MEP Infra

- **Mr. Jayant Mhaiskar – Vice Chairman & Managing Director**

- Good afternoon everybody and warm welcome to all of you. On behalf of MEP Infrastructure Developers we thank you to participate on our Earnings Conference Call for the first quarter of financial year 2016-17. To begin with MEP's financials have been prepared in accordance with the Indian accounting standard from 1st of April 2016 along with the comparative information for 2015-16. The impact of the adoption of Ind AS has been disclosed in the earnings presentation that is uploaded on the exchanges and also our website and has also been circulated with all the investor community.

- Some key financial highlights of the first quarter were that we closed the first quarter with revenues in the line of Rs. 461 crores odd which remained in more or less in line with the Q1 of FY `16 despite some of our long term projects having matured before first quarter of FY `17. Our EBIT reported during this quarter was Rs. 99 crores vis-a-vis Rs. 108 crores in FY `16 Q1 and we have all reported a PAT of around Rs. 36 crores odd which is a significant jump from last year due to a one-off adjustment which Mr. Sankaranarayanan will dwell upon going forward. As you may already be aware we currently operate 14 long term and short term toll collection projects, 3 long term OMT projects and 1 long term BOT project across 8 states in the country.

- Our recent foray into the Hybrid Annuity space further strengthens our long term revenue visibility while maintaining our core philosophy of remaining an asset like model. Details of the projects added and completed till date have also been included in the presentation provided to all of you. We made a great start to the current financial year by being awarded one additional Hybrid Annuity project in Maharashtra and 2 more projects in Gujarat. It gives us great pleasure to share that with the consolidated awards of 6 projects we command a leadership position in the Hybrid Annuity space with an order book value of around Rs. 3,827 crores which translates into a market share of roughly 19%. We are geared to efficiently achieve these milestones defined in furtherance of our HAM projects and have also received in principle approval from banks for financial closure of all the 6 projects. We anticipate the starting from September to December 2016, financial closures for all the projects should be achieved in a gradual phased manner. The Board has recently approved raising the authorised share capital of the company to Rs. 300 crores and fund raising through preferential or a rights issue. The promoters are bound and are also looking to infuse a substantial portion of the required capital to meet the equity requirements in line with the Hybrid Annuity projects.

- Talking on the sectoral development we have witnessed a considerable reversal in projects awarded over the previous decade with a period of FY `06-`12 being largely dominated by awards of BOT projects to a time starting FY `13 where EPC has been in the forefront and gaining momentum, again quickly followed up by the Hybrid Annuity Model while there has been a mass deterioration in the BOT awards. National Highways and Ministry have awarded close to 25 projects under the new Hybrid Annuity Model since November last year worth Rs. 201.8 billion and 4,245 lane kilometres, so that is Rs. 20,000 crores to be constructed over the next few years. For the year FY `17 Ministry and NHAI have lined up 40% of total projects to be awarded under the Hybrid Annuity Model requiring investment of close to Rs. 600 billion. Overall, FY `17 the Road Ministry has set an ambitious target of awarding 25,000 kilometers of National Highway projects. The cabinet committee of economic affairs recently gave an approval to monetise the publicly funded projects under the TOT space. 75 tolling projects have been preidentified and should be potentially available for monetising under the new model. Bundling of the projects would be done considering geographical proximity or while ensuring the minimum investment side. The government is expecting to raise close to 80 to 1 lac crores under the phase scheme. I would like Mr. Sankaranarayanan now to dwell on the financials of the company. Over to you Sankar.

- **Mr. M. Sankaranarayanan – Chief Financial Officer**

- Thank you sir. Good afternoon everybody, I will just take you through the impact on the adoption of IND AS and also on the quarterly highlights on financial statements. First to begin with the impact on IND AS on financial reporting, as you know that the MEP financials have been so far prepared in accordance with generally accepted accounting principles in India which is called the Ind GAAP until the last financial year. However now it is required to be mandatorily prepared under IND AS from 1st April 2016 along with the comparative information for 2015-16 for the year. The transition date is 1st April 2015. As you know this requirement has come because our networth for holding companies is more than Rs. 5 billion. So the significant differences which I have summarised. As per IND AS all toll collection rights post 1st April 2015 are required to be accounted as intangibles under IND AS 38 as against to debit to P&L as a concession fee. The revenue based amortisation for the existing toll assets will continue since we have chosen a deemed cost exemption for the existing projects. In case of new toll collection projects, the toll collection rights have to be amortised under space line basis and the liability will be recorded upfront. Earlier we used to debit as and when we pay and recognise the liability and clear it off.

