



“MEP Infrastructure Developers Limited Q3 FY17 Earnings Conference Call”

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Moderator: Ladies and gentlemen, good day and welcome to the MEP Infrastructure Developers Limited Q3 FY17 earnings conference call hosted by Nirmal Bang Institutional Equities Private Limited. 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 the operator by pressing “*” then “0” on your touchtone phone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Mangesh Bhadang from Nirmal Bang Institutional Equities. Thank you and over to you Sir!

Mangesh Bhadang: Hello good afternoon everyone and welcome to the Q3 FY17 earnings conference call of MEP Infrastructure Limited. Today we have with us Mr. Jayant D. Mhaiskar – VC and MD of the company, Mr. Murzash Manekshana – Executive Director, Mr M. Sankaranarayanan – CFO, and Mr. Rohit Wade, Senior Manager - Project Finance. I would now like to hand over the conference to Mr. Mhaiskar for initial remarks on the quarter gone by, which will then be followed by the Q&A session. Over to you Sir!

Jayant D. Mhaiskar: Good afternoon everyone and warm welcome on behalf of MEP. We thank you for participating in our earnings call for the Q3 of the financial year 2016-17. We closed the third quarter of the current financial year with the revenue on consolidated basis at INR 389 crore with EBIT of INR 125.8 crore and PAT of 0.9 crore, vis-a-vis the nine month basis our consolidated revenue stands at INR 1,297.45 crore with EBIT of INR 371.78 crore and PAT of INR 96.68 crore. As you maybe aware, the toll collection was suspended during the period between November 9, 2016 and December 2, 2016 post demonetisation, this has impacted the financials during the quarter across all projects. In the current quarter, we are seeing good traction in terms of the traffic growth on both national highways and also urban tolling. We have already initiated with the authorities, RIDCOR, NHA and MSRDC, on account of all the claims due towards the suspension of the toll collections. The claim amount of INR 88 crore has already been submitted. We have raised claims for relief in concession fee payable plus operating cost and loss on account of profit. Under the long-term OMT concession, there are specific clauses and provisions, which enable to address any change in law or force majeure events. First clause specifies the manner of compensation to be awarded to the concessionaire in the event thereof in the loss of revenue or additional cost incurred on account of any change of law or force majeure events. The state tolling concession agreement also has specific clauses, which address the issue of laws due to change in law or force majeure events. Apart from this, in the third quarter, we have completed and won the rebidding of our long-term toll collection project at the Kalyan-Shilphata road in Maharashtra for a period of 156 weeks, which is three years post COD. We also have completed and handed over one of our short-term toll collection projects at Surjapur in West Bengal. Along with this, we now have nine short-term projects, which are

one-year projects, three-year long-term tolling projects, three OMT projects, and six hybrid annuity projects where construction has started. We have completed our project tenure of Rajiv Gandhi Sea Link on 1 February 2017 and currently under extension period the bids are likely to be submitted in the current month for a period of three years going forward. As you may be aware, the company has been awarded six hybrid annuity projects due to which the company continues to maintain a leadership position in the hybrid annuity space as of date. With an order book of close to INR 3,837 crore, which translates into a market share of 12%. We are extremely happy to announce that we have achieved financial closure for four of our hybrid annuity projects and are in the final stages of financial closure for the balance two. We also have received the appointed date for the first two projects and anticipate receiving the appointed date for the balance two projects where financial closure has been done. Talking about the overall sectoral developments, as we all are aware that the recent government budget has been very encouraging and most important focus for this year's budget was on the infrastructure development of the country. The center's infrastructure outlet especially towards the road sector continues to I would say go north. The government has budgeted INR 64,000 crore to be spent in the financial year 2018, which is nearly 24% higher compared to the financial year 2017. NHAI has announced that they planned to award 10%-15% more projects approximately 5,000-5,200 kms of road projects in the current financial year as compared to awarding 4,500 kms in FY2016. As on December 2016, 2,678 kms have been awarded out of which nearly 40% have been under the hybrid annuity mechanism. There is an order pipeline of close to INR 26,000 crore expected over the next few months and MEP will strategically participate in few of these projects. With regard to the toll operate transfer model, 75 tolling projects of approximately 4,500 kms in length has been identified under the TOT model with the concession period in excess of 25 years. The government is expecting to raise funds under TOT of approximately INR 80,000-1,00,000 Crores in the next year or two. As per the recent announcement, the government has received a positive response from foreign institutional investors and the first tranche of 10 projects will be bidded out by April. We are in discussion with similar institutions, which are keen in this model and will evaluate the opportunity either individually or jointly. With that said, we are extremely optimistic and excited on the infra growth of the country and believe that MEP is going to play a very vital role in the years to come. I now hand over the call to our CFO Mr. Sankaranarayan to give you specific details about the financials for the Q3 under review. Thank you.

