



“MEP Infrastructure Developers Limited Q3 FY2018 Earnings Conference Call”

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Moderator: Ladies and gentlemen, good day and welcome to the Q3 FY2018 earnings conference call for MEP Infrastructure hosted by Motilal Oswal Securities 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 the operator by pressing “*” then “0” on your touchtone telephone. Please note that this conference call is being recorded. I would now like to hand the conference over to Mr. Amit Shah from Motilal Oswal Securities. Thank you and over to you Sir!

Amit Shah: Good afternoon everyone welcome to the Q3 FY2018 conference call of MEP Infrastructure. From the management today we have with us Mr. Jayant Mhaikar, Vice-Chairman and MD of the company, Mr. Murzash Manekshana, Deputy MD of the company, Mr. M. Sankaranarayanan, CFO of the company, Ms. Manisha Bihani from Investor Relations. Now I would like to hand over the call to Mr. Jayant Mhaikar will give us the initial remarks and then we can open the floor for the Q&A session. Over to you Sir!

Jayant Mhaikar: Thank you Amit. Good evening everybody and a very warm welcome to you on behalf of MEP infrastructure Developers Limited. We thank you for participating in our earnings conference call for the Q3 of financial year 2018.

The company closed the Q3 with revenue from operations on a consolidated basis at Rs.756.62 Crores with an EBITDA of Rs.274.60 Crores and a profit after tax of Rs.24.86 Crores. As you may already be aware currently on the tolling front, the company is operating three long-term projects, three long-term OMT projects, one short-term and one long-term BOT project, and apart from that we are also executing six hybrid annuity projects of which four are operational and two are near to receipt of the appointment dates.

From the perspective of quick insight in the operational highlights in the Q3 of the current financial year. We commenced tolling and ECC collection of 124 entry points to Delhi from October 1, 2017, against a payment of Rs.1206 Crores payable annually to the Municipal Corporation of Delhi on a weekly basis making it one of the most attractive projects as against other long-term projects as this exerts insignificant or less pressure on the balance sheet of the company.

We have also commenced the tolling operations on the Rajiv Gandhi Sea Link from October 3, 2017, which was awarded for the second time in a row as an OMT contract for a period of three years in lieu of an upfront contractual payment of Rs.325 Crores paid to MSRDC upfront.

I shall also like to highlight that there is a strong pipeline of hybrid annuity projects expected to be bidded up, up to the month of March this year wherein we have geared up to participate and are hopeful of getting a good size of the cake. We also continue to constantly look for opportunities in the tolling sector as and when they come up for bidding.

Further we are seeing a healthy and robust traffic growth across all over tolling assets in the last nine months and expect to continue to witness healthy traffic growth. We are expecting to receive the appointment date of the last two HAM projects, which are Arawali Kante and Kante Wakad, where the financial closure has been already achieved by the company.

Currently, the company has an order book of Rs.3040 Crores as a part of the ECC work for its six hybrid annuity projects. Commenting on the overall industry in 2017 and 2018, NHAI is yet to complete the construction in the length of around 3500 km against the average in the last five years of 2170 km to maintain the pace of construction NHAI has already commenced works on 27 new projects covering 2330 km and will commence the work soon for another 50 projects covering over 3000 km.

NHAI is thus headed towards the quantum jump in award of projects and has invited bids for around 10460 km till January in the FY2017-2018. You will see a lot of projects getting awarded before the financial end in March 2018, as there is a tremendous opportunity in the tolling space going forward because NHAI will also collect tolls on all the roads constructed by them.

MEP Infrastructure Developer will always be on the forefront of the country's infrastructure growth.

With this, I would now hand over the call to over Chief Financial Officer, Mr. Sankaranarayanan, to give his specific insight on the company's financial for the Q3. Over to you Sankar!

M. Sankaranarayanan: Thank you Sir. Good evening. I will take you through the consolidated financial highlights of the company for Q3 FY2018. For Q3 FY2018 our revenues stood at Rs.7566 million as compared to the Rs.2890 million corresponding quarter in the last year. It is totally up by around approximately 95% The robust growth in the revenues were due to commencement of Delhi entry point as well as the EPC revenues out of the four ongoing HAM projects. Also there has been little bit higher operating and maintenance cost for the year.

