



“MEP Infrastructure Developers Limited
Q2 FY2019 Earnings Conference Call”

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ANANDRATHI



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Moderator: Good day ladies and gentlemen and welcome to the Q2 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 an 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 Kamath from Anand Rathi Shares & Stock Brokers. Thank you and over to you Sir!

Rachit Kamat: On behalf of Anand Rathi Shares & Stock Brokers, I welcome all the participants to the MEP Infrastructure’s Earnings Conference Call for Q2 FY2019. From the management, we have 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, I will pass on the call to the management. Over to you Sir!

Murzash Manekshana: Thank you Rachit. Good afternoon everybody and welcome all to the second quarter earnings of MEP Infrastructure Developers Limited. I apologized for the slight delay in start and thank you for your patience. We will now commence our call.

The company closed the quarter with revenue on a consolidated basis at Rs.592 Crores with an EBIT of Rs.151 Crores and a PAT of Rs.31.58 Crores that is prior to an exceptional item that we booked during the current quarter of Rs.30.9 Crores. On half-yearly basis, there may be clocked in revenues of Rs.1434 Crores with an EBIT of Rs.317 Crores and PAT prior to exceptional item mentioned above of Rs.58 Crores. This quarter gone by has experienced reasonable monsoons with some of our project sites have we experienced slightly higher than usual range leading to a slight slowdown in construction, which we would target to make up over the next two quarters. Our Nagpur package however did attain second milestone in the second quarter. Our timelines to attain financial closure for four new HAM projects is end of November, mid December and our team is working closely with the bankers on closure formalities for the same. We are quite confident that we will achieve the timeline for financial closure for the four projects.

We should thereby announce the appointed dates depending on how NHAI hands those projects over to us. On the tolling side we now operate three long-term projects, two short-term projects, three OMT projects and one BOT projects. I may also spend a minute to mention that our largest toll collection project Delhi entry point had a slow down in revenues due to suspension of toll collection for a period of 53 days due to implementation of EPC system. This was a diktat or instruction issued by the authority, which we have implemented. The tolling has resumed from October 1, 2018 and we would generate normal

revenues over the rest of the period or rest of the year. Further toll collection at three plazas at Mumbai entry point was also disruptive for 23 days claims of which have already been launched with authority and we expect to receive the amounts soon. From industry perspective, we expect intensive issuing of orders over the next few months after lackluster first half with NHAI expecting to boost the overall order activity. As mentioned over our previous calls, we will continue to bid for lucrative tolling and HAM projects while we would also selectively evaluate forthcoming EPC opportunities, which we find suitable. With this, I would now hand over the call to our CFO, Mr. Sankaranarayanan to give you specific insights of the company financials for the Q2. Over to your Sankar!

Sankaranarayanan: Thank you Sir. Good afternoon all. I will just take you through the consolidated financial highlights of first half FY2019. The revenue stood at 14 billion, it grew up by 77% as compared to the last H1. It is due to the substantial contribution from Delhi entry point as well as the construction revenue. As MM Sir was mentioning, it is post adjustment of impact of Delhi 53 days of suspension plus 23 days of exemption for toll collection for LMV vehicles from Mumbai entry points. In line with the increasing revenue the construction fee also went up and the toll attendant charges went up that is the reason for the increase in the two-fold increase of O&M expenses. The finance charges remain flat during the year if you deep dive into the details because of RGSL, there has been an increase in the interest cost and which is offsetted by MIPL that is Mumbai entry point and also there is a reduction in unwinding of payables of Hyderabad and Bengaluru. The other expenses grew up by 61% it is because of the increase in traveling on account of commencement of Delhi as well as CMS facility for Mumbai and Delhi, etc. We have also given the details of depreciation and amortization details in the results attached, which we entered in SEBI. The PBT before exceptional item grew to 114%. With this I hand over back to the question and answers.

Moderator: Thank you very much. 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: Thank you. Sir regarding the initial six HAM projects just wanted to know how much individually in terms of physical progress we have done for each of those six projects?

M. Sankaranarayanan: Nagpur I and II we have already achieved the second milestone.

Shravan Shah: Second milestone is it 40% physical progress am I right?

M. Sankaranarayanan: Earlier achieved in the second quarter end of the first quarter itself, now it is somewhere close to around 40% or 50% range in case of Talaja-Mahuva we have achieved the first milestone recently and Mahuva-Kagavadar earlier itself in the last year itself I think we

have achieved it is almost close to the second milestone. Arawali-Kante-Kante Waked started because of the monsoon there was no construction activity during the monsoon. It has restarted after the construction, so we will be achieving it in sometime.

