



“MEP Infrastructure Developers Limited Q1 FY16 Earnings Conference Call”

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MODERATOR: **MR. ASHISH SHAH – SENIOR VICE PRESIDENT, RESEARCH , IDFC SECURITIES LTD**

Moderator: Ladies and gentlemen good day and welcome to the MEP Infra Q1 FY16 Earnings Conference Call hosted by IDFC Securities Limited. As a reminder all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference, please signal an operator by pressing '*' and then '0' on your touchtone telephone. Please note that this conference is being recorded. I now hand the conference over to Mr. Ashish Shah of IDFC Securities. Thank you and over to you sir.

Ashish Shah: Good morning and welcome everybody to the Q1 FY16 earnings call of MEP Infrastructure Developers Limited. We have from the management – Mr. Jayant Mhaiskar who is the Vice Chairman and Managing Director, Mr. Murzash Manekshana who is the Executive Director and Mr. M. Sankaranarayanan who is the Chief Financial Officer of the Company. I will hand over the call to Mr. Jayant Mhaiskar who can give us a brief remark and introduction of the Company. Thank you sir and over to you.

Jayant Mhaiskar: Thank you, Ashish. Good morning everyone. On behalf of the Board of Directors and the management of the company we extend a very warm welcome to all of you on this maiden Conference Call of MEP Infra Developers to discuss its earnings for the Quarter 1 of Financial Year 2015-16 along with full Financial Year 2014-15. We are at the cusp of an exciting start to a new chapter of our company. As many of you may be aware we have successfully culminated our Initial Public Offering in the Indian capital markets on 6th of May 2015 and received an encouraging response helping us raise Rs. 324 crores. Before we dwell upon our financial performance for Q1 and full Financial Year 2014-15 I would like to give you a brief introduction about ourselves particularly for the benefit of those who are not familiar with the company. MEP Infra Developers Ltd is one of the first few companies focusing to operate on pure toll collection business. The company commenced its operations in 2002 with a toll collection at the five entry points to Mumbai for a period of eight years till 2010. The company progressed into winning one of the largest contract at the Mumbai entry points which is OMT, which entitles the company of collecting tolls and maintenance of 27 flyovers and allied structures in the city of Mumbai for a period of 16 years until 2026. Today, the company is one of the leading players in OMT and toll collection in India having a successful operational track record of over 13 years and well diversified presence across 12 states in India. The company is prequalified by NHAI and various statutory corporations and government companies for multiple projects. Further, the company maintains strong relationships with statutory and government companies and primarily National Highway Authority of India, Ministry of Road Transport, MSRDC, Rajasthan State Road Development Company and RIDCOR along with HRBC which is government of West Bengal.

Till date, the company has successfully completed 82 projects including 141 toll plazas which consisted of 907 lanes. As on June 30, 2015 we have 21 operational projects including 14 toll collection projects, 5 long-term OMT projects and 1 BOT project. We maintain a good mix of short-term and long-term projects with our largest OMT being Mumbai contributing around 21% of total revenues for the Q1 FY16.

Commenting on the results we would like to highlight that the company turned cash profit positive in FY15 and achieved PAT breakeven in the Q1 FY16. I would now like to hand over the call to Mr. Murzash Manekshana our Executive Director to give us some insights on recent developments which are expected to create potential opportunities for the OMT and tolling operators like us. Over to Murzash.

Murzash Manekshana:

Good morning everybody, this is Murzash Manekshana. I am the Executive Director for MEP Infrastructure Developers. I would like to basically build upon what Mr. Mhaikar just mentioned that as a company we have been in operation now for over 13 years and we have invested into and developed a platform which pretty much makes us one of the leading operators in this pure tolling and the OMT space. We took the liberty and the opportunity to share a fairly detailed corporate presentation with everybody, this being our first interaction and our first call with all of you post our listing in May 2015 so, I would appreciate if you all went through the detailed presentation which gives a lot of detailed insight into our progress and development till date.