- Another major impact is under the recognition of provision of major maintenance obligation. For our OMT projects the major maintenance obligation needs to be provided equally from the commercial operation date of each project till the date of actual expenditure. In case of IR it was supposed to be debited to P&L in the year it was incurred. These provisions which are required to be made prior to the transition dates are adjusted against the retained earnings. And furthermore there are 1 or 2 more differences like any fees on loan processing, arrangement fee, lender fee and all would be required to be amortised over the term of the tenure of the loan as against charging of in the respective year. Lastly any loans provided or received by the company with a ballooning rate of interest needs to be recorded at an effective rate of interest.

- Now I will take you through the quarterly financial highlights. On Q1 FY `17 the revenues were almost stable as compared to Q1 FY `16 that is due to higher contributions from our MIPL projects and RGSL, HRBC and Hyderabad-Bangalore projects. If you compare the current quarter vis-a-vis last year the RIDCOR project was completed on 31st March 2016 and the Chennai project got handed over on 8th April, 2016 that is why there is a small kind of lull and then it is almost flat. The PAT stood at Rs. 357 million on Q1 FY `17 as against Rs. 22.1 million on FY `16 after the one-off spend on IND AS and after the impact of IND AS. The finance cost for this quarter got reduced by 410 bps, as you are aware the MEP project has been handed over to the authority on 25th August 2016 as part of an amicable settlement process. Consequently the provisions relating to MMR or maintenance obligation which was debited to the reserves as well as to the P&L for last year have been reversed back in this current quarter and shown as an exceptional item in the financial statements.

- As a result the company adopting to IND AS the signle maintenance obligations under OMT projects have to be provided equally in all financial years since I have already discussed upon. Hence there is a provision impact for HB and BTBL in Mumbai entry points on this particular quarter. The MIPL, Mumbai entry point project data yielded better results as compared to last year because of effective management of cost. And in case of IFCL we got that particular 269.9 crores loans disbursed taking the total takeout finance scheme to 679.9 crores. That has been done by reducing the rate of interest to 10.1% with also a little bit ease in the EMI obligation. The company has also recognised some claims of 37.9 million during Q1 FY ’17 in this quarter.

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

- **Moderator**

- Thank you. We will not begin with the question and answer session. Anyone who wishes to ask a question you may press * and 1 on your touch tone telephone. If you wish to remove yourself from the question queue you may press * and 2. Participants are requested to only use handsets while asking a question. Ladies and gentlemen we will wait for a moment while the question queue assembles.

- A reminder to all the participants, if you wish to ask a question you may press * and 1 at this time. We take the first question from the line of Prem Khurana from Anand Rathi. Please go ahead.

- **Mr. Prem Khurana – Anand Rathi**

- Yeah hi good afternoon sir. Sir my question was with respect to the accounting changes we made due to migration to IND AS. So does it mean that the number that we get to see, I mean operating expenses do not include any payment that we need to pay to your authorities? As in it has been classified as depreciation and for all the other projects be it long term and OMT projects, it still appears to be a part of your operating expenses?

- **Mr. M. Sankaranarayanan – Chief Financial Officer**

- Yeah in case of adoption of this particular standard particularly on the one year toll in contract where you have been debiting to P&L as a concession fees so far, now has to be shown as an intangible asset and has to be amortized towards the length of the project. So if it is one year so it has to be amortized over a period of 1 year. In case of our existing contracts like Mumbai entry point as well as HRBC and other projects on BTPL, will be continued to be amortized in the same fashion which we are doing it as we have gone for a deemed cost exemption.

- **Mr. Prem Khurana – Anand Rathi**

- Sure. And if you get any new projects will it also come under the new scheme? As in you would have to look…

- **Mr. M. Sankaranarayanan – Chief Financial Officer**

- New projects it will be taken as intangible and straight line amortization will happen. It will not go to the concession fee.

- **Mr. Prem Khurana – Anand Rathi**

- Okay, okay. And second one I was going through the annual report and it seems our mobilization advances to some third party seems to have gone up. I mean given the fact that we have seen Chennai going back I mean even your Madurai-Kanyakumari we only surrendered it now. So why would this number go up? I mean essentially it needs to be only one project right, which is your Mumbai entry point. Given the fact that I mean it's almost 500 odd crore rupees of mobilization advance, seems to be on a higher side for a single project to be given as a mobilisation advance.

- **Mr. M. Sankaranarayanan – Chief Financial Officer**

- No, actually it is not a single project. Now we have two projects which is one is Hyderabad-Bangalore, we have to perform the major maintenance obligation in the joint financial year and the next year. And in case of Mumbai entry point it is continued over a period of time. The MK project whatever was the mobilisation advance given, so since the project has been handed over the amount will come back.

