



“MEP Infrastructure Developers Limited Q1 FY2019 Earnings Conference Call”

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Moderator: Ladies and gentlemen, good day and welcome to the Q1 FY2019 earnings conference call of MEP Infrastructure Developers Limited hosted by Anand Rathi Shares & Stock Brokers. 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 phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Rachit Kamat. Thank you and over to you Sir!

Rachit Kamat: Good afternoon. On behalf of Anand Rathi Research, I welcome you all to Q1 FY2019 earnings conference call for MEP Infrastructures. On behalf of the management, we have Mr. Jayant Mhaikar, Chairman and MD, Mr. Murzash Manekshana, Deputy MD, Mr. M. Sankaranarayanan, Group CFO, Mr. Rajesh Sindhav, Deputy CFO and Ms. Manisha Bihani, Investor Relations. Without any further delay over to you Sir!

Jayant D. Mhaikar: Good afternoon everybody and I welcome you all on behalf of the entire MEP group for this earnings call. Thank you for participating for the first quarter results of FY2019. The company closed the quarter with the revenue on a consolidated basis at Rs.840.7 Crores with EBITDA of Rs.166.6 Crores and a PAT of Rs.26.1 Crores.

To update you on the progress of our HAM projects, we have attained milestone two on Nagpur project two recently. The rest of the HAM portfolio is progressing inline with the concession agreement requirements and we are targeting to complete the first two packages which is Nagpur outer ring road package one and package two by end of March next year.

Our team is working towards attaining financial closure for the four newly bagged hybrid annuity projects and we should be able to announce the same in a shortest possible time. On the tolling side, the company has added two short-term toll collection projects to our toll portfolio over the last few months.

We now operate three short-term, three long-term, three OMT projects and one BOT projects, which is a Baramati.

An important development, which we would like to share at this point of time, is the company has entered into a nonbinding term sheet with the Indian Highway Developers Private Limited, in respect of disinvestment of its stake in the six hybrid annuity projects, which are located in Nagpur, Ratnagiri and Gujarat post completion of construction of this project subject to satisfactory due diligence and regulatory approvals

The EPC work I would like to mention at this point would be continued in the MEP IDL, which is the listco where the EPC has been currently done and would continue to be done going forward.

This is the first step in the direction of our endeavor to efficiently monetize, our HAM portfolio in the annuity phase in line with our strategy and provide room for us to bid for future hybrid annuity projects and EPC projects going forward.

The pipeline of HAM projects expected to be bid out over the next few months remains robust while we are also evaluating a few PWD EPC opportunities alongside the TOT projects where the package 2 has been already announced. MEP is poised to deliver a sustainable riskmitigated growth in the coming years and is focused single-mindedly or delivering exceptional shareholder value through efficient and calibrated approach towards the business.

Commenting on the overall industry if I may say so, the authority NHAI is continuing to take measures to ensure efficient execution in the form of speeding up land acquisition and strong monitoring by individuals during the current year FY2018-2019, the ministry plans to focus more on execution though the project awards are also likely to be more than the last year. Increased emphasize has been laid down on completion of the detailed project reports which is the DPR of all in-principle declared national highways, the ministry has also called for division of the annual targets into quarterly targets as to ensure timely completion as well as creation of a monitoring group to review the performance at regular intervals.

With this I would like to hand over the call now to the group CFO, Mr. Sankaranarayanan to give us specific inputs and insight on the company's financials for the Q1. Over to you M.S.N. Thank you.

M. Sankaranarayanan: Thank you Sir. Good afternoon. The Q1 results for this quarter went up by 117% to Rs.825 Crores from Rs.280 Crores mainly due to the increase in the contribution from EPC revenues as well as Mumbai entry point and Vidya Sagar Setu projects. The commencement of Delhi entry point has also led to a corresponding increase into the O&M expenditure and employee cost etc., and this particular project we have taken CMS along with Mumbai entry point also we have taken CMS facility, so the charges have come or added up in the other expenses.

The EBIT margins are slightly skewed because of the change in revenue mix because earlier if you compare the last year first quarter, the majority of the income has been derived from the upfront projects where the payment has been made upfront which is Mumbai entry

point whereas in case of current year it is Delhi entry point, construction and Mumbai entry point, so if you compare the margins are lower.

