



“MEP Infrastructure Developers Limited Q4 FY-19 Earnings Conference Call”

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Moderator: Ladies and gentlemen good day and welcome to the MEP Infrastructure Developers Limited Q4 FY19 earnings conference call. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing “*” then “0” on your touchtone phone. Please note that this conference is being recorded. On the call we have with us today Mr Jayant Mhaiskar -- Chairman, & Managing Director, MEP Infrastructure Developers Limited, Mr. Murzash Manekshana -- Deputy Managing Director, Mr. M. Sankaranarayanan -- Group CFO and Mr. Rajesh Sindhav -- Deputy CFO. I now hand over the conference over to Mr. Murzash Manekshana -- Deputy Managing Director for the introductory remarks. Thank you and over to you sir.

Murzash Manekshana: Thank you. Good afternoon ladies and gentlemen and a very warm welcome to MEP Infrastructure Developers Earnings Conference Call for the final Q4 quarter of FY2019 and for the full year end FY 2019. Commencing with the overall financial performance of the group. MEP closed FY19 with revenues from operations on a consolidated basis at Rs.2815 crores. This is a jump of around 21% vis-à-vis 2322 crores booked during FY18 the previous year. Profit before tax without exceptional items stood at around 1023 crores a jump of around 17.8% vis-à-vis 105 crores in the previous year.

On the overall projects’ perspective, MEP is currently undertaking 10 HAM projects, each at different stages of completion. The latest 4 HAM projects which we commenced were during the last quarter of FY19. Our Thane-Vadape project we commenced or got appointment date during end of January 2019 and the other last three projects which are Ausa- Chakur, Chakur-Loha, Loha-Warang, these three projects we have got appointed dates around 25th March 2019. The company has a very good size outstanding order book of approximately 6500 crores which it needs to be executed over the next couple of years. The group continues to operate its long-term pure tolling projects and OMT projects which is the Mumbai entry point project, the Rajiv Gandhi Sea Link project, Delhi Entry Point project and other OMT project which we are executing throughout the country. While our primary focus will be on timely completion of our existing HAM projects and efficient completion of our tolling projects. We shall continue to evaluate other HAM and EPC opportunities going forward during FY20.

The overall industry outlook from a road sector perspective seems very promising. During financial year 2019 which appears to have been the best year in the last decade as far as highway construction when the country is considered. The highway construction and expansion in the country touched around 10,800 kilometers or around 30 kilometers per day. Under the HAM space itself now around over 107 projects worth close to 1,20,000 crores covering over 6000 kilometers have been awarded. In addition to that currently there are around 32,000 crores worth of HAM projects yet in the process or pipeline for bidding going forward. The highway construction revenues of India are forecasted to grow at around 20% CAGR in the next couple of years touching close to 2 lakh kilometers of national highway to

be completed before 2022. This includes the ambitious Bharatmala Pariyojana Project which was announced recently by the government.

With the new government now ready to resume office for the second consecutive term we believe that it is extremely progressing times for the road infrastructure sector in the country and we are expecting a lot of good growth industry opportunities in the way forward. We are very excited to the new initiatives that the government proposal should take and are optimistic about the overall growth of our company as part of that sector.

With this overall industry overview, I will now hand over the call to our Group CFO – Mr. Sankaranarayanan who will give you certain specific inputs on our overall financial performance during FY 2019 and quarter four 2019. Thank you.

M. Sankaranarayanan:

Thank you sir. Good afternoon everybody. I will take you through the financial highlights of financial year FY19. The consolidated turnover of the company has increased by 21.20% to 28.15 billion as compared to 23.12 billion. There was substantial contribution from our Delhi entry point project which we call it as DEP and HRBC, RGSL and Mumbai entry point projects. The company achieved a revenue of 10.91 billion in Delhi entry point project, the turnover was slightly on the lower side on account of toll suspension for 53 days and also due to the opening of Eastern Express periphery and Western Express periphery.

The operating maintenance expenditure increased by 50% due to higher concession fee and toll attendant charges which is in line with the increased revenue because last year the Delhi entry point project was there was only six months. The employee benefit expenses increased 42% again the same reason, in addition to it there is an increased headcount on account of commencement of new HAM projects also. Depreciation and amortization breakup is, depreciation is 256.6 million and amortization is 4683.8 million.

The finance cost decreased by 1% due to the reduction in interest cost on account of repayment of loans in Mumbai entry point and also the IndAS adjustment which comes from decrease in finance cost on account of unwinding up trade payables. The PBT before exceptional items went up by 17.92% which is corresponding to the increase in the revenue. The PAT decreased to 559.75 million due to the exceptional item which we got it in the second quarter which is on account of additional interest levied by the subsidiaries lender on a retrospective effective since FY13 which is affected and that we have already represent to the lender. And for here in the current quarter the Board of Directors have recommended a dividend of 0.3 per equity share.