M. Sankaranarayanan: Thank you Sir! I will now take you through the nine months financial highlights for FY2017, the revenues have declined at INR 1,298 crore for nine months FY2017 vis-à-vis INR 1,397 crore for FY16, this is due to two things. One is we have successfully completed RIDCOR and Kini Tasawade projects and we have also handed over some of the projects like Madurai-Kanyakumari and Chennai during the financial year and also as told by Mr.

Mhaiskar, there was a temporary suspension of toll collection, which has also impacted the revenues slightly and the EBIT has also declined to that effect. Because of the lower turnover, the EBIT margins have declined by 340 BPS and also due to slightly higher operating cost and employee cost. To make it more clear, we have already hired the entire operating team for civil which has gone into the employee cost, so going forward when we start recognizing the numbers on the construction side, it will start offsetting against each other. As Mr. Mhaiskar said, the toll collection was temporarily suspended on account of demonetisation from 9 November 2016 to 2 December 2016, due to which the company and subsidiaries have claimed the total compensation of INR 88 crore. This has been done in two methods; it is recognized under other operating revenue INR 50 crore and adjusted against the depreciation and amortization INR 38 crore. In the current practice of scheme of things, due to Ind-AS, all our concession fee payable to the authority has been recognized as intangibles. Continuing on Ind-AS, we need to recognize the significant maintenance obligations on OMT projects like Hyderabad–Bengaluru, Mumbai entry point, and Baramati from the date of commencement till the actual expenditure is done, so for this particular nine months we have provided INR 23.5 crore in the financial statements. Finance cost is reduced, but there is also Ind-AS adjustment, which has been clarified in the slide #10. With this I hand over back for question and answers. Thank you.

Moderator: Sir shall we open up for questions?

Jayant D. Mhaiskar: Yes please.

Moderator: Thank you. Ladies and gentlemen we will now begin the question and answer session. We will take the first question from the line of Mangesh Bhadang from Nirmal Bang. Please go ahead.

Mangesh Bhadang: Hello Sir. Sir actually congratulations on good set of numbers despite this being a very challenging quarter. Sir my question is regarding HAM, I think you have already started booking some EPC revenue so what is your outlook on, can we just say based on, would you be able to basically confirm with that timelines that have been given for these projects and what is the outlook of the last two projects were in the financial closure has not been achieved yet?

M. Manekshana: Good afternoon. I would answer this question in two parts. The company has bagged six hybrid annuity projects as we all are aware, four of them have achieved the financial closure, the last two that is Gujarat set of project we are in the documentation phase where we expect the documentation to be done over the next 8-10 days, post which we should be able to announce the financial closure. As far as the existing four projects are concerned, we already have got appointed date for Nagpur I and Nagpur II, which is the outer ring road

where the company has started booking the construction revenue, a part of it has also been booked I would say in the Q3. As far as Arawali Kante and Kante Wakad where financial closure has been already achieved, we expect the construction revenue to be booked a part of starting from this quarter and also for the Gujarat two projects we expect the construction revenue are very little in this quarter because we expect the appointed date anywhere before 31 March 2017; so we should be able to book construction revenue for all the six hybrid annuity projects in the current quarter. The substantial booking will start post March when the actual spending on those projects in terms of EPC numbers will start gathering in the Q1 of the next financial year.