I would like to highlight that today MEP has built a sustainable platform which allows us to take advantage of going forward into the future with a great gust and a great kind of a positive approach to take advantage of the new developments that are being laid out in the road sector. As you will be aware there is a lot of activity at the ministry level wherein the government is basically in advanced stages to remove the bottlenecks that the road infrastructure sector has witnessed in the past 2 to 3 years and to progress on investing into road infrastructure going forward. There are two key approaches that they are following one is the hybrid annuity route and the other is the TOT or the Toll Operate and Transfer concept or route. I will spend a minute on each of those. Under hybrid annuity, as you are aware that government is aimed to try and ease the ability of private participants to participate in that sector and allow further investment and development to happen there. They have announced close to 15,000 kms to be awarded under the hybrid annuity BOT and EPC routes in FY16-17 out of which 80% is going to be under hybrid annuity route. So there are already 12 road projects that have been identified and shortlisted for hybrid annuity projects going forward and there are 15 road projects in FY17 aggregating approximately 1000 kms which they plan to basically award in FY17. The interesting part about this model is that apart from the initial EPC aspect of creating or building the road the future tolling of those roads is going to be retained by the government and handed over to specialized OMT players like ourselves and hence there is a large opportunity for leading OMT players like MEP to participate in that segment. In addition to this, as I had mentioned, there is a concept of Toll Operate and Transfer which is basically a concept where the government intends to securitize long-term tolling contracts in the range of 20-25 years plus depending on the size of the project and for which the maintenance and the tolling responsibilities are going to be handed over to specialized players like ourselves. To give you an idea the government has indicated that they are intending over the next 2 to 3 years to award projects to the tune of approximately 55 to 60,000 crores in this segment which again creates a huge opportunity space for specialized players like ourselves. So these two being the additional or new areas the ongoing tolling segment or portfolio which is already existing by way of short-

term tolling, long-term tolling both at NHAI and various state levels continues to exist and continues to give us an opportunity to participate and grow more aggressively going forward. Having said this background I would now hand over the call to Mr. Sankaranarayanan, our CFO, who will briefly walk you through our Q1 FY16 and FY15 numbers and post which we could have a Q&A session with all participants. Thank you.

M. Sankaranarayanan: Thank you. I'm Sankaranarayanan CFO of the company. I will take you through the financial performance of the company for Q1 and FY15. The consolidated turnover of the company for Q1 is 4833 million, the EBITDA margin for the quarter went up to 32% as compared to last year of 24% due to the higher contribution from the long-term projects. In the first-quarter the long-term projects contributed to 67 to 68% of the total consolidated revenue. This quarter, our company registered a first consolidated profit of 56 million for the quarter. Also, the consolidated net worth because of good performance, became positive around 845 million. The cash profit for Q1 FY16 is around 452 million after the IPO the proceeds have been utilized predominantly for repayment of debt to the extent of 81%. That impact on this will be into the profitability going forward and also in our SMYR, LLP a new SPV which has been formed to collect the toll tax in Delhi has started its commercial operations during the first quarter. Our Mumbai entry point also generated a cash profit in this first-quarter due to the impact on the toll hike as well as reduction of debt. With this I would like to hand it over for the purpose of question and answer.

Moderator: Thank you very much sir. We have the first question from Niraj Shah from GEC Investments. Please go ahead.

Niraj Shah: What was the traffic growth on the MIPL in the first quarter and what was the revenue growth because there was a toll hike, so was that effective for Q1 FY15?

Jayant Mhaikar: If you see the numbers of March 15 and March 14 apparently you see a growth of 13% in the revenue, that is largely on account of the six-month impact what we've got for MIPL project where there was the toll rate hike in the month of October 2014 so there has been a 13% revenue growth which has got enhanced over the last month as of March 15 is concerned.

Niraj Shah: This 13% growth in revenues was for the financial year?

Jayant Mhaikar: Yes.

Jayant Mhaikar: For June 2015, that is the Q1, if you see the revenues, we have clocked a revenue of 101 crores for the Mumbai project which is hardly has an impact of two things, the tariff growth and the traffic growth. Tariff growth happens in Mumbai project typically over every three years to the tune of 16 to 18% for tariff. Traffic growth what we have observed in Mumbai has been in the tune of around 6% on overall category including the cars.

Niraj Shah: Could you share any guidance for the annual revenues on MIPL, the likely revenues in Mumbai entry point?

