



“MEP Infrastructure Developers Limited
Q3 FY2016 Earnings Conference Call”

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Moderator: Ladies and gentlemen, good day and welcome to the MEP Infrastructure Developers Limited Q3 FY2016 earnings conference call hosted by Antique Stock Broking. 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 for 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. Dhaval Patel from Antique Stock Broking. Please proceed.

Dhaval Patel: Thank you Zaid. We would like to welcome the management of MEP Infrastructure Developers Limited and thank them for giving us an opportunity to host this call. From the management side we would be represented by Mr. Murzash, Executive Director, Mr. M. Sankaranarayanan, CFO and Ms. Manisha Bihani, Investor Relation. I would like to hand over the call to Mr. Murzash. Over to you Sir!

Murzash Manekshana: Thank you Dhaval. Good afternoon everybody. Thank you for joining our call this afternoon. On behalf of the Board of Directors and management of the company, we extend a very warm welcome to all of you to our conference call of MEP Infrastructure Developers to discuss the earnings of the company for the third quarter and the first nine months of financial year 2015-2016. Hopefully, all of you all would have received the presentation or the slide pack that we intend to walk you all through and I would like to without jump into it right away. During the third quarter, we had a good run and we were fairly successful with winning new projects. We added closed to five short term tolling projects in our portfolio during this quarter and we did not have any project that actually completed during the quarter, but up to date we have now completed two short-term projects with Bankapur and Manoharabad. Details of all these projects are provided on slide #6, after slide pack that we have circulated and uploaded. So, as of date today we continue to have 24 operational projects as on December 31, five OMT projects continue which have been there with us since the time of our IPO. We have six long-term projects now instead of seven. One of the long-term projects which was basically Rajasthan five year project RIDCOR has now converted itself into a short-term project. We have rebid for that project and have been successful bidders for the project, so it comes under the short-term tolling projects of 12 projects and we continue to operate six long-term projects and our single BOT project of Baramati also continues. During the quarter we also had certain developments on the SMYR project which is the MCD Delhi Entry Points Project. As you may be aware through press news and certain other reports, there was pollution cess that was announced in Delhi where on commercial vehicles, additional charges were to be collected by way of pollution cess. This came into being sometime in November. As a result of this, there was a particular impact on diversion of commercial traffics entering the city of Delhi and which had an

impact on our existing Delhi contract. Extending beyond December 31 which is the quarter that we are discussing I would like to just share with you that on January 31, we exited that project now and in lieu of Supreme Court of India order which has given the consortium a honourable exit on that project and hence we have now stopped collecting toll on that project from January 31 onwards. So, pretty much these have been the key business highlights that I may like to share with everybody on the call during the third quarter. The other prospective highlights is that there has been a good progress on the potential TOT, tolling projects that are expected to come out. As we understand the file is inline with the minister, MORTH minister for his final approval and as per our understanding that should be done within a week to two weeks and hence before the year end we will have the first slew of TOT projects that shall be announced and our company will of course look to participate in those projects and as you may be aware, there is also a list of hybrid annuity projects that has been currently announced and are under bidding and we are selectively evaluating any opportunity that we may find there also. So in a nutshell this is pretty much the business update that is relevant for the third quarter. I would now like to hand over the call to our CFO, Mr. Sankaranarayanan who will walk you through the financial results for Q3 and nine month FY 2016.

M. Sankaranarayanan: Thank you Sir. Good afternoon. I would like to walk you through the financial highlights for Q3 what we had announced earlier. Now, the consolidated revenue for Q3 is Rs.515 Crores which is up by 6.8% as compared to the last quarter. The increase is mainly due to the increase in revenue contribution from short-term tolling projects from NHAI and RIDCOR if you take it comes approximately around 11.6% quarter-on-quarter and also we got good improvements in revenue in two of our OMT projects which is Mumbai entry point as well as RGSL. Also in Kini-Tasawade project which is a long-term toll collection contract, we got increase of around 11% quarter-on-quarter. On the EBITDA levels, the EBITDA dropped slightly by around 120 BPS to 28.7% from 29%, but if you take on a yearly basis, it is up by 6.5% as compared to last year 2015. This slight drop is due to as Mr. Murzash said we have got the rebid of Phalodi Ramji RIDCOR project wherein the margins have been little bit on the lower side and also some small other projects. On the PBT side, it is Rs.10 Crores up from Rs.7.4 Crores from last quarter. The PAT remained flat due to some deferred tax reversals we have taken in this particular quarter because of the projections and other things. Our Mumbai entry point the cash profit is higher as compared to the last quarter, which is up to Rs.10 Crores as against Rs.6 Crores in the last quarter. Delhi entry point, he has already explained to all of us about the thing which has happened in Delhi. Because of the ECC that pick gone down little bit and because of it we suffered a loss, our share is around Rs.1.4 Crores and also the company generated a cash profit of Rs.45 Crores during Q3 and cumulative cash profit of Rs.128 Crores. So with this I would like to hand over the call back for question and answer.