Our operational maintenance expenses were at Rs.4575 million due to incurrence of Rs.1205.8 million on account of construction expenditure relating to the construction

revenue, which has been booked, and also towards concession fee towards Delhi Entry Point.

During this quarter, we commenced our Delhi Entry Point, which has been told to you, and this particular contract has got an exit clause so because of this exit clause under Ind-AS 38, it has to be shown as a concession fee rather than an intangible asset. The depreciation had an order depreciation and amortization figure. In Q3 FY2018, it is Rs.58 million vis-à-vis Rs.42 million and amortization is Rs.12 million correspondingly to Rs.188 million. The finance cost for this quarter declined by 0.4% due to Ind-AS adjustment of unwinding of trade payables, but on a overall basis of nine months it is down by 6% because of repayments in the holding company. The PAT stood at Rs.247 million as compared to negative Rs.9 million because of higher EPC margin.

With this I hand over for question and answers.

Moderator: Thank you very much for your patience. Ladies and gentlemen, we will now begin the question and answer session. First question is from Giriraj Daga from KM Visaria Family Trust. Please go ahead.

Giriraj Daga: Just a couple of things. If you can give me the breakup of revenue for Delhi, Mumbai, and Rajiv Gandhi toll link separately for the quarter?

Murzash Manekshana: Mumbai it is Rs.351.67 Crores, Delhi, it is Rs.328 Crores.

Giriraj Daga: Delhi is Rs. 328 Crores.

M. Sankaranarayanan: Sorry this is for the nine months numbers.

Murzash Manekshana: Nine months numbers.

Giriraj Daga: Okay.

Murzash Manekshana: What was the other one you were asking for?

Giriraj Daga: Rajiv Gandhi.

Murzash Manekshana: Rajiv Gandhi is Rs.83.2 Crores.

Giriraj Daga: Delhi you said Rs.328 Crores, Delhi we started just at the end of...

Murzash Manekshana: From September.

- Giriraj Daga:** From September, so in about three months we collected Rs.328 Crores.
- Murzash Manekshana:** Yes.
- Giriraj Daga:** Okay and what is the weekly outgo Sir, last quarter outgo for Delhi?
- Murzash Manekshana:** Concession fee is 1206 per annum, so if you divide it weekly it comes to 23.5 something it will come.
- Giriraj Daga:** Rs.300 Crores if I do the quarterly?
- Murzash Manekshana:** 303.
- Giriraj Daga:** Rs.303 Crores. Okay. Understood. Second Sir, our EPC revenue has been bit lower compared to last quarter, quarter-on-quarter when comparing any particular reason there?
- Murzash Manekshana:** The EPC results for the last quarter was slightly lower purely because of one of our projects there was certain on-ground disruption, which has been resolved quickly and it has come back to normal now and that is the large reason.
- Giriraj Daga:** So what kind of expectation we have in Q4 and next year?
- Murzash Manekshana:** We hope to end the year anywhere between INR 650 to 700 Crores at the minimum.
- Giriraj Daga:** What should be the number looking like for next year?
- Murzash Manekshana:** The year after that.
- Giriraj Daga:** Yes, FY2019?
- Murzash Manekshana:** In our mind, it should be closer to 1400 to 1600 Crores.
- Giriraj Daga:** Rs.1400 to Rs.1600 Crores, EPC part, total.
- Murzash Manekshana:** Yes.
- Giriraj Daga:** Okay. In terms of bidding pipeline like how do we see the HAM pipeline and what is our participation in that as of now?
- Murzash Manekshana:** So as of today it is close to Rs.58000 to 60000 Crores of projects that has been tendered out by the authority under HAM to be bid before March 31, 2018. We are evaluating quite a

few of those projects and we hope to participate in quite a few projects over the next coming weeks and depending on the outcome of course we will be able to share with you on that.

Giriraj Daga: Sir, just to put it this way that what kind of numbers do you think as of now our balance sheet can support in terms of HAM order book? Like we are right now around Rs.3800 Crores, what kind of numbers can do with the current balance sheet file what we have?