- Mangesh Bhadang:** Here you had not been following the percentage completion method for accounting right?
- M. Sankaranarayanan:** We are following the percentage of completion accounting method. For hybrid annuity projects the receivables will be taken as financial receivable.
- Mangesh Bhadang:** Got it. That is it from my side.
- Moderator:** Thank you. The next question is from the line of Prem Khurana from Anand Rathi. Please go ahead.
- Prem Khurana:** Good afternoon Sir! Thank you for taking my question. First question was with respect to the claims that we have booked during the quarter so basically I mean the claims have been booked during the quarter pertains to what I mean if I want to go by NHAI notification had said you are allowed to claim amount only for O&M and finance cost and as I see it I mean given the fact that short-term toll collection project would not have any finance cost and O&M would be small amount so does it mean we booked numbers based on October and November or how is the map being worked out there?
- M. Manekshana:** I think different types of projects have different approaches for claims depending on the terms and conditions in the construction agreements that are there contracted, so there are certain projects where the concession fee payable to the authority, there is a rebate or reduction in that amount or liability that is payable. In addition to that, there is notification or instruction to allow claims also for operating expenses, so there are other projects where we may have paid upfront to the authorities, in that scenario it is based on average revenue collected in the previous periods and there are certain scenarios where it is a combination of that, so it is a combination of what is there in the construction agreement and combination of certain overriding circulars or policies that the authorities may be coming up to deal specifically with the demonetisation issue as an exception.

- Prem Khurana:** If I have to understand, you still have some claims, which would be booked in the coming year rather I mean you will get to some extension in concession period, wherever you are now able to take that traffic numbers on average for October or for any other month right?
- M. Manekshana:** Yes, we are not claiming right now and we need to claim by way of extension of concession period, it is combination as I said of various things.
- Prem Khurana:** When do we expect this money to come through as in 89 or 90 odd Crores apart from whatever you have adjusted against the payable to these authorities?
- M. Manekshana:** So that also as I said some of it is payable that is what adjusted and some of it either receivable that we have from the authority, we expect that to be cleared in the next four to six weeks I hope.
- Prem Khurana:** Sure and how has the traffic been after the demonetisation I think you would have numbers for January so how is that traffic being on Y-o-Y basis or on month-on-month basis, have we seen traffic coming back on track or it is still somewhat lower than what we used to have earlier before demonetisation came into effect?
- Jayant D. Mhaiskar:** I think post December I would say predominantly January and February current month what kind of traffic we are observing on national highways and also on the urban tolling projects what we are doing, I think there has been definitely significant uptick in terms of the traffic movement. The traffic movement has definitely gone up considering the current quarter, I would say period between the October to December vis-à-vis January and February the current numbers what we are saying. There has been good and steady uptick in traffic and we expect that to continue.
- Prem Khurana:** It has come back on track I mean the number that we were doing till October, in January we have seen similar kind of numbers only or we are still somewhat lower than.
- Jayant D. Mhaiskar:** To be honest with you, in January and February, urban tolling numbers have been better than October.
- Prem Khurana:** Sure perfect and to understand on your HAM projects I mean now given the fact we already started work on two projects I mean the appointed date has already come in so what kind of equity would we have arranged in these projects and have you infused any money financially close two Maharashtra Projects?
- M. Manekshana:** Yes as a prerequisite and as part of financial closure also the lenders also require promoters's equity to be contributed upfront, so we have infused the necessary equity on

pro-rata basis not only in the first two projects but also in the first four projects. Our JV partner has also infused their share in proportionate manner in two out of the four projects and is in the process of doing it for the balance projects.