Moderator: Thank you very much Sir. Ladies and gentlemen, we will now begin with the question and answer session. The first question is from the line of Prem Khurana from Anand Rathi. Please proceed.

Prem Khurana: Sir I just wanted to understand during the quarter we have recognized a claim amount of around Rs.150 or million rupees from Madurai, Kanyakumari. If I have to look at our first half FY 2016 on a quarterly basis, other operating income used to be almost 3 odd Crore rupees or Rs.30 odd million rupees kind of number on an average. So, what explains this sudden jump in our number, because if I am not mistaken you have been recognizing gains from this project but it used to come as a part of other income or not other operating and there again the amount used to be not of this extent. So what has driven this jump in claim booking from Madurai, Kanyakumari?

M. Sankaranarayanan: Due to unprecedented rains in Tamil Nadu the tolls have been suspended for a period of 15 days. You can say that Chennai project and also Madurai, Kanyakumari project and one year short-term tolling contract at Athur. The tolls had closed for a period of 15 days. During that time the concession fee has been recognized. The amount that was supposed to be collected has been recognized as a claim as another operating income as per the concession agreement.

Murzash Manekshana: To add to that, this was the suspension by way of an order from ministry of road transport. It is a claim that they have envisaged for us to file.

Prem Khurana: If I understand correctly we received order for three projects, one was Athur, Chennai bypass and this Madurai, Kanyakumari but it seems as far as Chennai bypass and Athur is concerned, we have not recognized any claims during the quarter, because breakup that you give for project wise toll collection sequentially there is a significant drop in the numbers from Chennai, so does it mean may not book any claims on Chennai bypass?

M. Sankaranarayanan: Chennai actually we have been operating in a no profit, no loss kind of situation. We have not recognized any claims in Chennai, automatically if I recognize the claim, automatically the amount is payable to us.

Murzash Manekshana: Just to add to that as you are aware, we are under dispute on the Chennai project with the authority and as a part of that dispute one of the mechanisms of settlement that we are working on with the authorities that it is break even or no profit, no loss kind of an arrangement that would be settled at. In that light, we recognize claims only to the extent that they need to be matched up to the concession fee payable under the concession agreement and any potential revenue upside that would have normally come under normal

circumstances there is no sense or our accounting standards does not allow us to recognize that.

Prem Khurana: This claim has been approved by authority or it is yet to be approved by them, this is based on our assumption, estimates right as of now.

Murzash Manekshana: As I mentioned to you it was announcement by the MORTH ministry and NHAI approved and the methodology of filing claims is very clearly articulated in the concession agreement, it is based on the average revenue that has been experienced on that particular stretch over a period of time which is specified which is a year and for the number of days that you do not or unable to do with the player and in accordance with the concession agreement.

Prem Khurana: The number would sustain at these levels going forward, 470 or Rs.47 odd Crores of number that you show in this quarter is sustainable right?

M. Sankaranarayanan: That is right.

Prem Khurana: What is the status on the Chennai bypass, you want to give it back to the authority. I got to know from someone else that the authority has already come up with bid document for this project again on a short term toll collection basis, is it true?

Murzash Manekshana: It is very true, it is something that we are driving and pushing the authority ourselves. As you are aware we are in a large dispute with the authorities, it is clearly disclosed even in our prospectus details and we have been mentioning it in all the calls over the last three quarters. This is a fairly delayed process, we would have liked for the resolution to have come couple of months back instead of when it is happening now and it is only on our push and instance that the settlement has reached there where it has to be reached. NHAI has actually undertaken bidding for fresh order incoming contractor. The good news and the technical aspect of that to be shared with everybody is that the bids that NHAI has received are slightly equal to a lower than the revenues that we have been put it as part of our claim which goes on to further support or substantiate our stance with NHAI with respect to loss of revenue that we have been incurring on this project.