With this I hand over for question and answers. Thank you.

Moderator:

Thank you. Ladies and gentlemen we will now begin the question-and-answer session. The first question is from the line of Shravan Shah from Dolat Capital. Please go ahead.

- Shravan Shah:** Sir in terms of the HAM projects how many appointed dates we have got for how many HAM projects and whatever is remaining when we expect to get the appointed date?
- Murzash Manekshana:** I think as of now we have received appointed dates for all our 10 HAM projects. The last three projects we commenced as recently as 25th March so the real impact of it will come during the current financial year.
- Shravan Shah:** And what is the total equity required for this 10 HAM projects how much we have till now invested and how much we invested in FY19 and how much is remaining?
- Murzash Manekshana:** The total we will bifurcate into two, for six projects the total equity requirement from MEP was 400 out of which we had infused 315 odd crores the remaining is the balance which is somewhere around 85 plus. In case of four new projects the total requirement is 251.21 the infused amount is 121 and with a remaining about of approximately 130 crores. The remaining balance will be infused by our joint venture partners. Out of the six projects it is San Jose and other four projects it is Long Jian which is a Chinese company.
- Shravan Shah:** So, the remaining equity in the six HAM and the remaining in the four HAM both would be invested in FY20 or there is something which has to be in FY21 also?
- Murzash Manekshana:** I think there will be good amount of money also going into FY21. For the first six projects FY20 the equity will go through during the current year but out of the 130 crores required for the four new projects that you can take almost like a 50-50 kind of subject.
- Shravan Shah:** Okay. And how much more we have a capacity to bid for HAM projects this year?
- Murzash Manekshana:** I think if we are successful in monetizing the HAM projects which we intend to do closer to completion then we will have a good amount of equity capability or capacity to go and bid for a few more 1000 crores of work at least.
- Shravan Shah:** 1000 crores of HAM projects you can bid that is what you are saying or 1000 crores equity?
- Murzash Manekshana:** 1000 crores of few more 1000 crores of HAM projects I was mentioning so around two to three more 1000 crores of HAM projects we can again replenish.
- Shravan Shah:** So, when we are saying in terms of monetization so when we are expecting to complete the project and we will start the process of monetization post the COD or even before that also?
- Murzash Manekshana:** No, the process will start that is already in place we have already signed up sheets with particular fund we are in discussion with few others. So, the process is simultaneous we don't have to wait for COD to start the process.
- Shravan Shah:** So, this is for the older six HAM projects or how many projects are right now we are thinking to monetize?

- Murzash Manekshana:** There is opportunity also to monetize the four new HAM projects also while getting equity partners in that.
- Shravan Shah:** So, currently you mentioned in terms of the deal this is for older six HAM projects?
- Murzash Manekshana:** No, currently let's execute it in fact it's only for the six old HAM projects.
- Shravan Shah:** Okay. And in terms of the money to be received would be broader range when we will start receiving our equity?
- Murzash Manekshana:** I think closer to Q3-Q4 of FY20.
- Shravan Shah:** Okay. So, initially at least next one or two quarter we may not be aggressively in bidding the HAM projects?
- Murzash Manekshana:** No, I think the government itself will take some time to come out with the bids in next couple of weeks at least. And the whole thing will start picking up closer to September.
- Shravan Shah:** Okay. So, you do not expect many projects to be awarded till September?
- Murzash Manekshana:** I think, I really cannot give an opinion on that but the point I was trying to make was, even if the bids come out in the next quarter or couple of months by the time the bidding process gets completed and by the time the projects get financial closed appointment date is taken. These periods are anywhere ranging from nine months to one year so really any kind of equity requirement for any new bidding that we will do will be in my understanding close to 12 to 18 months out from today. So, we do not foresee any challenge in evaluating good projects and going after them.
- Moderator:** Thank you. The next question is from the line of Rachit Kamat from Anand Rathi. Please go ahead
- Rachit Kamat:** Just wanted to know the project status of the various HAM projects?
- M. Sankaranarayanan:** Roughly Nagpur one and two it is almost reaching the milestone number three which is somewhere in the range of 55 odd or something so that we will achieving the milestone number three. In Talaja Mahuva and Mahuva Kagavadar we should be achieving the milestone two shortly it is somewhere in the range of 35 and all. In Arawali Kante, Kante Waked we have completed 10% because the project got started delayedly because of the land issues with MRTH.
- Murzash Manekshana:** But we have extension of time on those two projects.
- Rachit Kamat:** Okay. You have received the extension that you were talking about last quarter?