Murzash Manekshana: I think we can definitely a couple of more thousand Crores can be added because these are all projects which started over two to three years, any project you bid today will commence only nine months from now and for another two-and-a-half to three years ahead by which time our existing projects will get completed, so there will be a cyclical kind of a capability for us to continue to maintain our order book size over the coming years if not grow it fairly well.

Giriraj Daga: Last thing on the capital raising plan Sir, we have talked about earlier also that we are looking to raise capital, have we made progress so far?

Murzash Manekshana: We are strictly advised against commenting anything on a public call like this so I would not able to answer that question.

Giriraj Daga: Okay Sir. Thanks a lot and all the best.

Moderator: Thank you so much. Mr. Nirav Shah, your line is open, would you like to ask a question?

Nirav Shah: Hello Sir. Nirav here from GS. Sir on the Delhi Entry Point just only to understand some basic of the award, I mean, we will be paying Rs.1206 Crores per year, so what is anything above, are we paying and what is the escalation on this Rs.1206 Crores for the next four years, I mean when we make a contract for five years?

Murzash Manekshana: It is a 10% increase after every two years.

Nirav Shah: Okay and are we paying anything more than Rs.1206 Crores, any upfront fee, refundable, nonrefundable?

Murzash Manekshana: Sorry, let me correct myself it is a 5% increase after every two years so that translates to a 10% increase during the period of the next five years.

Nirav Shah: Okay and is there is any toll increase in this?

Murzash Manekshana: I do not think there is a mandated annual toll increase, but there could be depending on the authorities discretion.

Nirav Shah: But that benefit will come to us?

Murzash Manekshana: Partly yes.

Nirav Shah: Again coming back to the first question are we paying anything over and above this Rs.1206 Crores?

Murzash Manekshana: No we do not to.

Nirav Shah: You do not need to?

Murzash Manekshana: No we do not need it.

Nirav Shah: Okay, Great Sir. Thank you Sir.

Moderator: Thank you very much. Next question is from Sayan Agrawal of Axis Bank. Please go ahead.

Sayan Agrawal: What kind of competition are you seeing in terms of number of bidders for project?

Murzash Manekshana: For which project, tolling or EPC, hybrid annuity?

Sayan Agrawal: Hybrid annuity, HAM.

Murzash Manekshana: I think there is fairly decent competition it is not too aggressive there are six to eight serious players who are competing for most of the projects and depending on the location and the region of the project, there may be certain regional players also that could participate on some select projects, but to be honest the bidding does not seem hitherto irrational or aggressive. I think it is player factor on bidding till date.

Sayan Agrawal: Okay and do you have any plans to bid for TOT as well?

Murzash Manekshana: Yes, we will continue to evaluate TOT projects as and when they come out. We have studied the initial TOT project, which is currently being announced, but ongoing also the future TOT projects we will study and evaluate them and for suitable projects we will participate.

Sayan Agrawal: For this project are you participating?

- Murzash Manekshana:** I would not be able to share that with you very clearly unfortunately.
- Sayan Agrawal:** Thank you.
- Moderator:** Thank you. There are no other questions in the queue. Amit, do you have any questions? We do have follow up question from Nirav Shah of GC Investments. Please go ahead.
- Nirav Shah:** Just a followup; what is the traction we are seeing in the Delhi Entry Point project for the month of January and first half of February, I mean how much growth are we seeing sequentially? This was 3.6 Crores last quarter per day
- Murzash Manekshana:** Yes. There is a constant growth last quarter that went by clearly is not normative from what we are evidencing and expecting on this project for a couple of reasons. It is 126-toll plaza project where it is a physical location across the state of Delhi and with certain significant holidays that came through in the month of October itself as we started, Diwali and certain other long weekend holidays and also because of the pollution in November there was kind of stay or abolition on commercial traffic entering Delhi during months of November and stuffs like that having said that that is doing off the business, that is envisaged, but as a overall average, the average of the last quarter is expected to increase fairly well going forward into the next two or three quarters to put the annualized number on a much higher number.
- Nirav Shah:** So any number you would like to hazard a guess for Q4? I mean how can it increase because our payment to authority with a sort of known escalation, so next year Sir how much can this Rs.3.6 Crores per day. Can we assume 4 Crores and all attributable to traffic growth because toll we might taken the first year also?
- Jayant Mhaiskar:** I would like to add a point here apparently on the total revenue expectation Mr. Manekshana rightly pointed that it was earlier days when we started the project, Delhi being a very peculiar project. We have around 124 points where the tolling is done. I said that we have deployment of more than 2000 people on this particular project alone to ensure that proper revenue collection is done and there are no leakages, which are attributing to any revenue loss then it takes a while to do in terms of the total 124 points. Having said that in the current quarter and the quarters going forward, yes, I think we can easily attribute a number of 4 or 4.12 on the topline in terms of the revenue vis-à-vis what has been collected now due to two things one is better efficiency in terms of doing the collection and reducing the number of leakages and also in terms of growth in traffic. So we can add both of them to come to this particular number.