- Prem Khurana:** So how much of that amount if you could share that amount the total investment?
- M. Manekshana:** Approximately, I think we have already combined with JV partner infused in close to around 170-200 Crores.
- Prem Khurana:** It has been put in pro-rata basis I mean 60%?
- M. Manekshana:** Across the four of six projects.
- Prem Khurana:** Sure and then Sir given the fact that I mean we are hardly able to generate any free cash perform our core operations so where did we get this money from, does it mean the debt would have gone up during the quarter?
- M. Manekshana:** No, there are two or three sources. There are certain receivables that we had from third parties, which we have been able to monetize, there are certain receivables that we had from group entities that we have been able to monetize and bring back into the business, but there has also been infusion from the promoters from the holding company, so it is a combination of three four and internal accruals.
- Prem Khurana:** Where does debt stand today as of now gross debt?
- M. Sankaranarayanan:** The total debt as on Q3 is on a consolidated number INR 3,018 crore.
- Prem Khurana:** It has been largely stable and we were not seen any change.
- M. Manekshana:** While we have done financial closure, we have not yet drawn down the debt on the hybrid annuity side and hence that is largely similar, so there has not been any increase in debt so when we say equity we are not taking loans and putting it back. It is recovery of working capital.
- Prem Khurana:** Just one last we still need to put in some more money into these HAM projects I mean it appears to be a decent amount, incrementally we are also looking at TOT projects, so does it mean you would have to come to the markets to raise funds or I mean do we have some more of these receivables that you talked about and that is kind of meet our equity requirement for the current projects to the extent that we have already put in so basically want to understand how would the debt look like after one and one-and-a-half years hence

once you have all these projects operations wherein you put in significant amount of equity that we were supposed to put in and then we also have been able to secure some TOT projects so we have got the debt be after the equity has been put in and TOT has been taken on the books.

Jayant D. Mhaiskar : I will answer again this question in two parts, one is the existing hybrid annuity projects what the company has bagged are joint venture with the Spanish company so the equity has to be brought in proportion to the shareholding of each of the shareholder so the company in four of the projects will be required to bring in 74% of the equity and 60% in the balance. The balance equity for all the six projects will be brought in by the joint venture partner in proportion of the shareholding this is the first point. The second this entire equity has to be brought over a period of two-and-a-half years that is from the appointed date till the COD where we have a window for almost 30 months to put in the equity this is point two. The company's board in the last September quarter has already taken an approval for doing a rights/preferential issue for infusing an adequate amount to be required to start with for the first six to one year. We are in the discussion phase and are expecting some traction by end of March where we would be able to bring in some amount of preferential capital, which I would say allows or requires for the next 6 to 12 months for the hybrid annuity projects. To answer the next question on the TOT bidding I would say finalizing and actual bringing in the equity would be required post 12 months from bidding.

Prem Khurana: Now, tenders in the month of April you are saying it will take at least one year kind of you requiring to put money even if you get these projects in the first phase itself or we are going to wait and watch at least in the first phase and then we will take up the next I mean will bid for the projects in the next phase only.

Jayant D. Mhaiskar: As I mentioned even if you start bidding in April for the TOT to actually certify and get on board it would be close to 9 to 12 months for actual money to come in because the ticket size what we understand will be quite large and for that amount of fund raising the amount given would be definitely much more than the existing I would say six months what is given currently.

Prem Khurana: Sure and just one last I mean given the fact that we always working on two projects in terms of EPC and we would have re-firmed our agreement with EPC I mean the subcontractor or we would have decided what kind of proportion would come to and what would go to JV partners, would you be able to kind of share at least for these two projects how much is our share of EPC order backlog and what kind of margins could be there on this I mean share that you would get to execute over the next two to two-and-a-half years.