Prem Khurana: All the time we have been identifying our intent to increase our revenue contribution from long term projects, but now given the fact that Delhi entry point would not be there and we have already done away with Phalodi-Ramji as well, so which in effect me even if I will look at the bid pipeline you identify only the two projects on long term toll collection basis in your presentation. So which in effect next year our collections from long term toll

projects would be somewhat low and we will get to have some higher revenues from short-term toll collection?

Murzash Manekshana: Yes and no. As I mentioned to you earlier on the call there is a TOT format that is expected to come out as early as end of this month or next month which will give extremely long term visibility to projects that we may win under that format, secondly we were fairly unlucky recently to come out as H2 bidders on a nine-year OMT bid that we just lost very marginally by Crore, Crore-and-a-half or something like that, so that was unfortunate, but that would have added in other Rs.100 Crores, Rs.150 Crores of long term revenues to our kitty. I do not think there is any specific trending that one should draw with respect to any dip in long term project visibility, yes momentarily for a few months there may be blips but on a continuum if you see we intend to be in the 65%, 70% plus range for long term contracts.

Prem Khurana: Sure, you spoke about hybrid annuity project, so there we are looking at only toll collection part of it or are we planning to take it on a balance to develop and then kind of have sustained revenues from these projects. I mean are we planning to act as a developer or toll collector in these kinds of projects.

Murzash Manekshana: To be honest hybrid annuity does not have a toll collection aspect to it in its current format. I think that will happen post the projects are completed. We are very, very selectively evaluating certain key projects where we could participate in the hybrid annuity side, so we have been very selective, but we are evaluating a potential opportunity there.

Prem Khurana: Sure and you are looking for a partner for TOT foray, have you identified anyone as of now or is it still in process?

Murzash Manekshana: We are in discussions with two or three players. We would like to share that only when we are able to formalize the arrangement.

Prem Khurana: Sir just one last bookkeeping question, this quarter our depreciation has not come down. I was under the impression, given the fact that Phalodi Ramji has been conveyed in to short term toll collection from long term toll collection project. We would get some drop in numbers in terms of depreciation because therein we had paid advance amount of 150 odd Crores rupees which used to come as part of amortization expenses, so what would explain this flat number in terms of depreciation or amortization?

Murzash Manekshana: As you are aware Phalodi Ramji was almost a five-year project, so the depreciation, substantial portion of depreciation for that particular project was already amortized in the

previous four years. In this financial year we had hardly six months left with accounting standards that you match it to balance revenue life whatever depreciation is there, is at tail end of the project. That particular project never contributed or impacted significantly to our depreciation workings.

Prem Khurana: Sure but then we would have linked that amortization to the top line and revenues right, so that means revenues would have been high and now because it was a tail period wherein your project would have matured, so given the fact that our tail period revenues were higher, revenue amortization expenses should have been high right or we used to follow some different methodology for depreciation?

M. Sankaranarayanan: We use revenue based amortization model as per the notified.

Prem Khurana: Which in effect means, depreciation should have been higher towards the tail of the project?

Murzash Manekshana: But it has been only six months.

Prem Khurana: Sir if you could give me gross debt number?

M. Sankaranarayanan: Consolidated gross debt numbers is roughly around 3050 or something, standalone numbers it will be around 400-415 Crores.

Prem Khurana: So it has gone up marginally?

M. Sankaranarayanan: It was around 3100.

Murzash Manekshana: March it was 3300, now it has come down to 3000.

Prem Khurana: How much did you say was the standalone debt?

M. Sankaranarayanan: Around 415 approximately.

Moderator: The next question is from the line of Dhaval Patel from Antique Stock, please proceed.

Dhaval Patel: Hello Sir, in the last quarter we said that we would want to avoid the hybrid annuity model because it does not have any kind of toll collection in there and it is primarily a construction based contract, so what is the reason for the change in stance?