Shravan Shah: If I look at all the six projects actually they are running behind the schedule am I right?

Murzash Manekshana: Two projects in Mumbai, Goa are slightly behind schedule and that is because of the delayed appointed date that we have received from the authority and other issues around fee cutting permission has been delayed and all of those kind of things. In Gujarat one of the projects is slightly delayed otherwise we are fairly on track and we hope to be able to achieve the required timelines.

Shravan Shah: All the projects on an average we would be completing on schedule from the appointed date whatever that two-and-a-half year or 2 year completion period is so we will be completing all the six HAM projects as per schedule time?

M. Sankaranarayanan: Yes we are targeting towards that.

Shravan Shah: Second thing Sir just wanted to in terms for understanding purpose just wanted to understand all the six HAM projects our TPC total project cost is equal to big project cost am I right?

M. Sankaranarayanan: No actually if you go by the strict definition in the concession agreement, the BPC is the big project cost that is the cost on which you win the project and on which you are bidding L1 and L2 is decided in some way, EPC is 60% of BPC as per the concession agreement definition. I do not know in which context you are referring this to.

Shravan Shah: No I was referring into that context when normally when we do FC so if I just go by equity plus date plus grant so that total is it less than the BPC or is it equal to the BPC?

M. Sankaranarayanan: It is all equal to BPC full.

Shravan Shah: So in that scenario also in terms of the IRR equity for SPV level, how much are we expecting?

M. Sankaranarayanan: I think equity IRR we are expecting in higher teens and in couple of projects in low 20s.

Shravan Shah: In the range of 16%, 18% kind of IRR that we are expecting at SPV level?

M. Sankaranarayanan: Yes.

- Shravan Shah:** For the remaining four projects in terms of there also TPC also would be in the range of BPC not where we see other industry players there the TPC is normally 10%, 15% lower than the BPC?
- M. Sankaranarayanan:** No we are looking to the financial closure for the full BPC.
- Shravan Shah:** There also we are looking at banks and not the NBFC for the financial closure?
- M. Sankaranarayanan:** No infrastructure institutions and banks.
- Shravan Shah:** Hopefully the interest rate would be in the same 9.75 odd range would be there?
- M. Sankaranarayanan:** It is around 10.5%.
- Shravan Shah:** That is it from my side. Thank you.
- Moderator:** Thank you. The next question is from the line of Rachit Kamath from Anand Rathi Shares & Stock Brokers. Please go ahead.
- Rachit Kamath:** Good afternoon Sir. I just wanted to know what is our current debt position in the standalone and the gross consolidated level?
- Murzash Manekshana:** The current debt position is Rs.2935 Crores.
- Rachit Kamath:** This is on standalone?
- Murzash Manekshana:** No this is consolidated and standalone is Rs.440 Crores.
- Rachit Kamath:** Sir how much cash do we have?
- M. Sankaranarayanan:** Cash and cash equivalent I think closer to Rs.100 Crores in the balance sheet.
- Rachit Kamath:** I wanted to know what kind of guidance are we looking at for the whole FY2019 and FY2020-2021 onwards?
- M. Sankaranarayanan:** When you say guidance?
- Rachit Kamath:** Revenue and EBITDA?
- M. Sankaranarayanan:** I think from revenue perspective we are targeting to be closer to Rs.2800 Crores to Rs.3000 Crores including the EPC revenue and the tolling revenue.

Rachit Kamath: If I could have a breakup of your tolling versus EPC revenues as to what are we looking at?

M. Sankaranarayanan: EPC revenues we are looking to be in the range of around Rs.1400 Crores, balance is tolling.

Rachit Kamath: Sure and Sir FY2020 can we have estimate?

M. Sankaranarayanan: We will prefer to give that to you offline.

Rachit Kamath: Sure Sir. Sir what kind of an enclosed situation like opportunity landscape are we looking at right now?

M. Sankaranarayanan: I think whatever is to happen now with respect to announcing of projects and stuff like that will happen before February if you ask me there is a good amount of push both on last stake of HAM and some of the EPC projects. Once we go towards general election, I think there will be a lull for the next three months post February and it will take time before the budget and all that sets in June and July and I think post that only we will get a further kind of visibility on the other projects.