The finance cost has gone up slightly by 120 BPS that is because of the upfront loan we have taken for RGSL payment and also there has been some reduction, it has been partially offset by MIPL what are the repayment we have made, there was partial offset and also the Ind-AS adjustments. Depreciation and amortization includes Rs.5 Crores of depreciation and Rs.121 Crores amortization. In case of deferred taxes also, there has been a change, there has been a reversal of a deferred tax asset on account of change in tax rate in some of the subsidiaries that has also adversely affected the position of PAT.

The PAT number has been doubled, it is more than doubled you can say as compared to the earlier, it is Rs.26 Crores vis-à-vis Rs.12 Crores in the corresponding quarter last year.

With this I hand over for question and answers.

Moderator: Thank you. Ladies and gentlemen we will now begin the question and answer session. The first question is from the line of Parthav Joshi from NVS Brokerage. Please go ahead.

Parthav Jonsa: Good afternoon Sir. Congrats on a great set of numbers. I just had couple of questions. Starting with the Delhi entry point, it is relatively a new project, so if we see the contribution is 41% of your total revenue, would this be similar going forward or how do you perceive it Sir?

M. Sankaranarayanan: In Delhi entry point as you are aware that the first quarter has been as per our expectations. Currently the toll is under suspension which we have announced on Monday for a period of 36 days and there has also been adverse impact on the numbers because of the Eastern periphery road opening, so really we anticipate a lower run rate in the months ahead compared to the first quarter for Delhi entry points.

Parthav Jonsa: But when you perceive this toll to restart again?

Jayant D. Mhaikar: As per the letter issued by the authority predominantly this toll has been suspended for 36 days on account of the RFID work which needs to be completed as a part of the supreme court order, inline with that 36 days we expect the toll to commence I would say somewhere mid September. Having said that at the end of the day what is important to note is the revenue loss plus the O&M cost is something which the company would claim from the authority hence I would say on topline basis, yes there would be depletion at the same time there would be a setup against the amount payable to the authority of the same value or lower than that.

Parthav Jonsa: I understand that you will be claiming the amount and all, but that would definitely take sometime to role in right?

Jayant D. Mhaiskar: I do not think it should be far away we will be putting up the claim as soon as the suspension is over post which we will be able to put up the claim and realize it in the shortest possible time, hopefully in the Q3 if I may say so.

Parthav Jonsa: Okay, so as per the things you said we should again see the toll starting from may be mid of Q2 or end of Q2 or may be from Q3 onwards like regular toll?

Jayant D. Mhaiskar: It should ideally start midway somewhere in end of September is what our understanding as per the current set of letters what we have.

Parthav Jonsa: Okay and my next question is to do with all upcoming project which are there in the pipeline. Can you just throw some light that what would be the Athur and other project which are there for the short term or the HAMs what would they got if, what would they be contributed in future any include on that?

Jayant D. Mhaiskar: As far as the current set of projects what the company is currently operating as I mentioned in my opening comments we have three one year project Chennasamudram, Athur and Paranur all three predominantly in the state of Tamil Nadu. As far as due bidding is concerned, the company keeps on bidding on this short term bid, having said that I think the way the bidding has happened over the last I would say eight quarters to be one precise it is very, very aggressive where we are not able to I would say meet up with the expectation of the authority on the one year side. Having said that there are multiple opportunities which are now likely to be available over the next couple of quarters predominantly on the NHAI toll which is the four year tolling and also the larger TOT which I think is a very significant size of the project if I may say so which the company would be bidding and also on the HAM projects we already have project pipeline of 10 projects where the execution has started in the six projects and four financial closure is expected soon. Post I would say closure of those four projects and starting of the work we would definitely start bidding for the next term as per the current plan.

Parthav Jonsa: And couple of other questions. I can definitely come back in the queue. My next question also with respect to construction. Construction as a percentage terms has gone down, but in the absolute numbers it has gone up, so what do you perceive going forward Sir in the construction side?

