

Transcript

Conference Call of MEP Infrastructure Developers Limited

Event Date / Time : **26th May 2016, 4:30 PM IST**

Presentation Session

Moderator: Good evening ladies and gentlemen, I am Moumita, moderator for this conference. Welcome to MEP Infrastructure conference call hosted by Antique Stock Broking. We have with us today Mr. Jayant Mhaiskar, Vice Chairman and Managing Director, Mr. Murzash, Executive Director, Mr. Sankaranarayanan, CFO, and Ms. Manisha Bihani, from Investor Relations. At this moment all participant lines are in listen-only mode. Later, we will conduct a question and answer session. At that time if you have a question, please press * and 1 on your telephone keypad. Please note this conference is recorded. I would now like to hand over the floor to Mr. Jayant Mhaiskar for opening comments. Please go ahead sir.

Jayant Mhaiskar: Good evening everyone. I am Jayant Mhaiskar; on behalf of the board of the company and the management we extend a warm welcome to all of you, to the conference call of MEP Infra Developers to discuss its earnings for the fourth quarter and the financial year ending '15-'16. The year '15-'16 has been a momentous one for us. We began the year on a very encouraging note by successfully culminating our initial public offering in the Indian capital markets on 6th May 2015 raising Rs 3240 million. We displayed a strong business performance during the year along with a significant improvement in the operational profitability of the company. The finalization of regulations for the InvIT by the regulator is seen as a big boost to the infra space. InvIT are expected to help the infrastructure companies to release capital locked in the existing projects and redeploy it in newer opportunities. We ourselves have applied to the regulator for in-principle approval on the InvIT, which we expect to get shortly. We are hopeful of launching the InvIT trust during the current financial year, that is '16-'17, which in turn will lead to a significant reduction in our debt and further strengthening our balance sheet. Last, but importantly the most significant developments of FY16 was the company's venturing into the new business vertical of Hybrid Annuity Modeled projects where company has already bagged five projects. To give you a background on that, MEP along with its Spanish Joint Venture partner, Sanjose India Infrastructure Company, has been awarded three Hybrid Annuity road projects in the state of Maharashtra during March 2016 and we added to that another one in the month of April and one in the month of May, which is in Gujarat, which was a recent victory for

the company. The last Gujarat project we await the LOA, which is expected very shortly. The total order book of all five projects put together constitutes Rs 32323.1 million to be executed over the next 30 months from the appointed date. We would be completing close to 788.4 lane-km of road to be constructed, all five projects put together. We are currently working on the financial closure for these projects and are scheduled to complete the construction of these projects in the given timelines. These projects will not only provide us long term assured revenue visibility in the form of annuity payments over the next 15 years post COD, but also will give us a dual opportunity of bidding separately for tolling contracts post commencement of operations on these roads, which would be constructed by us. We are currently operating 16 long term and short term toll collection projects, 4 long OMT projects and one BOT project across eight states in the country. With the addition of these Hybrid Annuity projects to our existing portfolio we have gone a further step into strengthening our long term portfolio with healthy revenue visibility while maintaining our core philosophy of remaining asset light.

Talking on the sectorial developments, the infra space especially the road segment has witnessed a strong momentum during the last year with over 10000 km of national highway projects being awarded in the financial year FY16 by the Ministry and National Highways Authority, which signifies a jump of close to 25% over the year before. Majority of projects were awarded on EPC basis with only few projects being awarded as BOT. National Highways has also began awarding on the new Hybrid Annuity model from November 2015 with a total of 10 projects awarded till 31st of March 2016, worth Rs.74.5 billion and having a length of 377.7 km. 17 projects have been awarded till date by NHAI. For FY17 MORTH and NHAI have lined up 40% of total road projects to be awarded on Hybrid Annuity Model requirement, requiring an investment in excess of Rs.600 billion. Overall for FY17, the road Ministry has set an ambitious target of awarding 25000 km of national highway projects. The Union Budget for '16-'17 has already earmarked a total investment in roads of about Rs 970 billion, which will include budgetary support of Rs 550 billion, Rs 150 billion through NHAI bonds and balance of Rs 270 billion through the allocation of the Pradhan Mantri Gram Sadak Yojana from both Center and State. With this I would further like to hand over the phone to the CFO Mr. Sankaranarayanan for further question and answers. Thank you.