- M. Manekshana:** As a matter of fact all the six hybrid annuity projects, the EPC contractor appointed by the SPV is MEPIDL that is a listed company so the entire EPC of close to INR 3,000 plus crore for all the existing six hybrid projects will be booked in MEPIDL as construction revenue in the next two-and-a-half years and as far as the margins are concerned I think we had already mentioned close to 12% to 14% is the expected average for all the six projects put together.
- Prem Khurana:** So this is adjusted to the work that you would kind of outsource I mean initially we will need to understand the part of it will get outsource to someone else?
- M. Manekshana:** This is net margin, net of outsourcing.
- Prem Khurana:** The JV partners are not going to kind of have any share of this order back log or what?
- M. Manekshana:** EPC would be done by MEPIDL.
- Prem Khurana:** Sure thank you. Thanks a lot.
- Moderator:** Thank you. The next question is from the line of Giriraj Daga from KM Visaria Family Trust. Please go ahead.
- Giriraj Daga:** Hello Sir. I have few questions like first of all I would like to understand what is the payment of authority like post Ind-AS, we have started reporting the payment to authority and depreciation in one line item only so I would like to know the amount of payment without in 1Q, 2Q and 3Q?
- M. Sankaranarayanan:** Actually the total amount payment to the authority is the major component of depreciation and amortization; and the depreciation is somewhere in the range of around INR 2 to 5 crore.
- Giriraj Daga:** 2 to 5 Crores, no I am talking about consolidated book?
- M. Sankaranarayanan:** As I was telling you, the major amount is towards amortization and depreciation is smaller because as such total asset size will be on a lower side, so it will be around INR 10-12 crore.
- Giriraj Daga:** So what I was saying is that we used to do book closer to 170 Crores of depreciation and amortization in FY16?
- M. Sankaranarayanan:** There were two kinds of things. One is the projects, which we have made a payment as upfront like Mumbai Entry Point everything has been amortized as an intangible asset so

what post Ind-AS we have started taking into the amortization is even one year tolling projects also. So earlier we used to do an amortization of wherever the upfront payment is made for the entire project life we used to take it as amortization and the intangibles is amortized with respect to the revenues. Post Ind-AS, whatever the amount payable to the authority in case of one year tolling concession as well as in case of Hyderabad-Bengaluru and other projects also from the last quarter has been taken as an intangible asset under the Ind-AS guidelines so it is kind of a mix.

Giriraj Daga: Understood Sir if you can give like a certain amount that should be helpful in the sense what is the total amount for the consolidated book for nine months if you have combined number that also should be fine on the combined number?

M. Sankaranarayanan: I will send it across to you separately.

Giriraj Daga: Not an issue. Secondly Sir what is the standalone debt?

M. Sankaranarayanan: Standalone debt as on Q3 it is INR 408.36 crore.

Giriraj Daga: What was the number in 2Q standalone debt?

M. Sankaranarayanan: INR 428 Crores.

Giriraj Daga: I was quite particularly surprised by the amount of EPC revenue booked in the Q1 that is 38 Crores close to 10% we have said so this is pertaining to only Nagpur I and Nagpur I?

M. Sankaranarayanan: Nagpur-1 and Nagpur-2.

Giriraj Daga: So should we expect, we got this appointment date the month of December only?

M. Sankaranarayanan: We have got the appointed date in the month of January, the EPC construction has already started that is why corresponding to that after obtaining the appointed date the revenues have been booked.

Jayant D. Mhaiskar: Just to clarify we actually had initiated onsite activity across all six projects. Appointed date is function of doing the business, which we do with the authority, availability of land and everything which basically officially it kick starts the project but on ground, we have already initiated substantial activity especially Nagpur projects since almost mid or end October. That is when we have done our financial closure for Nagpur I and II.

Giriraj Daga: What I wanted to understand is we have booked some margin also there in EPC?

- M. Manekshana:** Very negligible. That is based on percentage completion and whatever is derived has arrived.
- Giriraj Daga:** Do we still expect similar kind of number from other four projects also once they kick in?
- M. Manekshana:** Which kind of numbers?
- Giriraj Daga:** Similarly we did appointment date in January, still it will be sizable revenues, so once this quarter also...?
- M. Manekshana:** Quite a bit of construction revenue, yes.
- Giriraj Daga:** Second I was looking at this number of claims, this 88 Crores have we booked any of the profit there or it is assumed as extension of the two?
- M. Manekshana:** As I mentioned to you large part of that INR 88 Crores is only substitution of construction fee payable and cost, so very little of no profit in those numbers. There is not really much profit booking in the claims number and that is why our profitability for the quarter was adversely impacted.
- Giriraj Daga:** Sir, have we received the mobilization money from the government and if yes, how much is the amount we have received?
- M. Manekshana:** No, there is a timeline before which the mobilization money will come in. For Nagpur I and II our mobilization is due in the month of March.
- Giriraj Daga:** Nagpur I and II that is about 10% will come in from the total.
- M. Manekshana:** Yes.
- Giriraj Daga:** Thanks a lot.
- Moderator:** Thank you. The next question is from the line of Nirav Shah from GeeCee Investments. Please go ahead.
- Nirav Shah:** Good afternoon Sir. A few questions; firstly is by when do we expect the financial closure for the last two projects to be done with?
- M. Manekshana:** To answer your question, we are hoping to complete documentation for the fifth project this week so we already have the sanctions, so technically we have done financial closure. It is just that we have not completed the financial document so we will announce it, and

similarly we expect to complete the sixth project within a period of a week or ten days more.