- Jayant Mhaikar:** We expect the current run rate to be maintained.
- Niraj Shah:** Roughly around 6% we should take and full year impact of that 16 to 18% toll increase?
- Jayant Mhaikar:** Basically, if you see the Q1 numbers of MIPL, they are close to 101 crores; in the same run rate, we should have the total revenue close to around (+400).
- Niraj Shah:** What is the status on the claims of Chennai project?
- M. Sankaranarayanan:** On the Chennai project on the financial performance side, we have been recording the entire payment to authorities till October 2014. If you see that the net loss on account of Chennai till the financial year 2015 is around 443 million and from 1st October onwards, we have been recognizing whatever amount that we have been paying it to the authorities as an expenditure in the P&L due to which if you see, the total liability as per the concession agreement, we're not recording to the extent of around 23 crores for Q1.
- Niraj Shah:** Are there any updates on toll collections on projects in Maharashtra and what is the current status on this?
- Jayant Mhaikar:** As we all are aware State of Maharashtra effective June 1st, 2015 have given exemptions to cars at multiple locations including PWD and MSRTC project. As far as the reimbursement of the losses concerned to the entrepreneurs or the concessioners on account of those cars which are exempted the government to my understanding has already budgeted a certain number or a certain amount which will be paid to the concessioners over the next quarter or so. I think that is the update what we have.
- Murzash Manekshana:** I would like to just add to that the number of projects that have impacted by us as also disclosed by us at the time of our IPO effect is also is less than 2.5% for overall revenue it ranges between 12 to 14 crores which is the amount that we expect as a reimbursement from the authorities.
- Moderator:** We will take the next question from Dhaval Patel of Antique. Please go ahead.
- Dhaval Patel:** My first question is on the debt levels. As at the end of FY15, the debt levels remained elevated, however the interest cost has come down in the current quarter, so could you give us the debt as end of Q1?
- Murzash Manekshana:** What has happened is we got an IPO of 324 crores in May 2015 and we utilized close to 92.5% of the IPO proceeds towards debt repayment across our group, mainly in our Mumbai entry point SPV and in our other holding companies also. To answer your question as at Q1, the aggregate debt including our working capital and all limits not only long term project debt is 3000 crores. There has been a drop of close to 280 to 300 crores in our debt outstanding numbers.
- Dhaval Patel:** What is the average borrowing cost right now?

Murzash Manekshana: Our borrowing cost differs between types of funded line. For our long term projects, the Mumbai entry point which is the largest consolidation, our average borrowing cost is around 11.5% and on other projects where there is working capital or a shorter time term project, the average borrowing costs ranges between anywhere from 11.5% to 12-12.25%.

Dhaval Patel: If I look at the margins on the short-term, I understand the increase is also because the proportion of the long-term has increased in the revenue mix. But our short-term toll collection margins have also have improved substantially I think around 13% from 5%. What is the reason for the sharp jump?

Murzash Manekshana: Last year there were two projects where because of totally extraneous or very local situations, we experienced certain dips in revenues because of which those two short-term projects were not adequately profitable. Having said that, those projects have been completed and handed over to the authority and going forward, our current portfolio mix consists of very healthy profitable short-term projects.

Dhaval Patel: So we can expect this to continue at around 13%?

Murzash Manekshana: Absolutely.

Dhaval Patel: Could you explain the Toll Operate Transfer model? In the Toll Operate Transfer model primarily, the toll collection will remain with the government and we would only be given an OMT contract, basically the maintenance contract, so is there an upside potential for an OMT project where the revenues come to us with any increase in traffic. In that case the TOT will not come to us?

Jayant Mhaikar: Basically, the TOT policy is still under active preparation or largely prepared and model concession agreement would be out in a quarter or so to the best of our understanding. We understand that in the TOT that is Toll Operate Transfer there will be monetizing of close to (+100) projects which are currently operated by national highways on one-year short-term tolling would be offered for companies to bid for long-term monetizing. When I say upfront payment, the government expects to raise close to 50 to 60,000 odd crores over monetization of existing toll road assets. These assets largely will be given to companies who will be offering the highest upfront payment and also will be responsible for maintaining those section of highways for a period of anywhere between 20-25 years. So the upfront payment in terms of revenue will always come to the concessionaire.

Dhaval Patel: Basically, what you are trying to say is that it is more like an OMT project only because the concession risk has been taken by NHAI and is being transferred to a private player who would bid and take the project and then carry on the work?

Jayant Mhaikar: That is correct so the traffic risk is taken by the private concessioner while offering an upfront payment.

Dhaval Patel: So basically it is like an OMT project but the period has been increased substantially to almost 20 years or so?

Jayant Mhaikar: The only difference in TOT and OMT is in toll operate and transfer the payments to be made to the authority whereas in OMT it is on a monthly basis here it will be upfront.