Murzash Manekshana: To be honest, it is not that we are changing any strategic focus or shifting ourselves away from tolling in to only PCO development or anything like that. The idea is that even in the

last quarter we mentioned that we will be focusing, if at all, on the development side only in the hybrid annuity model and not on the EPC or BOT side of the activities in it and the idea is that we already have good amount of maintenance capabilities and we also have good amount of, as I said, investments in to the platform or resources to participate in southern key projects, so as I said we are evaluating right now, we have not made any specific bid in the hybrid annuity space as yet.

Dhaval Patel: Sir, in the TOT model what would be the deal between us and the financial player, they would be putting in all the money and we would be managing or would we also have to put in some money?

Murzash Manekshana: We would definitely be looking to be the operating partners and managing of the toll and onsite operations and all of those kind of things but what we will also be looking to do is we will of course under the TOT guidelines we expect all partners to have certain amount of equity contribution which we will bring to the table. We are looking to generate that equity contribution by way of certain financial restructuring and realignment that we are working on right now for our internal projects.

Dhaval Patel: Sir, have we identified any size that we would want to take up, size in terms of projects are costs that we would want to take up for the TOT and hybrid annuity also?

Murzash Manekshana: Hybrid annuity, we are definitely not going for the larger ones, as I said we will be evaluating the more smaller manageable by size initially and for TOT we will have to see how the clusters get formed at the MORTH level or NHAI level when they announce the projects coming forward, so depending on that we can decide.

Dhaval Patel: Sure sir, but if we go for hybrid annuity, our capital intensity would increase right for projects, that would also be primarily through financial restructuring or how do we intend to manage it?

Murzash Manekshana: Hybrid annuity the idea is that 40% plus 10% is almost 50% comes from NHAI annuity, so only 50% of the project is to be funded in the form of debt to equity, it should be 50% of that project at the rate of around 20-25% also, so then we are all ending up with 10 or 15% equity requirement.

Dhaval Patel: Does this move mean that we would be shifting our focus more towards the hybrid annuity or something?

Murzash Manekshana: As I said, there is no more or less or anything like that. The way this industry is evolving and panning our currently we see a particular opportunity in that space and we will look to with the right kind of alliance and right kind of focus we will look to participate in that, there is no shifting of any strategy or large focus or anything like that. We are not moving out of tolling and OMT space at all.

Moderator: The next question is from the line of Deepak Poddar from Sapphire Capital, please proceed?

Deepak Poddar: Sir, thank you for the opportunity. My first question is related to your tariff. Generally, all kind of toll projects or OMT projects, what kind of arrangement we generally have on an annual basis for tariff increase?

Murzash Manekshana: Tariff is pretty much notified by the authority of the government in case of all NHAI projects which means projects which are either in short term or OMT is determined by a toll notification fee rules that are existing 2009 amended till date. On April 1, every year, there is a toll rate hike. There is a 3% absolute growth year on year and then there is 40% of the differential in WPI, so last year we experienced a slightly flattish increase because WPI was negative and we do not get the standard 5 to 6% growth, we got 3-4% inflation in most cases. In case of projects like MSRDC, many of their projects are predetermined toll rate hikes which are part of the concession agreements, so different concessioning authorities have different parameters and basis for determining toll rate.

Deepak Poddar: But on an average if one has to consider a tariff hike of 4 to 5% is a more realistic number that one can assume?

Murzash Manekshana: It is absolutely realistic for standard CAGR on an ongoing basis.

Deepak Poddar: So basically if I take in to account a traffic growth as well as 10% kind of revenue growth is quite a realistic number to assume if I have to look at next year?

Murzash Manekshana: 10% should be the combination of traffic and toll rate hike.

Deepak Poddar: Sir if my revenue at 10% growth boils down to about 200 Crores of additional revenue, I just wanted to understand this additional 200 Crores comes how much exactly flows to PBT because our cost structure, would there be commensurate increase in your cost structure or it entirely flows to PBT?

Murzash Manekshana: It totally depends on where the 200 Crores is coming from. If 200 Crores comes from the project which is securitized upfront, then almost 70-80% will flow to EBITDA, and maybe around 15-20% or 25% depending on how the bidding has gone may flow to PBT, post

finance cost. If it is coming from long term tolling projects you will get PBT in the range of 14-15%. If you look at only short term tolling projects then your PBT would be as low as 6, 7, 8, and 9%.