Rachit Kamath: Sir is there kind of a landscape we are looking at in the immediate future as in the next few months?

M. Sankaranarayanan: Did you mean additional projects?

Rachit Kamath: Yes.

M. Sankaranarayanan: As I said once we operationalize and we sort of kick start our four projects that we have on hand with financial closure and everything else in the last quarter of the year we will look to bid for a couple of more projects to add to our pipeline for the forthcoming years.

Rachit Kamath: That is all from my side. Thank you.

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

Parthiv Jhonsa: I understand that you had a couple of extraordinary items and your major toll revenues and all had some kind of disruption so being in the industry any noise on the same things repeating going forward for the third and fourth quarter?

M. Sankaranarayanan: If you look at the specific reasons let us look at tolling per se, tolling in Delhi was one time event where the RFID Installation was required to be done on the toll plazas because of

which the authority shut the plaza for I think around 53 days, so I do not think that kind of disruption as such it is kind of diktat on intended event. With respect to Mumbai entry point also there is a bypass around the city of Mumbai called Mundra bypass, which was under renovation, which happens on periodic bases once every four years, so because of which there was lot of diversion of traffic coming to Mumbai because of which there was some stoppage of toll collection on both plazas and stuff like that; however, that is an event, which we will put a claim for two MSRDC, so both these cases I do not think are repeatable in the next few quarters or years to come.

Parthiv Jhonsa: Sir the next one is on the debt I can see your debt has been reduced from FY2018 to the half year any plans to further reduce going forward?

M. Sankaranarayanan: We are always very keen to optimize or reduce debt as we move along, there will be substantial reduction because the repayment of Mumbai entry point asset, which is the largest chunk of our debt portfolio and the Rajiv Gandhi Sea Link over the next two years will balloon, so there will be I think step up kind of a speed in which the debt will get repaid, this on the assumption that we do not need to take any further working capital or other project level debt depending on the projects that we win.

Parthiv Jhonsa: Your guidance for 2019 about Rs.2800, Rs.3000 Crores, which you give for the company that is really amazing. Anything you can guide for the industry per se like how the industry is growing and everything going forward for 2020, 2021, 2022 just a broad perspective about the industry, I do not want any kind of guidance for 2020, but just a broad prospective?

M. Sankaranarayanan: The good part about the industry that we are in is it is fairly inelastic in its growth trajectory because irrespective of which political power comes in the center, the focus towards infrastructure development in the country give in and any party will use it as a industry or a sector to demonstrate what they are doing for the country, hence we are in the unique position where I do not apart from minor timeline by three months, four months delays or slowdowns I do not think the roll out of infrastructure in the country is going to be changed at all, so to that extent the prospect continues to look very good, there are significant amount of roads yet left to be enhanced, developed and converted into express ways highways, so on the EPC and HAM side I do not see any potential slowdown in the amount of projects that could come over the next three or four years if you ask me and the good news is that NHAI is not only addressing its current portfolio, but aggressively taking over state highway portfolios, so once you do that, that number multiply exponentially so we are quite positive with the sector outlook for 2021 also.

- Moderator:** Thank you. I would request Mr. Jhonsa to come back in queue for followup question. We will move to our next question, which is from the line of Ashish Shah from IDFC Securities. Please go ahead.
- Ashish Shah:** Sir just a couple of things one you did mention about the claim that you plan to launch for the loss of toll in the Mumbai entry point how was Delhi when you say that it is one-time event, but is it not like possible for you to claim that had they envisaged this at the beginning of the contract?
- M. Sankaranarayanan:** No, unfortunately it was not envisaged and we have already put in claim, we put in two claims, we have put in a claim on our operating loss cost revenue and we have also put in a claim for loss of profit; however, as you are familiar with authorities on these things have not they are considering it and however it has not yet been done, so to answer your question the claim has already been launched. We have not considered it in the revenue, but in the profit is not there.
- Ashish Shah:** Sure. Just this instillation of these e-tolling systems, so was this specified in the original scope of work or this is an entirely new thing that they came up with that they wanted you to install this?
- M. Sankaranarayanan:** As electronic implementation of toll plaza was envisaged, but the scale and timeline within which they sort of decided to implement it was not necessarily preplanned if you understand what I am saying.
- Ashish Shah:** Sure. Second in regards to the FC for the newer HAMs, you did mention that the interest rate will be in the vicinity of 10.5, how are the other terms like debt equity mix and the conditions around the upfront requirement of equity investment and any other terms that are different from what they used to be in the previous HAM projects?
- M. Sankaranarayanan:** Sure. We are hopeful, why I say hopeful is because we are in advance our documentation stage for our financial closures and we are happy to share that we have improved on our terms as compared to our own six earlier HAM projects and what we understand also is that from an industry perspective it is fairly competitive, so to put in specifics our earlier HAM projects we are closed at 75:25 debt equity ratio, we are managing to tie-up this indication at 80:20 debt equity ratio. More so the upfront equity requirement also we have been able to break it down into 25 and to a straight 50 that was required earlier upfront and there are certain other good clauses, which I can share with you specific list with Ashish separately.