Nirav Shah: Secondly on the existing four projects what is the interest rate that we have closed at during the construction period?

Jayant D. Mhaiskar: During the construction period you can say the average interest rates is around 11% or just under 11%. It is a mix. Different banks are charging different rates.

Nirav Shah: Yes, but the blended is just under 11%?

Jayant D. Mhaiskar: Shankar, you can correct me if I am wrong?

M. Sankaranarayanan: Yes, it is 10.5% predominantly and the maximum number is 11.25%, average comes to 11% or just below 11%.

Nirav Shah: Sir, when is the Sea Link project coming up for rebidding?

Jayant D. Mhaiskar: Sea Link project is coming up for rebidding this month.

Nirav Shah: This month only and we will participate in the bidding?

Jayant D. Mhaiskar: Yes.

Nirav Shah: Thank you Sir. All the best.

Moderator: Thank you. The next question is from the line of Naikaj Bhode from Nirmal Bang. Please go ahead.

Naikaj Bhode: My question is regarding the size of the opportunity in the road sector, so what are the likely number of projects that are likely to come up in the next two years?

Jayant D. Mhaiskar: When you say road sector we split it in three parts. One is your hybrid annuity/EPC, the other is your TOT kind of projects and third will be you are continuing the traditional model of short-term tolling and all of that basically which is the outflow coming from the hybrid annuity and the EPC. So as we mentioned in the TOT projects itself, there the government is expecting to collect almost INR 80,000 to 1,00,000 crore across 75 individual tolling projects, which they will club into clusters and get it bid. On the hybrid annuity side, again the order pipeline is expected to be fairly large around 4,000 to 5,000 km of roads will come up more on that. So very huge pipeline, a good amount of space for everybody to be honest.

- Naikaj Bhode:** Sir, my second question is regarding the EBITDA margins, so typically for the HAM project we expect something around 12% to 14% of EBITDA margins?
- Jayant D. Mhaiskar:** Yes.
- Naikaj Bhode:** What about TOT and the short-term projects?
- Jayant D. Mhaiskar:** To be honest, I would not be able to comment on TOT because it totally depends on the cluster that gets formed and the kind of maintenance expenditures that one would estimate on those stretches depending on which stretch related gets combined so I would not be able to comment on that right now.
- Naikaj Bhode:** That is all from my side.
- Moderator:** Thank you. The next question is from the line of Amritha Karipat from Nine Rivers Capital. Please go ahead.
- Amritha Karipat:** Good afternoon. I wanted to know how many HAM projects we have in our pipeline that we are bidding for right now?
- M. Manekshana:** We have 24 HAM projects available in public domain to be honest. We have bid for a few this morning, and we expect to evaluate out of the 24 at least six to eight projects.
- Amritha Karipat:** What is the timeline on these? When would they actually be due?
- M. Manekshana:** As we bid for three this morning and the others are over the next month.
- Amritha Karipat:** What is the margin expectation from these? Do they stay in line with what we have already been bidding for?
- M. Manekshana:** We are bidding with our consistent margin estimates, market will determine whether we will win those bids or not.
- Amritha Karipat:** Thank you.
- Moderator:** Thank you. Ladies and gentlemen that was the last question. I would now like to hand the conference over to the management for their closing comments.
- M. Manekshana:** Thank you everybody for participating on the call. We look forward to providing any further information, one-to-one if required by any of the participants and look forward to having you all again on our next call. Thank you very much.



MEP Infrastructure Developers Limited
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Moderator: Thank you. Ladies and gentlemen with that we conclude today's conference. Thank you for joining us. You may now disconnect your lines.