- Deepak Poddar:** So, highest would be on securitized upfront right?
- Murzash Manekshana:** That also depends on the leverage that you have taken.
- Deepak Poddar:** Basically how much percentage of current revenue is from projects which are securitized upfront?
- Murzash Manekshana:** Substantial component of the projects that are securitized upfront, the Mumbai Entry Point project forms a substantial component of that, that is offering around 410 to 412 Crores annualized currently at the current basis, then there is a project in Kolkata that we are doing which is Hooghly river bridge where we pay an annualized upfront payment and Baramati also we paid upfront which is a very small project which is not necessarily material. Rajasthan projects now have been completed. So you could say from projects that we have securitized upfront revenue could be in the range of 470 to 500 Crores.
- Deepak Poddar:** So, that is about 25% of the current revenue.
- Moderator:** The next question is a follow up question from the line of Prem Khurana from Anand Rathi, please go ahead.
- Prem Khurana:** Thank you once again Sir, couple of questions from my end, one was we were supposed to have interest reset for Mumbai-Pune, has it taken place or is it yet to take place?
- M. Sankaranarayanan:** The reset is not yet completed. The question is with the lenders. We are waiting for the reset. We expect to do in a month max.
- Prem Khurana:** What kind of cut are we looking at, envisaging from this interest release payment?
- M. Sankaranarayanan:** Roughly around 50-75 basis points.
- Prem Khurana:** Some of our peers have been able to get loans, especially on BOT side have been able to get loan at sub 10% and there the problem is you are yet have construction, here it is an operating project, we have been operating for a while now, the traffic numbers are stabilized but despite it we are looking at around 50-75 odd basis points, we are not looking kind of higher interest?

Murzash Manekshana: I have not heard or known of anybody getting below 10 basis points. If you can share details of bankers, we would be at their doorstep today itself.

Prem Khurana: Sure sir, I will send it to you offline. Sir on this Madurai-Kanyakumari, how much would we have booked as part of claims booking, we have been booking claims for a while now, what would the quantum be that we would have routed through P&L and how much of debt has already been realized in terms of cash that you would have received from them?

M. Sankaranarayanan: Madurai-Kanyakumari project we have recognized around 15.82 Crores in this particular quarter and that is predominantly as we discussed is mostly towards the rain and other stuff and there was one more claim with Madurai-Kanyakumari, there has been some lower concession fees paid by the state transport guys which was from the beginning till today it is panning around 21 Crores.

Prem Khurana: How much would we have realized from this 21 odd Crores rupees?

M. Sankaranarayanan: NHAI follows a different procedure. It goes from top to bottom and there are three, four levels and also affirmed by the independent engineer, so it is in various levels of finalization, so we recognize claims only to some extent where we have clearcut provisions in the concession agreement and also affirmed by the independent engineer and also few verifications, based on that only we recognize claims.

Prem Khurana: Sir why we book these claims through income, given the fact that it is an operational project, it is related to the operation of this project only, why should not it come with the part of your other operating or our operating income and why do we book it as part other income given the fact that it relates to operations only.

M. Sankaranarayanan: Till earlier, as per the consultation or discussion with the auditor it has been recognized as other income till last quarter and based on the discussion and referrals with the accounting teams and advisory teams we have started recognizing it as an other operating income, not as a turnover.

Murzash Manekshana: We have KPMG as our auditor who has fairly definite views on what we can or cannot do as far as our financial disclosures are required and we basically pretty much comply with what their recommendations are.

Moderator: As there are no further questions, I now hand the conference over to Mr. Patel for closing remarks. Over to you Sir.



*MEP Infrastructure Developers Limited
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Dhaval Patel: Once again, we would like to thank the management for allowing us to host the call. Would like to hand over to the management for closing comments. Over to you Sir.

Murzash Manekshana: Thank you Dhaval and thank you everybody for taking time to come on to this call this afternoon and we look forward to continuing our efforts in growing MEP and taking it to the next level and we look forward to having a discussion with you all offline in the interim or on the next call. Thank you so much.

Moderator: Thank you. Ladies and gentlemen, on behalf of Antique Stock Broking that concludes today's conference call. Thank you all for joining us and you may disconnect your lines now.