Sankaranarayanan: Thank you sir. I would like to first take you through the financial updates for this financial year FY16 and also for the quarter. Our company revenues were steady at Rs 20068.0 million with an enhanced contribution from the long term tolling projects and OMT projects like Mumbai Entry Point, RGSL, Kini-Tasawade projects. The EBITDA further went to Rs 5955.4 million and EBITDA margin increased by 597.6 bps to 29.7% due to the higher share of long

term projects entailing lower concessional payment obligations to the authorities and also due to a lower scheduled maintenance. And also in the current year, as you are aware, that we have utilized IPO proceeds for repayment of loans with our material subsidiary, Mumbai Entry Point. As a result of which the financial cost has declined by Rs 203.8 million in this financial year. We have seen a turnaround in our operations in FY16 generating PAT of Rs 263.3 mn vis-à-vis loss of Rs 1,153 mn in FY15. The consolidated net worth also turned positive this year. Now it is around Rs 1012.6 million. The Mumbai Entry Point also contributed higher revenues as compared to last year. It was Rs 4112 million as compared to Rs 3798 million last year. This project also gave a cash profit generation of Rs 438 million as against a cash loss of Rs 95.8 million last year. Overall, the company displayed significant improvement in the cash profit of Rs 1816.3 million as against Rs 452.0 million last year. As a part of amicable settlement our Chennai project was handed over to the authority on 9th April 2016. We have declared a dividend of 10 paise per share in the last quarter, in addition to a dividend of 10 paise per share in the second quarter, totaling 2% of face value for the full year. With that I would hand over the proceedings for question and answer.

Question and Answer Session

Moderator: Thank you sir. Ladies and gentlemen, we will now begin the question and answer session. If you have a question, please press * and 1 on your telephone keypad and wait for your turn to ask the question. If you would like to withdraw your request you may do so by pressing * and 1 again. Ladies and gentlemen, if you have any questions, please press * and 1 on your telephone keypad. Ladies and gentlemen, if you have any questions, please press * and 1 on your telephone keypad. Sir, our first question comes from Mr. Dhaval Patel from Antique Stock Broking, please go ahead sir.

Dhaval Patel: Congratulations sir first and foremost on the five Hybrid Annuity wins. Sir, my first question is can we get the toll collection numbers across the three or four key projects, Mumbai Entry Point, Madurai-Kanyakumari, Kini-Tasawade, and all for the quarter?

Sankaranarayanan: In Mumbai Entry Point it is roughly around Rs 4112 million, Hyderabad-Bangalore it is Rs 1424.5 million, in RGSL it is Rs 1137.4 million, in MK project it is Rs 1488.4 million, in Kini-Tasawade it is Rs 1648.1, and in HRBC it is around Rs 668.6 million.

Dhaval Patel: Okay, thank you so much sir. Sir, on the Chennai bypass, what is the amount of claims that we have filed?

Jayant Mhaiskar: We have not filed any separate claims for the fourth quarter; it remains in the same level of Rs 3397.3 million.

Dhaval Patel: Sir, and is there any debt on the projects?

Jayant Mhaiskar: There is no debt in Chennai.

Dhaval Patel: And when can be a resolution expected, I know, it is difficult to say, but what is it on this front?

**Murzash
Manekshana:**

I think we have made significant progress in Chennai. We have actually, as part of the amicable settlement with the authorities, handed over the operations of the Chennai project back to the authority on 9th April. Basically that was in light of making a step forward, significant step forward in terminating the ongoing dispute on the project and in moving towards an amicable settlement. We are expecting that we should be able to close this and come to an amicable decision by around second or third quarter of this year.

Dhaval Patel: Sure sir. Sir, and now going on to the Hybrid Annuity side of the projects, sir what is the appetite for taking up new projects?

**Murzash
Manekshana:**

So, as you are aware, we have had a good run or we are fairly successful. We are actually having the largest market share in Hybrid Annuity.

Dhaval Patel: Currently, we have five already, I think we started out with four, I think.

**Murzash
Manekshana:**

Yes. So, I think, currently we are being selective, we are evaluating the future pipeline that is coming through, but we will be selective in the projects that we will bid and pursue going forward because we believe we have got a very good set of projects already, out of the 4 projects that we have won in Maharashtra, two projects are contiguous by way of, there is Nagpur package 1 and package 2, which is the ring road of Nagpur and the other is on the Bombay-Goa, that is the Arawali-Kante-Wakad stretch. So these being contiguous projects, give a very good synergy and the upside in the implementation and in cost-savings of the project.

Dhaval Patel: In terms of the mobilization. Sure sir. Thank you so much sir, that's it from my side for now. I will come back in the queue if more.

**Murzash
Manekshana:** Thank you.

Moderator: Thank you sir. Ladies and gentlemen, if you have any questions, please press * and 1 on your telephone keypad. Sir, our next question comes from Mr. Dhaval Patel from Antique Stock Broking, please go ahead sir.

Dhaval Patel: Sir, again on the Hybrid Annuity only, I would like to delve a little more. Sir, who will be taking up the construction, we will be doing it ourselves or will we be subcontracting it?

**Murzash
Manekshana:** It is a combination of both, largely we will be doing it in-house through our EPC company, which we have established in joint venture with our JV partner and for certain aspects we may evaluate subcontracting the work to resident experts and teams at different sites.

Dhaval Patel: Okay...but largely with our team. And what is the kind of construction margins that we will make on these projects?