Ashish Shah: Sure. Sir basically the conclusion that you are giving is that the terms are not necessarily onerous based on whatever is feared in the market as the terms are getting very onerous for the financial closures?

M. Sankaranarayanan: I will not say that they are not getting onerous, but we are lucky enough to have tied it up a little sooner or better, so fingers crossed I do not want to stay much more until we announce unless there is a banker lurking on this call.

Ashish Shah: On the equity side could you just give an update on what is the equity, which is invested in the projects so far and what would be the schedule like for let us say balance of 2019, 2020 and may be 2021, let us say the new HAM projects?

M. Sankaranarayanan: As you are aware we needed to on paper infused for the first time project Rs.575 Crores of total equity, which was split as close to around Rs.400 Crores from MEP's contribution, Rs.175 Crores is San Jose's contribution. On an aggregate or a consolidated basis out of 575 we have already infused Rs.419 Crores till date so we have another year-and-a-half to infuse the balance, but the good news is that potentially we may not require to infuse that entire balance because of two reasons, one is that on the old contracts we have got a fairly good WPI, CPI increase and the other is they were also bid in the previous year, so there is a GST claim also that is going through. A combination of which is potentially hopefully giving us a little arbitrage to subsidize some of our equity commitments. With respect to the new projects going forward, we have our old projects portfolio maturing periodically over the next year or 6 to 18 months, which will enable us to securitize/sell those assets at SPV level, we have already announced a potential term sheet with one of the investors and likewise we also have interests from several other investors on our existing and new portfolio both, so we see that as a good source to supplement the potential equity infusion going forward over the next few years. We are also internally working towards reworking our debt capital structure to see how we can generate more surplus and use that towards our equity contributions for the new projects.

Moderator: Thank you. I would request Mr. Shah to come back in queue for followup questions. The next question is from the line of Shravan Shah from Dolat Capital. Please go ahead.

Shravan Shah: Sir continuing to the Ashish question Sir when we are saying the equity we have infused it Rs.419 Crores out of that our share was how much that we have invested?

M. Sankaranarayanan: Rs.308 Crores is our share, San Jose's share is Rs.111 Crores.

Shravan Shah: When we are saying the likelihood that we are not suppose to put in the balance, for us it would be close to Rs.91 Crores that we will not be required to put in because of the GST?

M. Sankaranarayanan: I did not say that we will not be required to put the balance 91, I said there will be some savings we may not be able to require to put the entire amount that is what I meant.

Shravan Shah: In terms of rough range would be the saving would be around Rs.40 Crores, Rs.50 Crores?

M. Sankaranarayanan: Around Rs.60 Crores, Rs.70 Crores.

Shravan Shah: When we would be having a final confirmation, are we need any confirmation from the NHAI side, what is pending, in terms of the time period when we will come to know?

M. Sankaranarayanan: It will evolve over the next few months and I think hopefully by next quarter we should be able to give better finality of what the ultimate requirement will be.

Shravan Shah: Whatever the adjusting HAM projects where our construction is going on whenever we achieve the milestone and we raise the bill to NHAI how many days it takes NHAI to pay?

M. Sankaranarayanan: Unfortunately we have had a varying experience on that.

Shravan Shah: May be the latest one the last bill when we raise and in how many days have we received?

M. Sankaranarayanan: That has been quite some time it took us almost around three to four weeks for that.

Shravan Shah: Three to four weeks.

M. Sankaranarayanan: Earlier it was very much better.

Shravan Shah: Earlier it was one week or 10 days?

M. Sankaranarayanan: Yes.

Shravan Shah: So is it just administrative delay or from the NHAI side or they asking something or has something new in terms of procedure level has been introduced and that is why it is getting delayed?

M. Sankaranarayanan: I think it is more administrative internal to NHAI with respect to that coordination with PDRO and central level and it is a combination of that more than any requirement as such there is nothing like that.