- Nirav Shah:** So sort of, I mean if you make a Rs.70 lakh per day, it translates to Rs.250 Crores EBITDA contribution next year?
- Murzash Manekshana:** But you will have to reduce the operating expenditure.
- Nirav Shah:** Absolutely and how much them can opex be Sir?
- Jayant Mhaiskar:** So the annualized operation is expected to be close to Rs.60 to Rs.65 Crores.
- Nirav Shah:** Got it, so Rs.200 Crores can come in a quarter only the interest on working capital for a week payment to the authority or minimum?
- Murzash Manekshana:** I am sorry if you are suggesting that it is 200 Crores of profit annually from this project then there is something wrong in your calculation that is not the kind of number that we are looking at. It is lesser than that.
- Nirav Shah:** Yes I was talking about operating profit Sir?
- Murzash Manekshana:** Okay.
- Nirav Shah:** Then there will be some interest and the full tax?
- Murzash Manekshana:** Yes.
- Nirav Shah:** Then my thought process is more or less in similar lines?
- Murzash Manekshana:** We expect annual revenues in the range of Rs.1350 to Rs.1370 Crores in the first year from this project.
- Nirav Shah:** Thank you Sir. I can appreciate it.
- Moderator:** Thank you very much. We have no further questions in the queue. Amit, do you have any questions that you would like to pose?
- Amit Shah:** Sir on the Delhi Entry Point just wanted to understand that given that Eastern Peripheral Expressway is supposed to come back so do we anticipate any drop in traffic on the Delhi entry point side going ahead or do we anticipate that the traffic would continue to remain constant and at similar levels in the coming years?
- Murzash Manekshana:** Basically I think we do not expect any material reduction for a couple of reasons. Already a part of that peripheral road has been operational prior end we have already operated in this

quarter and if you notice or if you understand the kind of traffic which is basically entering Delhi is the traffic, which actually has business or operations in Delhi. There is already a Supreme Court order, which basically states that only commercial vehicles, which actually have business in the state that only commercial vehicles which actually has business in the state of Delhi need to enter Delhi, there is no thoroughfare rule that is possible. So a large part of the traffic, which is already going over there all entering Delhi is going to continue to be required and entered into Delhi. Delhi itself does not have any large industry all those kind of things so we do not expect too much the thoroughfare traffic to reduce or anything like that.

Amit Shah: Sir in terms of just wanted to understand that on the HAM projects that we are currently executing what is the total equity deployed till date and what sort of equity requirement over the next two years?

Murzash Manekshana: So basically the total equity requirement is Rs.575 Crores out of which Rs.400 Crores is required to be deployed by MEP and Rs.175 Crores is deployable by our JV Partner out of which around Rs.250 plus Crores has already been infused by MEP as of last quarter and the balance Rs.150 Crores is something that we will infuse over the next one-and-a-half-years to two years. The JV Partner has already infused close to Rs.90 odd Crores, 93 Crores which is commensurate with their shareholding percentage in each of those projects so that is where it stands right now.

Amit Shah: Sir in terms of the total debt for the HAM projects. What is the total debt that we have drawn till this point of time and incremental debt that we will be drawing because it does not get consolidated right?