**Murzash
Manekshana:** We think that the margins should be in the range of around 10% to 12%.

Dhaval Patel: 10% kind of margins.

**Murzash
Manekshana:** EPC margins.

Dhaval Patel: Excluding the margins. So sir, for this equity requirement will we largely derive on InvITs or is there any other plan in place?

**Murzash
Manekshana:** No, so actually there is a combination of two things, we have a JV partner, which is 26% in four projects and 40% in Gujarat project. So the JV partner will be contributing their share of the equity.

**Murzash
Manekshana:** The balance is being raised by the promoters and the company where we will be infusing our own equity.

Dhaval Patel: So the promoters would be putting in an extra capital is what we are trying to say, right sir?

**Murzash
Manekshana:** So, it will be generated from the business as you correctly identified, from the InvIT. The equity also has to come over a period of next 2.5 to 3 years so the initial equity we have a plan in place where we are looking at refinancing our existing debt in MIPL and through the InvIT potential at the same asset level, plus we have certain recovery of advances that we have made, which will contribute towards the equity.

Dhaval Patel: Correct, there are these claims also of Rs 3397.3 million. If those come in, then there would be no problem anyways.

Murzash Manekshana: Yeah, so there are claims and advances that we have, which we hope to use for financing.

Dhaval Patel: Sure sir. Sir, and in terms of the financial closure, you must have already started talking to the banks, so then, what is the feeling that you are getting for these kind of projects? I mean, from the markets we have been hearing that some of the banks are reluctant in funding the hybrid annuity projects, but I think, once the construction is complete, this is the best structure, because NHA would be guaranteeing it.

Jayant Mhaiskar: The company has already bagged five projects for the Hybrid Annuity where 40% of the total project cost would be put in by the authorities. Balance 60% would be brought in by way of a debt/equity. The company has already received in-principle approval letters for two of the five projects from IIFCL. We expect in-principle approval for another two in couple of weeks from now. IIFCL, to my understanding has been appointed by Ministry/NHA as a nodal agency where IIFCL would be taking up the responsibility of doing the financial closure of most of the projects on Hybrid Annuity model going forward and they would be apparently one of the biggest syndicators of loans for Hybrid Annuity model going forward for both Ministry as well as NHA.

Dhaval Patel: Okay sir. So, there should not be any issue for most of these projects that come up, not just for us, but for others as well. Right sir?

Jayant Mhaiskar: Absolutely correct.

Dhaval Patel: Sure sir. Sir, and lastly on the TOT side, are we hearing anything? I mean, there was a lot of talk that happened from the ministry side on the TOT side of the business, Toll-Operate-Transfer, but after that I think it just died down after that. We have not heard anything on the Toll-Operate-Transfer side.

Murzash Manekshana: Dhaval, there is a, recently about two weeks back, there has been a revised model construction agreement that has been uploaded and shared, which has addressed several of the points that were submitted in the earlier draft earlier on the discussion, so there has been a significant movement on the fine-tuning or structuring, the concession period has been increased to 30 years, in addition to that there has been certain further addressing the issues around termination payment, around augmentation, responsibilities, maintenance, all those kind of things have been

fairly addressed. There are balance four or five key points still left, I think, which will get resolved, I doubt, in the current round of the draft that has been circulated. So there has been progress on TOT.

Dhaval Patel: Sure sir. Sir, and one last thing sir, what is the gross debt, including current maturities?

Murzash

Manekshana: The overall gross debt as of March '16 is Rs 30700 million, which has reduced significantly from Rs 33340 million as at last year.

Dhaval Patel: Yes sir, correct sir. Thank you so much, that's it from my side.

Murzash

Manekshana: Thank you.

Moderator:

Thank you sir. Ladies and gentlemen, if you have any questions, please press * and 1 on your telephone keypad. Ladies and gentlemen, if you have any questions, please press * and 1 on your telephone keypad. Sir, there are no further questions. Now I hand over the floor to Mr. Jayant Mhaiskar for closing comments. Please go ahead sir.

Jayant Mhaiskar: On behalf of the company and the management, we thank Antique Stock Broking for hosting this call. We also thank all the people who have logged in, investors, during this call. We expect a steady and robust growth out of the projects what the company has already achieved or has borne in the last couple of months. The total order book as we mentioned is Rs 32323.1million in the current scheme of things, which definitely we have couple of more projects, which financial results are awaited. Having said that, I think the company has begun the trajectory on a right note in this current financial year and we look forward for many more projects in short term/long term tolling. With this I thank all the investors and Antique Stock Broking once again for hosting this call. Thank you very much.

Moderator: Thank you sir. Ladies and gentlemen, this concludes your conference call for today. Thank you for participation and for using Door Sabha's conference call service. You may all disconnect your lines. Thank you and have a good evening.

Note:

- 1.This document has been edited to improve readability.
2. Blanks in this transcript represent inaudible or incomprehensible words.