Shravan Shah: Are we also bidding for Baroda-Delhi expressway any of the 25 packages?

M. Sankaranarayanan: We are looking at it, we are studying it.

Shravan Shah: Is there any deadline whatever they have initially or whatever the tender right now is doing, is it the same or still they are getting delayed?

M. Sankaranarayanan: I would not like to comment on that because I think there may be slight extensions on that to be honest.

Shravan Shah: Whatever in presentation we have mentioned in terms of NHAI HAM pipeline so how much in terms of our strategy and how many projects are in terms of value, are we planning to bid or may be the target is ultimately how much are we planning to get the new HAM projects?

M. Sankaranarayanan: Honestly it is difficult to bid for projects with the aim of adding.

Shravan Shah: I understand.

M. Sankaranarayanan: Just get the projects in the idea of increasing markets work order or market share, but we would like to as we have mentioned on our earlier calls look to add 4000 Crores of projects each year because by the time the project starts and by the time the project ends or earlier portfolio sort of starts getting completed and wound down, so there is a net increment of around a couple of 1000 per year, which is what we are targeting.

Shravan Shah: All the new four HAM projects are in terms of the first year ONM I was not able to get that number is it in the Rs.3 Crores, Rs.4 Crores, Rs.5 Crores range?

M. Sankaranarayanan: That is the O&M number that we have.

Shravan Shah: For new four HAM projects O&M would be in the range of Rs.3 Crores, Rs.4 Crores, Rs.5 Crores?

M. Sankaranarayanan: That is the number we have bid for.

Shravan Shah: Sir just trying to understand on that part when we quote the O&M, which is slightly on the lower side, I hope the actual O&M would be definitely on the higher side when it actually happens then in that case how come the TPC is equal to BPC so ultimately what happens is it should then result the SPV level single digit IRR should be there and just trying to understand conceptually correct me if am I wrong?

M. Sankaranarayanan: It is function of two, three things as I said your annuities will also, it is actually getting too deep into the detail of how HAM works, but I will just try and brief about it. Today if you have Rs.100 project cost, which you expect to be inflated to Rs.108, Rs.110, Rs.115 by the

end of that project, 60% of that increase will be added to your annuity and you will get along with the interest on that over the life of the annuity period, which goes plus you have 25% of your equity potentially 25% of the annuity is your equity component, which will potentially come through on that period also, so both of these cash flows are there to supplement the O&M annuity that you bid for.

Shravan Shah: I understand, but that is where my question is if whatever you are saying I am agreeing to that is right so in that case the actual funding should happen 10%, 15% lower than what you have quoted at the BPC so that SPV should have sufficient cash flow so whenever you want to churn at least you should be able to get one time otherwise what is happening is when you are doing FC at the BPC and the normal EPC for us is 90%, 91% so all the money is shifting from the SPV to the standalone entity so then the SPV is suffering from the lower IRR so that is what I am trying to understand.

M. Sankaranarayanan: It is the same group today there is any shortfall in the SPV the sponsor is the standalone of the Holdco, so I do not think you can see that as two separate entities.

Shravan Shah: That is it. Thank you.

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

Parthiv Jhonsa: Just checking my question for the future projection forward I just have one small question, will the margins be similar to what we are seeing right now on EBIT and PAT levels?

M. Sankaranarayanan: For the four new HAM projects?

Parthiv Jhonsa: For the projections what you gave I am just clubbing everything together on consolidated basis, so Rs.2800, Rs.3000 Crores what projections you gave for the current year, can the EBIT and PAT margin be almost on the same level what we have seen historically?

M. Sankaranarayanan: I think there will be minor compression.

Parthiv Jhonsa: That is the only thing I wanted to ask. Thank you so much Sir.

Moderator: Thank you. Ladies and gentlemen that was the last question. I now hand the conference over to Mr. Rachit Kamath for closing comments.

Rachit Kamath: No I do not have any comments per se. I pass it on to the management. Over to you Sir!



MEP Infrastructure Developers Limited
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Murzash Manekshana: Thank you Rachit. Thank you everybody for attending our Q2 concall and we wish everybody a very happy Diwali in advance and a good holiday season and we look forward to having you all back on our third quarter call. Thank you so much.

Moderator: Thank you. On behalf of Anand Rathi Shares & Stock Brokers that concludes this conference. Thank you for joining us. You may now disconnect your lines.