- Murzash Manekshana:** Yes.
- Rachit Kamat:** And the newer projects they have not yet, in how much time would you see the first milestone hitting?
- Murzash Manekshana:** In the new projects actually the milestone requirement is 10% so we have commenced the particular running and I think it will take three months to four months for us to achieve the first milestone.
- Rachit Kamat:** Okay. Sir we were looking at a revised revenue guidance of around 28 to 30 billion which we have achieved. However we were expecting around 12 to 14 million of construction revenues which we have not seen construction activity happening. Obviously like last quarter you said that there were some problems at some project specific issues but even this quarter if we are seeing the revenues wouldn't have been much because Nagpur Ring Road the additional growth is just 5%. So, is there any kind of issue that been troubling the company?
- Murzash Manekshana:** So, there have been issues which we were hoping to have got resolved a few months earlier which are now largely resolved. So, yes there has been some delay or slowness that we have experienced in the last three, six months but hopefully during FY20 going forward we expect a good amount of catch up on the backlog and a consistent progress going forward.
- Rachit Kamat:** Okay. So, what kind of revenues we will looking at in FY20?
- Murzash Manekshana:** FY20 you are talking about the EPC revenues or?
- Rachit Kamat:** No, sir the EPC as well as the overall toll question included?
- Murzash Manekshana:** So, I think it's been close to around 1200 to 1500 crores.
- Rachit Kamat:** This will be EPC?
- Murzash Manekshana:** Yes.
- Rachit Kamat:** And how much will be looking on the toll sir?
- Murzash Manekshana:** So, toll again it totally depends on the projects that we have, for the toll projects that we have in hand we will look to have tolling revenues of close to around 1800 crores which is what we currently are clocking. So, there is Delhi entry points which is around 1150-1200 crores is Mumbai which is 500 crores plus and then there is RGSL which is at around 150 plus crores and then we have Hyderabad – Bangalore I am just naming the few top ones, big ones which is close to 200 crores. So, if you add all of them, we are already at around 1800 – 1900 crores.
- Rachit Kamat:** Sir by the way this Hyderabad – Bangalore project was out of commission for one month in the Q4. What cause the authority to suspend toll collection?

- Murzash Manekshana:** There were some onsite disputes that we had with the authority. We are in the process of resolving that.
- Rachit Kamat:** Sir what kind of debt are we at right now standalone and consol?
- M. Sankaranarayanan:** On consol books we have 2798 crores the closing balance of debt and standalone debt is around 400 crores.
- Rachit Kamat:** Okay. And what kind of cash in equivalence do we have right now?
- M. Sankaranarayanan:** Cash equivalence generally it goes, depending upon the requirement of what we have.
- Murzash Manekshana:** It totally goes towards repayment of all our loans and upfront payments and all that so we have quite low balances on that.
- Moderator:** Thank you. The next question is from the line of Giriraj Daga from KM Vesaria Family Trust. Please go ahead.
- Giriraj Daga:** Coupe of questions. So, what was our Delhi entry point EBITDA FY19?
- Murzash Manekshana:** Can you go ahead with the second one meanwhile we give you.
- Giriraj Daga:** The second one is that this year now what is your expectation on Delhi entry point, obviously and revenue on EBITDA since last year there was some 53 due to suspension, this year hopefully that is no there and the impact to this other peripheral road which has open up that is a second question, and third question is that if I had to look at the debt number would you be able to give me debt as of March 19 excluding the JV debt of HAM project and what was the debt number in FY18. So, basically, I want to understand that how the debt has moved except the HAM JV where the debt was supposed to be increased?
- Murzash Manekshana:** So, this debt number what we have given it to you is excluding the JV debt because around the consolidation the JV debt is outside the consolidation.
- Giriraj Daga:** Okay. What was the number previous year FY18?
- Murzash Manekshana:** 18 the number is around 3047 crores.
- M. Sankaranarayanan:** 3040 odd crores.
- Giriraj Daga:** So, we roughly paid about 250 crores this year?
- Murzash Manekshana:** No, we would have paid much more but there has also been some little working capital debt that has come on to the books as part of the EPC business. Which is not the project finance debt of the JV business which has been added during the year. So, the repayment has been a bit more than the net number.