Jayant D. Mhaiskar: Construction side we have clogged total turnover of Rs.207 Crores as compared to 114 for the previous quarter

- Parthav Jonsa:** Absolute number it has gone up, so how do you perceive it going forward?
- Jayant D. Mhaiskar:** We will be pushing up the run rate on this construction projects and to achieve it on time.
- Parthav Jonsa:** Okay and what would be the margin on the construction side Sir approximately?
- Jayant D. Mhaiskar:** Approximately it is around 15% to 17% in EBITDA.
- Parthav Jonsa:** Okay, got it. Thank you Sir.
- Moderator:** Thank you. The next question is from the line of Rachit Kamat from Anand Rathi Shares & Stock Brokers. Please go ahead.
- Rachit Kamat:** Good afternoon Sir. Could you have some data points relating to the current debt position and how we look forward like how we are looking at it from FY2019 perspective?
- Jayant D. Mhaiskar:** The total debt outstanding on June 30, 2018 is Rs.2928 Crores, the breakup you can say is around Rs.368 Crores odd of the listed company MEP Infrastructure Developers Limited and Mumbai entry point is 2197 roughly Rs.2200 Crores, RGSL is Rs.278 Crores.
- Rachit Kamat:** Okay and how are we planning, given that towards planning to do equity infusion given if the FC comes in, are we expecting the debt to rise?
- Murzash Manekshana:** It should go up marginally with respect to some balance sheet borrowing, but not substantially.
- Rachit Kamat:** Okay and Sir what are we looking at from a revenue perspective for FY2019 year-end?
- Murzash Manekshana :** FY2019 year end I do not know whether we could share those numbers but I think from a tolling revenue perspective we will be again in Rs.2000 Crores plus range and on the EPC side anywhere between 1400 to 1500.
- Rachit Kamat:** Okay and we will be maintaining the current level of margins?
- Jayant D. Mhaiskar:** I think the EPC side margin for the existing projects will dip slightly going forward in the next three or four quarters, but with the new projects coming back in, on an average it will be the same.
- Rachit Kamat:** Okay, given that we have four financial closures still remaining are we finding any kind of difficulties in closing these?

Jayant D. Mhaiskar: We would be pleased to share with you that we are in very advanced or we are very confident that we will complete the financial closure for the four projects soon.

Rachit Kamat: Okay and Sir if you do not mind like what is the ballpark of are we going with like NBFC or like private bank or public bank, if you can give some prospective on your interest rates?

Jayant D. Mhaiskar: This is a large financial closure of Rs.2000 Crores plus, so this is the combination of banks infrastructure institutions and within banks it will be a combination of private banks, PSU banks, so we are not looking to dip into the NBFC category as yet, we will safe that for the equity.

Rachit Kamat: Okay, fine and what are the order book inflows you are expecting for the year?

Jayant D. Mhaiskar: Order inflow do you mean the existing order book?

Rachit Kamat: Yes, we have current order book of around 70 billion if I am not mistaken and on top of it are we expecting any further orders?

Jayant D. Mhaiskar: In last quarter of financial year, we hope to bid for couple of projects on the construction side, so we would target of couple of Rs.1000 Crores addition there for future years and we are also closely looking at the second sales of the TOT models given that the project sizes have been significantly reduced, so we will look at that.

Rachit Kamat: With whom you are partnering for this or we going alone?

Murzash Manekshana : We are still evaluating that.

Rachit Kamat: Thanks a lot.

Moderator: Thank you. The next question is from the line of Parthav Jonsa from NVS Brokerage. Please go ahead.

Parthav Jonsa: Just taking the point for what from the previous analyst, what do you perceive, I just wanted to understand the industry as a whole, how do you perceive it going forward may be to say two, three, four, five years down the line? Just as an industry and what you operate?

Jayant D. Mhaiskar: As far as industry is concerned, I do not know whether we are the right people to answer this question, because it is more of a government's initiatives and acts I would say determine way the industry shapes up.

Parthav Jonsa: My question actually was based on that only because does all based on your tenders basically right eventually?