- **Mr. Prem Khurana – Anand Rathi**

- Okay.

- **Mr. Murzash – Executive Director**

- And Prem just to add, this is Murzash.

- **Mr. Prem Khurana – Anand Rathi**

- Hi.

- **Mr. Murzash – Executive Director**

- Hi. Basically if you see the Chennai project which was handed over earlier we have been able to recover the mobilization advance on that project in due course and that has gone down adequately. As Sankar just mentioned we have handed over the Madurai-Kanyakumari project only recently and we are in talks to wind that advance down. What has also attributed to the increase is that there is another project that we have had which is MEP toll that we have given advances to IT companies and to certain tolling equipment companies in relation to the rollout of toll equipment projects across the board. So that has also added to a slight increase in the current quarter. So as a net off as the business goes along, you are actually right as businesses, as mobilizations get completed, I mean major activities get completed, mobilisation advance gets wound down. And in exceptional cases where we have handed over projects, we have been able to recover those advances back. So it is pretty much in tune or line with the way business has been advanced.

- **Mr. Prem Khurana – Anand Rathi**

- How do you see this number come down by next quarter because of this Madurai-Kanyakumari? I mean how much…

- **Mr. Murzash – Executive Director**

- Yeah so I think definitely not next quarter immediately, but by around financial year end, substantially that number I think should drop by almost 100 crores.

- **Mr. Prem Khurana – Anand Rathi**

- 100 odd crores. Sure. And it's been a while since we've been able to get some of these annuity projects. So would you have numbers to share now in terms of what kind of equity requirement would be there and what kind of EPC would come to as in how much would go to our partner?

- **Mr. Murzash – Executive Director**

- Sure. So basically the way we are proposing to go about it is if you see all the 6 projects put together we have an aggregated big project cost of around 3800 crores. So total EPC work to be done is around 3500 crores. Out of which as Mr. Mhaiskar mentioned we are in advance stages of financial closure across all the 6 projects. So the indicative equity requirement is coming to the zone of around 12-15% which is around 530-555 crores. Out of which this money of course has to be bought over the life of the project, we have our JV partner San Jose India, who is going to contribute 26% across 4 projects and 40% across 2 projects. So the substantial component comes from there. As we have also mentioned to you, we have taken our board approval for undertaking a preferential allotment/rights issue to certain existing shareholders and certain maybe you know fresh investors. Having – so that itself will achieve the upfront equity requirement from the project. So we have a fairly visible and a chalked out game plan to meet the necessary funding requirements on all of these projects.

- **Mr. Prem Khurana – Anand Rathi**

- Okay. And we also have some loans extended to ITIPL, I mean 330 odd crores rupees. So why to look at rights issue, preferential issue? I mean since promoters are reporting money in this entity, why not promoters put in money in that entity and kind of prepay the loan that is kind of due?

- **Mr. Murzash – Executive Director**

- Sure. Unfortunately as you are familiar with our legal structure, we have separate legal entity statuses with different lenders and different kind of compulsions on each SPV level. So at this point in time the capitalisation needs to happen at the MEP IDBL level wherein we are bringing in the money, capitalising that for purposes of putting equity into the new SPVs which also has a sort of a JV partner. So it is not a question of bringing in money and from the earlier contract, but it is a fresh capitalisation that will necessarily be required to be done.

- **Mr. Prem Khurana – Anand Rathi**

- Okay sure thank you. That's it from my end.

- **Mr. Murzash – Executive Director**

- Sure.

- **Moderator**

- Thank you. Before we take the next question a reminder to the participants, if you wish to ask a question you may press * and 1 at this time. We take the next question from the line of Padmaja Ambekar from Bank of Baroda. Please go ahead.

- **Ms. Padmaja Ambekar – Bank of Baroda**

- Good morning sir. Sir I would just like to know what kind of margins we expect going forward?

- **Mr. Murzash – Executive Director**

- On the (HAM) projects?

- **Ms. Padmaja Ambekar – Bank of Baroda**

- Yeah.

- **Mr. Murzash – Executive Director**

- Yeah we are expecting a – conservatively we are expecting margins for around 14 to 15% on the EPC side. And that is the reason I mean why I want to necessarily want to emphasise I mentioned conservatively because as you are aware our projects we have been lucky to get continuous projects on our EPC portfolio. And as a result of which there is a lot of savings that are potentially possible on economies of scale, economies of operation, and even from overhead savings and all of that. So we feel that they are eventual combined margin should be in excess of 16-18% but we are conservatively continuing to work and project at 14-15%.