- Giriraj Daga:** Okay. And this is also our target is to pay something similar to that or more than that?
- Murzash Manekshana:** More than that.
- Giriraj Daga:** How much if you have the number in mind?
- Murzash Manekshana:** I think the debt reduction will be close to around 250 crores plus.
- Giriraj Daga:** Okay. The other point on the Delhi entry point?
- Murzash Manekshana:** Delhi entry point the revenue estimates will be closer to 1250-1300 crores. And I am not too sure, we will just send you the details offline.
- Giriraj Daga:** Okay. My next question was on the EPC side of it we mentioned 1200 to 1400 crores. What was the FY21 if I have to look at based on the projects on hand assuming we do not get any new projects based on the projects on hand what can be the FY21 revenue based on the schedule completion?
- Murzash Manekshana:** I think it will be in the similar zone this is on the assumption that we do not add any more new projects, I am giving you on the wind down or any this portfolio basis. So, what happens is that each year the earlier projects get completed and that EPC revenue ceases and the new projects which we are executing kick in with respect to the final stages and the higher numbers. So, it should be around 1500-1600 only.
- Giriraj Daga:** But we have this order book of 6000 crores, right?
- Murzash Manekshana:** Yes, over the two and a half year.
- Giriraj Daga:** Yes, then ideally the run rate should be higher about more than 2000 crores isn't it?
- Murzash Manekshana:** Yes, it should be closer I am giving you a conservative number it should be closer to 15 to 1800 crores yes.
- Giriraj Daga:** Okay. And my last thing would you be able to guide on Delhi entry point EBITDA for next year FY20?
- Murzash Manekshana:** Yes, so basically there is low small debt so really the PBT it will equate to EBITDA largely because the debt is just around 50-60 crores on the project. So, I think from an EBITDA percentage perspective it will be around 8 or 9%.
- Giriraj Daga:** You are saying EBITDA on Delhi entry point for this year?
- Murzash Manekshana:** Yes.

- Moderator:** Thank you. The next question is from the line of Lokesh Kashikar from Yes Securities. Please go ahead.
- Alok Deora:** I just had couple of questions, one was on the industry pipeline. So, when do you see the industry pipeline sort of opening up and you starting to bid or bid for projects and when are those projects are likely to be awarded?
- Murzash Manekshana:** So, as I mentioned earlier. I think industry pipeline you are talking about for HAM projects or tolling projects?
- Alok Deora:** For both and even for EPC, as in the total industry pipeline?
- Murzash Manekshana:** So, if you look at it the short term tolling contracts there are approximately 1.5, sorry.
- M. Sankaranarayanan:** We have given a detail about the upcoming project pipeline slide number #12 if you can refer that it will be easy.
- Alok Deora:** No, I was asking about the timeline for the same.
- Murzash Manekshana:** Timeline I think given the kind of energy we have all seen yesterday in the results I suspect there will be a hastened roll out of various good things to happen so I feel in the next couple of months itself there should be big programs and big bidding pipelines that should be announced with respect to road infrastructure at least.
- Alok Deora:** Sure. And one question was what the order inflow outlook now because since FY19 was also comparatively weaker as compared to FY18 in terms of the projects awarded. So, the competition intensity would be very high at least in the initial few months when the new projects the bidding opens or new projects.
- Murzash Manekshana:** I don't think so because I think the same thing will hold good what it held two to three years back is that the total construction revenues forecasted are expected to grow at over 20% and close to 2 lakh kilometers on national highway were expected to be completed out of which 1 lakh only has been bided out so the total HAM project that have been bided out till now have a total worth of around 1, 20, 000 crores if you look at many of the players there is a good amount of unexecuted order book that is still pending on their books so really the hunger or the appetite to go and aggressively bid is not there so, I would sort of not be as skeptical as, I would think that it should not be too competitive even going forward.
- Alok Deora:** Sure. Just one last question from my end. So, whatever interactions we have had with the other participants and the officials from NHI and MORTH the sense we are getting is that the EPC mode would be sort of more preferred in the near to medium term as compared to the BOT of the HAM model. So, what is your take on that and whether you are open to sort of bidding for non-HAM projects?

Murzash Manekshana: I think as long as we maintain reasonable pricing and viability on the projects we would be open to getting into EPC going forward, we do not have a problem against that. BOT I think we may still stay away from.

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

Rachit Kamat: Just one question sir. Your construction revenues have been consistently showing 20% kind of margin in the last few quarters and even in 2Q FY18. So, understanding the fact that you contract a large portion of the work outside to other contractors, could you explain to me as to how this 25% or 22% came across last quarter and this quarter?

Murzash Manekshana: In EPC contracts actually how we do it is because we also provide the respective materials to the respective contractors and they work on that. So, basically the margin is on a higher side than if you do a back to back contract.

Rachit Kamat: Okay. So, what kind of margins are you looking at for your EPC business?

Murzash Manekshana: Similar whatever in the EPC what we have given the guidance so far it is around that, around 14 or 15% on overall all put together I am saying.

Moderator: Thank you. As there are no further questions, I now hand the conference over to Mr. Murzash Manekshana for his closing comments.

Murzash Manekshana: On behalf of the MEP and the management we thank everybody who has made time to get on our call this afternoon. And we look forward to having your interaction during our next quarterly call. Thank you everybody.

Moderator: Thank you. Ladies and gentlemen, on behalf of MEP Infrastructure Developers Limited, that concludes this conference. Thank you for joining us and you may now disconnect your lines. Thank you.