Jayant D. Mhaikar: As far as to answer your specific question is concerned, the way based on our understanding in the last three to four years, the way the infrastructure sector particularly the roads have moved on and what is already declared trajectory in terms of the Rs.5.5 lakh Crores Bharatmala which is to be done over the next five years. I believe there is enough visibility in terms of new projects being done in different formats by way of may be hybrid annuity, by way of EPC, by way of BOT annuity that is to come back and these are of course different sets of models adopted by the authority to implement the vision of building this road. There are enough opportunities for people who are already there and as I always see that there is enough opportunity for new people to come in, because the way the government is announcing and rate at which they are planning to execute and what the rate work is being done. There is definitely a requirement of newer players in the sector to participate and also the existing have enough to do and for the next three to five years if I may say so.

Parthav Jonsa: What would be the risk factors for the industry that you operate then there are lot of risk factors, because tomorrow getting point of time the government may change some rules and regulations and all, so what would be the risk factors? I can understand a lot of infra projects are coming up, so there is a lot of opportunity which is opening up in different states not just Maharashtra, Tamil Nadu or north, so there is whole northeast which is left but what are the risk opportunities?

Jayant D. Mhaikar: As far as risk opportunities are concerned, I think that is I would say derived out of two factors. One is the availability of land which is the basic requirement for doing any infra projects which I think is responsibility of the government and in the new hybrid annuity model, 80% plus land has to be made available for the appointed date to be given as far as project is concerned. As far as financial closure is concerned, that is another point which needs to be looked into, looking at a state of affairs where the banks currently are and I believe a little more push on that is from the government side would be helpful in terms of encouraging the banks to participate in this projects such as the HAM model where substantial amount of risks is being mitigated by way of the government participating in this to the tune of 40% and also the annuity is coming to the developers from a concession like NHAI which is a AAA rated institute that also there is lot of comfort. So I believe these are two specific points. One is the land and second is your financial closure.

Parthav Jonsa: You will be making quite a few good numbers this year, so any plans to reduce from the debt or something?

Murzash Manekshana : As far as numbers and debt is concerned, what is important to understand is the turnover is largely coming out of two sets of activities. One is the tolling activity, one is the EPC activity, as far as debt is concerned, most of the debt what the company has today is project specific and tagged along to the life of the project which gets wound down as the progress of the project goes on. So any specific reduction on those numbers, will be inline with the actual loan agreements which are already signed, which allows the company to unwind the loan numbers, if you want specific loan number reduction, I would request our CFO to give a specific data point on that.

M. Sankaranarayanan: Mumbai entry point we will be for 2018-2019 we should be paying on Rs.185 Crores and all other MEP Infrastructure Developers it is around roughly Rs.350 Crores of loan what we have, so which has got a very small wound down schedule because the gestation period of repayment is longer. In case of RGSL, it is a three-year period, so we have around Rs.280 Crores of loan available, which will get wound down over a period of next two years. These are all the projects, which are linked to the length of the projects, so we will get wound as the project progresses.

Parthav Jonsa: Okay, got it Sir and just to understand that the life of the project I guess Rajiv Gandhi ceiling was about two or four years project and the Mumbai entry point is five or seven years I might be wrong just wanted to know the life of the projects?

Jayant D. Mhaiskar: The sea link project in the current avatar is a period of three years from the appointed date. As far as Mumbai entry point is concerned, the project life is for 16 years out of which I would say half way we are already there. We have balanced left out period of almost 7.5 to 8 years on the Mumbai Airport.

Parthav Jonsa: And how about the Hyderabad and the Delhi entry point?

Jayant D. Mhaiskar: Delhi entry point is a five-year concession of which we are in the eleventh month of operation.

Parthav Jonsa: Okay, still four years to go.

Jayant D. Mhaiskar: Hyderabad, Bengaluru again we have closed to around four years left which is a nine-year concession, they have been completed four to go.

Parthav Jonsa: Okay and just on the Bharatmala as and when how it develops and how it progresses, do you think that if we can participate so do you think that would also have toll revenue, just trying to understand would it that have the toll revenue similar to what we are seeing in Delhi and Maharashtra or how it go?