Murzash Manekshana: Rs.1721 Crores is the total amount of funded debt that is there across the six projects that we have done financial closure for. There is a few 100 Crores of non-fund based financial closure that has been done. Out of this debt across the six projects we have currently withdrawn close to Rs.400 Crores, drawn close to Rs.400 Crores.

Amit Shah: Okay and the balance will be drawing down over the next two years right?

Murzash Manekshana: Yes.

Amit Shah: Okay. Sir in terms of the appointed date for the two projects that we are anticipating if you can just help us understand when can we expect the appointed date to come in?

Murzash Manekshana: Hopefully next few days.

- Amit Shah:** Okay so in the quarter of March can we expect some revenue from those two projects as well?
- Murzash Manekshana:** Yes we are expecting anything from Rs.70 to Rs.100 Crores depending on the starting of those projects of revenue to seep in from the last two projects in this quarter itself. Reason for that is these projects are shorter projects than the other four projects, they are to be completed only in a period of two years so the extent of EPC work and completion will be slightly swifter than the earlier four projects.
- Amit Shah:** What sort of land availability is there for these two projects?
- Murzash Manekshana:** So we have as of now on one of the projects just above 80% and that is why we are going ahead with it and on one of the projects there has been step change where we have over 90% land acquisition.
- Amit Shah:** Okay. Should not be much of an issue in terms of executing the projects for the next two years.
- Murzash Manekshana:** Yes we do not anticipate any going forward.
- Amit Shah:** Okay. In terms of margin Sir, I was just going through the margins of Q2 FY2018, margins are in the range of EBIT margin and EPC were in the range of 20%, 21% and in this quarter we have seen the margins in the 15.5% any particular reason for the drop and how do we see the stable margins for all these six projects?
- Murzash Manekshana:** I think the stable margins to be honest on an average across all six projects it is before a different lifecycles through the project but largely to be of 13% to 15%. The initial year that we had in the previous quarter it was only one or two projects, which were fully operational, and we had the inflationary benefit that sort of kicked in on those projects at that point in time.
- Jayant Mhaikar:** It is a consolidated thing from the beginning.
- Murzash Manekshana:** It was an overall consolidated impact that got taken in the last quarter to be honest it was not necessarily attributable only for that quarter which has now got regularized going forward, to be fair 13% to 15% is what you should assume.
- Amit Shah:** Okay in terms of execution we are saying that we will be able to cross around about Rs.15 to Rs.1600 Crores in the next financial year FY2019?

- Murzash Manekshana:** Yes, my target is slightly above that but I would say Rs.1600 Crores this quarter.
- Amit Shah:** Sir in terms of toll collection opportunity, are there any opportunities which we are eyeing on the toll collection side not on the HAM EPC side, but on the toll collection side?
- Murzash Manekshana:** 100% I think Delhi Entry Point is a testimony of our commitment towards tolling, Sea Link we continued and got the project in this quarter per se. We have very deeply evaluated the current TOT projects, somebody on the call asked whether we would look at TOT even going forward. We will continue to look at those projects we are closely following the possible NHAI new model where they may start coming with three to four years tolling contracts, we think those are the very nice sweet spot kind of contracts to have on the tolling side. So we will be looking forward to those tolling activities. We have evaluated certain key marquee state rather tolling contracts like how we have been operating in the past in RIDCOR. We have done a five-year contract; in Bengal we have done a five-year contract so we have also looked at certain MSRDC and other state level contracts so our commitment to tolling stands unlevered. We shall continue to operate in the tolling space and aspire to continue with our market share and binary status. Having said that as the industry matures, meander, transforms there will be certain quarters and periods where there could be certain shifts in the amount of order of book or volume of tolling projects that may be in hand. I would like to share that we are in a unique space where now we are almost over 90%-95% of our tolling contracts as long-term contracts having very long-term visibility. So we have visibility of tolling of over Rs.2000 Crores per year for the next four to five years, locked in into our existing portfolio so we are now very strong platform on the tolling side and we will look to optimise and grow from there.
- Amit Shah:** Sir going ahead how do we see our revenue contribution panning out, currently it is in the range of 80% on the tolling side and 20% for the HAM EPC side, but since these four projects have picked up significantly and we also expect the next two projects to pickup in next one quarter how do we see our revenue contribution panning out for FY2019?
- Murzash Manekshana:** FY2019 in my mind is a 65:35 kind of a split where 35%-40% will be the HAM revenues and tolling revenues continue and the reason for that is the Delhi Entry Point Project will get a full year impact, so you will have Rs.1350-Rs.1400 plus Crores of tolling coming from Delhi. You will have over Rs.500 Crores tolling coming from Mumbai, over Rs.200 Crores of tolling coming from Hyderabad-Bangalore, over Rs.150 Crores coming from RGSL, so as I said there will be around Rs.2200 to Rs.2300 Crores of tolling coming from these three to four projects alone in addition to that we aspire to continue to operate some of our state-run projects and other smaller or short term projects, so that tolling revenue we are targeting in the range of around Rs.24 to Rs.2600 Crores depending on how successful we are for the fringe tolling contracts that we need to accumulate. With respect to HAM and