- **Ms. Padmaja Ambekar – Bank of Baroda**

- Okay. And can you just throw some light on TOT projects?

- **Mr. Jayant Mhaiskar – Vice Chairman & Managing Director**

- Hi good afternoon. TOT is the new model which the cabinet recently approved around 2 and half weeks. The TOT model would predominantly operate on the assets which are currently functional. When I say functional these are operating toll roads spread across various stretches in the country today. The current list of 75 projects what the government has announced is operating toll roads which will be packaged in clusters and those would be awarded for a period of between 20 to 30 years for potential investors who will be responsible for maintaining those project highways and also collecting those tolls with the upfront payment which the government will be earning out of this particular project. The total expected quantum in terms of bidding likely to happen in the next year would be close to around 75 to 1 lac crore as we mentioned earlier.

- **Ms. Padmaja Ambekar – Bank of Baroda**

- Okay, okay, thank you.

- **Moderator**

- Thank you. A reminder to the participants, if you wish to ask a question you may press * and 1 at this time.

- **Mr. Kunal Sheth – Prabhudas Lilladher**

- Hello? Hi sir this is Kunal here. I have a question. Hello?

- **Mr. Murzash – Executive Director**

- Yes please go ahead.

- **Mr. Kunal Sheth – Prabhudas Lilladher**

- Yeah. Two things sir. First of all if you can throw some light on how has been the competitive intensity especially on the HAM projects that we have seen recently?

- **Mr. Murzash – Executive Director**

- Sure. I think on the HAM projects initially the competition was quite muted. People were watching how other people performed. However if you see as we progressed towards the Gujarat Packages which were subsequently bidded out, you know there were almost, bidders were in numbers of double digits and all reputed large bidders. So but having said that I don't think that there has been any irrational or too competitive bidding or pricing done because if you see the types of bids and the types of numbers that people have been submitting, there is a fair amount of contingency that has been kept for cost escalations, delays and there has been a fair amount of margin also that has been anticipated in the projected numbers. So while the number of players have gradually increased towards the subsequent projects or the recent projects, the bidding has not been any kind of irrational or under-bidding – most of these bids have gone higher than what NHAI has estimated EPC at. So I think it's a fairly good playing field right now and we hope that it continues to remain that way.

- **Mr. Kunal Sheth – Prabhudas Lilladher**

- Sure. And sir how has been your interaction with the bankers? What are the apprehensions they have shown in funding these projects? Though I understand that our projects are financially close but generally what are the key apprehensions that are coming through in funding a HAM project?

- **Mr. Jayant Mhaiskar – Vice Chairman & Managing Director**

- Hi, basically as far as the HAM project funding is concerned, as I mentioned we have got in-principle approval for all the 6 projects what the company has bagged. We expect to achieve the financial closure for phase 1 and 2 somewhere in mid-October and that is when the appointed date starts. As far as the challenges are concerned in the HAM projects there were a few concerns which were voiced by the lenders in the last I would say 1 quarter to 6 months' time wherein the ministry has worked alongside with the lenders in order to mitigate those particular concerns. And those concerns have been predominantly answered. To just name a few things is basically on the termination payment or on the milestones or also on the mobilization advance. All these concerns which were voiced by the lenders have been fairly addressed and which gives the comfort to the lenders to participate in the bids going forward and also in achieving the financial closures for the bids which are currently awarded.

- **Mr. Kunal Sheth – Prabhudas Lilladher**

- Sure sir, thank you so much.

- **Moderator**

- Thank you. We take the next question from the line of Abhilasha Sathale from First Global. Please go ahead.

- **Ms. Abhilasha Sathale – First Global**

- Hello? Sir I have a couple of questions like what kind of debt equity are you looking at while implementing the projects these HAM projects and all? How is debt and equity will be managed at the medium term level? And second one is can you give us some visibility in terms of long term and TOT projects? What kind of order inflows we are looking at? And how is likely to be revenue growth in the medium term for these projects?

- **Mr. Murzash – Executive Director**

- Sure. Thank you. I think from the HAM perspective I would like to add that the current debt equity ratio that's seems to be acceptable banks is around 25-75 equity to debt for the debt component. I am not counting the 40% grant that is going to come from NHAI. So around 15% of the equity of the project is going to be contributed as equity and 45% will come in as debt. With respect to the debt that is going to flow out, as Mr. Mhaiskar mentioned, the manner in which the lenders have raised a concern and NHAI and ministry has reacted to those, lenders are fairly comfortable with coming in with upfront equity requirement and then pro-rata over the life contribution along with NHAI master on payments. With respect to TOT I think the current clustering is not yet finalised but indicative clustering has been indicated. And we think over there too given that these are brownfield operation roads and some of the concerns with respect to variabilities ion predictions maybe addressed by NHAI, we expect again a 20:80 kind of an equity-debt kind of a ratio for those projects too. We are actively monitoring that space and right now it might be a bit difficult to predict what kind of revenue attrition might come in thanks to the TOT business because we don't know what are the ticket sizes for the clustering that eventually will pan out by the government. But we are actively monitoring that space and we will look to participate on a selective basis. With respect to HAM also we are in the process of consolidating our 6 projects. And once we have commenced our 6 projects for financial closure, we will definitely look to watch this space more.