Dhaval Patel: So this will be more capital intensive in nature in that sense?

Jayant Mhaikar: That is correct.

Dhaval Patel: Would we be bidding for these projects, because capital intensity can go up substantially if you bid for these projects. Would we be going in to the private player whoever is taking for the shorter term projects?

Jayant Mhaikar: I think if you see the kind of debt-equity is what we have been able to achieve in the past particularly that definitely gives us a lot of edge or a lot of ability to go and further do such large projects as we have done in Mumbai.

Moderator: We will take the next question from Ashish Shah. Please go ahead.

Ashish Shah: Could you tell me the status of Jammu-Udhampur OMT project which we had bagged, whether we have started collecting toll on this project and how much was the toll here?

Jayant Mhaikar: Basically Jammu-Udhampur project the company was declared as H1 by NHAI after bidding for the OMT. As we all know, that particular leg of the road which connects Jammu with the National Highway 1 and there is a small bypass as well has been under serious pressure in terms of inability by the existing contractors who were collecting toll for a period of one year for collection of toll because of the local concerns. The authority taking a clue from that and having experience at various states where they don't have a state support agreement and also have concerns from the overall tolling at the local level I finally decided to cancel that particular OMT and will shortly come out with OMT divide into two portions one particular leg of roads and balance would be the second section of the roads. So basically as of now the bid stands cancelled and we expect it to rebid soon.

Ashish Shah: Could you update on the status of the claim for the Chennai Bypass, what stage of resolution that claim is in?

Jayant Mhaikar: As we all are aware Chennai is a project which is an urban tolling project there were multiple entries and exits which were currently or even as we speak are unguarded on account of the lack of state support agreement by the authority with the State Government and also there were restrictions from collecting toll at particular entries which were allowed to be collected as per the concession agreement. The company has already lodged claims with the authority right from COD till today. There has been the Delhi High Court order which has predominantly mentioned about an amicable settlement between the authority and the company in May 2014, post that

there has been an assessment of loss which has been done or is being done by the authority which will eventually be settled against the premium payable by the company to the authority. The company has already written to the authority on multiple occasions to relieve itself of the obligations as NHAI does not have a state support agreement and which will enable the company to go ahead and fulfil its obligations. So as of now the claims are being quantified, post-quantification contracts will be pre-closed as per the request of the company.

Ashish Shah: As far as the accounting for this project goes, we are accounting revenues to the extent that we are actually collecting and to the extent that we are actually paying the authorities we are also providing for the payments to the authority, the difference which we were earlier recognizing and carrying as a payable in the balance sheet that you are not doing since 1st of November, is that the correct understanding of the accounting now?

Murzash Manekshana: Slightly different. One is that yes we have not recognized any claim that we have raised to NHAI since inception till date. We have only recognized the suppressed revenues that have been able to collect our only project. With respect to the contractual liability under the agreement we have recognized that contractual liability till 30th of October 2014, subsequent to which there has been an independent assessment that has been done and basically NHAI is in the final stages of determining what is the actual loss however, the initial draft of the independent engineer indicates that the amount is much higher than our claims and hence our auditors have been comfortable with not recognizing any further liability going forward as per the contract from them which has been adequately disclosed in the accounts and also in our Q1 results.

Ashish Shah: On the Delhi toll collection, a long-term toll collection project could you indicate whether you have actually started collecting toll and how much was the toll that you have collected?

Jayant Mhaikar: Basically we have started the Delhi entry point as a part of consortium which is SMYR consortium consisting of four companies. We commenced our operations in the month of May to be precise from 16th of May 2015. So we have got a revenue which has been already built-in in our Q1 results for 45 days is close to around 25% I would say the revenue of the consolidation what we have collected. Delhi we have been collecting close to around

Ashish Shah: 72 crores on a monthly basis and we would recognized our share of 25%?

Jayant Mhaikar: Yes.

Moderator: Thank you. As there are no further questions from the participants I now hand the floor back to Mr. Ashish Shah for closing comments.

Ashish Shah; On behalf of IDFC Securities we thank the management of MEP Infra Developers for giving us the opportunity to host this call. Also we apologize to all the participants and the managements for the slight delay in starting the call. Thank you very much.



*MEP Infrastructure Developers Limited
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Moderator: Thank you. On behalf of IDFC Securities Limited that concludes this conference call. Thank you for joining us and you may now disconnect your lines.