EPC I mentioned to you that we think Rs.1600 Crores conservatively ranging up to Rs.1800 Crores is what is going to be next year's target for us. Based on existing contracts on hand, if you win any new projects and we add any new work order of pipelines of course these numbers will increase.

Amit Shah: So round about Rs.4000 to Rs.4200-odd Crores topline we are expecting for the next year? Correct?

Murzash Manekshana: Hope so.

Amit Shah: Sir on the margin front if you can help me understand on the margin front because of the Ind-AS implementation there has been significant change on the margin profile of our company?

Murzash Manekshana: Do not look at it quarterly. Look at it on a nine monthly basis, if you look at it on a nine monthly basis, and if you look at the two line items of operating and concession fee and depreciation and amortization together in the previous year and current year you will get fairly good normalisation and standardisation of the numbers. So it is quite unfortunate because it is quite confusing for us also because under Ind-AS depending on each specific project and its unique parameters in contracting projected account in one way or the other way, so it is our constant fight with our auditors and accounts compliance teams to see how we can best represent that, but if you combine both this line items and then look at the percentages you will find a normalised kind of a pattern.

Amit Shah: Sir so if we held this table portfolio of the toll collection project that we currently and HAM EPC portfolio that we currently we have what sort of normalised EBITDA margins are we looking out for FY2019 with this Ind-AS implementation coming out?

Murzash Manekshana: With Ind-AS EBITDA now again if you look at EBITDA, I think we should look at EBIT if you ask me because again there is a lot of normal historically what you pay to the authority has a simple concession fee gets accounted under depreciation and amortization.

M. Sankaranarayanan: Also one more thing, in case of projects prices which were paid upfront there will not be any concession fees, the amount will come below even EBIT. So it will be difficult to see the EBITDA margins.

Murzash Manekshana: But historically we have had EBITDA margins on an average for the company ranging from Rs.27to Rs.30 odd Crores. We think that will slightly reduce for two reasons, one is that there is more of the EPC business that is coming in, so the average will drop unless you

want to split between tolling and EPC of course you know you could have two different kind of EBITDA for each of those segments.

Amit Shah: Got it sir. Sir on the HAM EPC side, if you can just help us understand what sort of participation that we have done currently and what is our expectation going ahead on the HAM side?

Murzash Manekshana: On the HAM side, it is on the 16000 Crores of work there is 10000 to 12000 Crores of worth of projects that we have short-listed largely, which we hope to participate and we will see how successful in that portfolio.

Amit Shah: That is it from my side.

Moderator: Thank you very much. Ladies and gentlemen, we have no further questions and now I would hand the conference back to management for closing comments.

Murzash Manekshana: Thank you everybody for joining our Q3 conference call. We believe that MEP is on a exciting path of growth and we look forward to your continued interest and support and look forward to your participation in the next concall for the Q4. Thank you very much.

Moderator: Thank you very much. Ladies and gentlemen, On behalf of Motilal Oswal Securities that concludes this conference call. You may now disconnect your lines.