Jayant D. Mhaiskar: As far as Bharatmala is concerned I would like to announce at this point of time, the four projects what the company has backed in March 2018 that is the HAM projects totaling to Rs.4104 Crores are already a part of the Bharatmala program, answer your specific question on the tolling strategy I think the way the HAM projects are being envisaged is post completion of these assets the government will be doing the tolling on this by either departmentally or appointing private concession like they do in the current scheme of things. So we as company definitely would be evaluating participating on the projects where we have constructed and which are available for tolling I think that is a classic opportunity for us which definitely we would be evaluating as and when the roads are completed.

Parthav Jonsa: And by when this Bharatmala would schedule to be completed Sir?

Jayant D. Mhaiskar: The government announcement say period of five years.

Parthav Jonsa: Okay, got it Sir.

Moderator: Thank you. The next question is from the line of Ronald Siyoni from Sharekhan. Please go ahead.

Ronald Siyoni: Good afternoon Sir. As you had said that land acquisition problems having HAM projects due to which banks are not able to financially close the project, can you share the land detail like how much land has been acquired in each of the HAM projects?

Jayant D. Mhaiskar: The way I would like to address it this specific answer was given on question, which predominantly mentioned about the challenges what can be faced or would be faced in projects particular in the road going forward. As far as MEP is concerned, we have already achieved financial closure for the first six projects and construction has started on at different phases. There are certain issues in terms of little land not being available, there are certain incumbrances which the company along with the authority as and when is there is a specific instance addresses not something very significant. As far as the four projects what we have recently bagged the land acquisition is in multiple phases for acquisition under 3G, 3A by the government and I think one of the prerequisites of the appointed date would be 80% of the land would be required to be handed over and incumber to the concessioner prior to the starting of construction which is something which I believe the government is currently working on. As far as company is concerned, I believe we should be able to announce the financial closure very soon, which makes us ready for starting construction post land acquisition, is confirmed.

Ronald Siyoni: About the valuation slide like you had said that you are having a nonbinding agreement for six HAM projects post completion, so how do you see the valuation of this road projects going up the book value or discount to book value, what is the kind of valuation you are seeing for this projects?

Jayant D. Mhaiskar: We are seeing a fairly good valuation, because there has been increase in the equity value of these SPVs given the rise in the project costs that were passed on to us as contractors, so we think that if your projects were over a period of time there should be accretion in equity value as you go closer to completion.

Ronald Siyoni: But there is no such raise kind of very high risk to account to book value or something of that sort which you envisage?

Jayant D. Mhaiskar: I do not expect.

Ronald Siyoni: Okay. Thank you very much.

Moderator: Thank you. The next question is from the line of Rachit Kamat from Anand Rathi Shares & Stock Brokers. Please go ahead.

Rachit Kamat: Sir just one question regarding capex. How we are looking at like this year?

Jayant D. Mhaiskar: As far as capex is concerned, the last year we had substantial equipment buyout public living, as far as this current four set of projects is concerned, I think there would be capex inline with the requirement of those projects which I believe we should be able to give you as a part of the Q2 results.

Rachit Kamat: Regarding these four HAMs in your financial closure and we do not expect the debt to go up significantly, how are we expecting to fund the equity in these, is it internal accruals?

Jayant D. Mhaiskar: As far as raising the equity for this four projects is concerned, we all must be aware this four projects would be done in four SPVs where MEP will be contributing 51% of the total equity and 49% will be brought in by the Chinese joint venture partner, LongJian Road And Toll Private Limited. As far as bringing in equity is concerned, the company successfully completed maiden in QIP in April this year raising Rs.163 Crores which was inline with the expected requirement for this four projects, so it would be a combination QIP/internal accruals/EPC margins going forward.

Rachit Kamat: Okay. Thanks a lot. That was my question Sir.

Moderator: Thank you. The next question is from the line of Riddhi Gandhi from IL&FS. Please go ahead.

Riddhi Gandhi: I just wanted to understand on this HAM projects with Indian Highways Developers, so media report says it is a division of Cube highways or else if you can just throw light on this company and the deal structure?