- **Ms. Abhilasha Sathale – First Global**

- Okay. Sir what is visibility on long term projects then? How many are we bidding, are in the bidding stage as of now and I mean what kind of debt feasibility are we seeing on that front?

- **Mr. Jayant Mhaiskar – Vice Chairman & Managing Director**

- Sure. Hi. Basically as far as the long term bidding is concerned, predominantly the way the company is currently operating within 2 or 3 specific buckets. One is the short term 1 year tolling a majority of which we expect to get transformed into the new TOT model which is anywhere between 20 to 25 years. Having said that also along with that the newer roads which are being constructed are I would say being redeveloped by the government are additional one year projects which the company would keep on bidding. As far as long term is concerned we would clearly have two focused areas to work on. One is the hybrid annuity model where the company has gone into the development phases of the roads with 6 orders in hand which has a life of 15 plus 2 and half years of construction. And TOT projects which has a shelf life of around 20-25 years is in the current scheme of things as it looks. So in terms of visibility we have a fairly good visibility in terms our projects in hand and the bidding pipeline is very robust which allows us to further enhance the number of bids on the long term basis.

- **Ms. Abhilasha Sathale – First Global**

- Okay. Thanks sir, thank you.

- **Moderator**

- Thank you. We take the next question from the line of Prem Khurana from Anand Rathi. Please go ahead.

- **Mr. Prem Khurana – Anand Rathi**

- Yeah hi. Sir couple of book keeping questions. One was how much of the debt as of now? And second one will you be able to share toll collection numbers for top 5 projects? As in basically OMT projects to be precise.

- **Mr. M. Sankaranarayanan – Chief Financial Officer**

- Yeah sure. The total debt numbers on a consolidated basis is 3063 crores. On a standalone basis it is 430 crores. In case of turnovers for few projects, the whole it is 1792 million, Mumbai entry point is 1069 million, Hyderabad-Bangalore 378 million, IGSL 294 million.

- **Mr. Prem Khurana – Anand Rathi**

- Okay sure thank you.

- **Mr. M. Sankaranarayanan – Chief Financial Officer**

- Yeah.

- **Moderator**

- Thank you. A reminder to the participants, if you wish to ask a question you may press * and 1 at this time. We take the next question from the line of Kunal Sheth, please go ahead.

- **Mr. Kunal Sheth – Prabhudas Lilladher**

- Yeah hi sir. Just quickly if you can throw some light on the debt repayment schedule in cash flows, how are they – in terms of are they sufficient for the near term cash debt repayment schedule?

- **Mr. M. Sankaranarayanan – Chief Financial Officer**

- Yeah actually if you see the cash profits, it is adequate to cover the required future obligations of debt repayments which we have in line. Mostly the projects are in Mumbai entry point which has got a substantial debt of 2400 crores plus. And it is pretty adequate going forward also.

- **Mr. Kunal Sheth – Prabhudas Lilladher**

- Sir but what is the absolute number of debt repayment in FY ’17 and ’18 sir?

- **Mr. M. Sankaranarayanan – Chief Financial Officer**

- So it is close to around 100 crores for this financial year.

- **Mr. Kunal Sheth – Prabhudas Lilladher**

- Okay. And FY ’18?

- **Mr. M. Sankaranarayanan – Chief Financial Officer**

- So it goes on a ballooning basis. It is more than 100 and 150 but it increases on every October. It operates on an October-September basis.

- **Mr. Kunal Sheth – Prabhudas Lilladher**

- Okay, okay, okay, okay. Sure sir thank you so much.

- Moderator

- Thank you. That was the last question. I now hand the conference over to the management for their closing comments.

- **Mr. Murzash – Executive Director**

- Hello? Yeah thank you very much to everybody for joining on our first quarter call and we look forward to having you all again at the next quarter and hopefully we will reach everybody during the interim. Thank you so much and good day.

- **Moderator**

- Thank you. On behalf of Prabhudas Lilladher Private Limited that concludes this conference. Thank you for joining us and you may now disconnect your lines.