methodology to expand the potential business in tolling and OMT.

Dhaval Patel: Correct Sir, because if the projects would expand with new projects coming up on EPC and hybrid authority.

Jayant D. Mhaiskar: Significantly yes.

Dhaval Patel: Sir, if we go for the TOT model, the capital intensity per se would increase substantially, right? How do we intend to manage that side of the business because then we would have to pay, it is more like securitization, so we would have to pay a large amount of chunk upfront, so how would we manage the capital intensity of the business going forward if greater projects come up on TOT and what is our strategy on that front?

Jayant D. Mhaiskar: Sure I think two things, one is that is where we are looking for strategic partnership or tie ups on the initial TOT stages with relevant players, we are speaking to certain financial institutions also to source certain long-term low cost funding to participate in these projects. We are also evaluating, I do not know if you are aware but in our board meeting on Friday we have taken a formal approval from the board for progressing down the InvIT path or

InvIT methodology wherein we are in the process of setting up an InvIT which will facilitate future participation in the TOT projects both from equity and debt perspective.

Dhaval Patel: Sir, from the InvIT perspective would we have an InvIT only on the entry point project or would we have it on may be more than one or two projects or several projects?

Jayant D. Mhaiskar: I think we are proposing to start with the entry point project and use that as a platform to further use the same structure for further future projects in our platform and also new projects, so it is a slightly evolving scenario as you are aware there is not an InvIT that has been actually implemented in the country as yet. There are certain key large players who we are aware who are like us progressing on the part of evaluating how it needs to be done and what should be done. I would not like to hazard a guess on that right now.

Dhaval Patel: Thank you so much, Sir. That is all from that side.

Moderator: The next question is a followup from the line of Ashish Shah from IDFC Securities. Please go ahead.

Ashish Shah: Hi Sir! On the standalone accounts, we see that the payables through the authorities as a percentage of the revenue they are about 88% for the quarter in the first quarter they were at about 84%, so based on the projects that we have currently where do we think this ratio should stand for the year as such and going forward?

Jayant D. Mhaiskar: I think for the year it will be in the range of around 85-86% and going forward we hope to continue to improve that percentage by few basis points or percentage upwards.

Moderator: As there are no further questions I would now like to hand the floor over to Dhaval Patel for closing comments.

Dhaval Patel: Once again we would like to thank all the participants for coming on the call and the management for allowing us to host the call. Over to you Sir.

Jayant D. Mhaiskar: Thank you very much. Thanks everybody who has participated on the call and we once again wish everybody a very happy Diwali and all the best. Thank you.

Moderator: Thank you. On behalf of Antique Stock Broking Limited that concludes this conference. Thank you for joining us and you may now disconnect your lines.