Murzash Manekshana : I am sorry currently we are in a confidentiality arrangement with the potential investor and apart from the mandatory disclosures that are required by us to be made which we have made to the stock exchange, currently we may not be in a liberty to share any further details on this transaction, hopefully in the next couple of weeks or few weeks or months we should, approve the transaction we will be very keen to share the details on that.

Riddhi Gandhi: Understand. Thank you Sir.

Moderator: Thank you. The next question is from the line of Ronald Siyoni from Sharekhan. Please go ahead.

Ronald Siyoni: Sir on the TOT side, have you been able to find any partner to bid for the projects or have you been bidding for this project?

Jayant D. Mhaikar: As far as TOT is concerned, we did not participate in the first round of bidding, the second level which has recently come up as the current scheme of things submission date at November end, we are currently in discussion with multiple I would say potential partners and post zeroing on that which we have some definitive understanding is something which you would be able to give us specific data point on that.

Ronald Siyoni: Okay, but you are looking favorably at participating in the second tranche?

Jayant D. Mhaikar: We would definitely evaluate post evaluation and once the agreement with the partner is arrived, we should be able to bid on it.

Ronald Siyoni: Okay Sir. Thank you very much.

Moderator: Thank you. The next question is from the line of Rachit Kamat from Anand Rathi Shares & Stock Brokers. Please go ahead.

Rachit Kamat: Sir one last question regarding the equity infusion schedule, so how are we looking at that?

Jayant D. Mhaikar: Can you repeat your question if you do not mind?

- Rachit Kamat:** Yes Sir, what is the equity infusion schedule in the SPVs?
- Murzash Manekshana :** As far as the current set of SPV is concerned I think substantial equity has already been infused in the ongoing projects where the construction is on. As far as the new four set of SPV is concerned, I think in line with the loan requirements of the bankers, equity would be infused at that point of time good amount of equity may be required in the beginning and also then thereafter going as per the requirements of the loan document or with the concession agreement.
- Rachit Kamat:** Okay and Sir if you remember what is the net equity requirement across all the projects including the ones under construction if some amount of remaining?
- Jayant D. Mhaiskar:** The total requirement for the four, the current four new projects would be close to around 12% to 14% of the total project cost which would run around roughly around Rs.500 Crores odd over the period of next 2 to 2.5 years. As far as the current set of six projects is concerned, substantial equity infusion has already taken place, which I think Sankar if you can give the specific number on the equity totally infused so far?
- M. Sankaranarayanan:** Totally equity infused is we have infused around roughly Rs.400 Crores we have infused the equity along with the JV partners, so balance equity will be infused as and when the projects versus when there is draw down schedule is expected.
- Rachit Kamat:** And what is this number Sir balance?
- Jayant D. Mhaiskar:** It is around close to Rs.150 Crores to Rs.175 Crores.
- M. Sankaranarayanan:** Total requirement is Rs.575 Crores.
- Jayant D. Mhaiskar:** It is around close to Rs.150 Crores. I would also like to add one more point to take it forward. Basically if we have seen the way the HAM projects are progressed towards 2.5 to 3 years. The equity requirement typically has been if I take 1:3 say 15% is the equity requirement, 45 is by the lenders and 40 is by the authority. As far as the total project cost is concerned I believe there is also one formula, which allows developers to claim some kind of an escalation from the authority, which is paid to the concessionaire or the company on achievement of specific milestones. In the last two to three instances we have been claimed milestones, we have been able to claim in the range of between 6% and 8% on the overall project cost, which in turn actually reduces the equity requirement for the company and joint venture overall in the existing projects and also going forward this equity requirement gets realigned which takes the equity requirement lower than what was the original anticipated number.

Rachit Kamat: Thanks.

Moderator: Thank you.

Murzash Manekshana : If there are no further questions then we would like to conclude the call.

Moderator: Would you add any closing remarks?

Murzash Manekshana : We would like to thank everybody who has taking time to attend on-call this afternoon and we look forward to again other participation in the next quarters call. So thank you everybody from the company's management side. Thank you.

Moderator: Thank you. Ladies and gentlemen on behalf of Anand Rathi Shares & Stock Brokers that concludes today's conference. Thank you for joining us. You may now disconnect your lines.