"MEP Infrastructure Developers Limited Q3 FY-19 Earnings Conference Call"

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Moderator: Good day, ladies and gentlemen and a very warm welcome to the MEP Infrastructure Developers Limited Q3 FY19 Earnings Conference Call.

We have with us today Mr. Murzash Manekshana – Deputy Managing Director; Mr. M. Sankaranarayanan – Group CFO and Mr. Rajesh Sindhav – Deputy-CFO.

As a reminder, all participants' lines will be in the listen-only mode. 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 am now glad to hand the conference over to Mr. Murzash Manekshana – Deputy Managing Director. Thank you and over to you, sir.

Murzash Manekshana: Thank you. Good afternoon everybody and welcome all to the third quarter earnings call of MEP Infrastructure Developers Limited. Thank you for participating on this call today.

During the nine months period the revenue from operations was Rs. 2,120 crores vis-à-vis Rs. 1,546 crores during the corresponding period last year. This has resulted in an increase in revenue of approximately 37% over the previous year's similar period. During this period profit before tax before exceptional items was Rs. 108 crores vis-à-vis approximately Rs. 66 crores during the corresponding period last year. This has resulted in a significant increase of approximately 65% over the prior period.

During the quarter under review MEP also achieved the financial closure for its HAM project of the eight lining of the Vadape to Thane stretch which is a HAM project being operated under the auspices of NHAI. For this project the project finance tied up is approximately Rs. 570 crores. We have also achieved appointed date for this project during January 2019 and we have commenced work on this project since then.

With this addition the company is currently executing 7 HAM projects at various stages of completion and has an additional three HAM projects which are scheduled for commencement during this quarter 4 of 2019, FY19. The current project mix of the company comprises now of 17 projects which has 3 long term projects on the tolling side, which is basically the Delhi entry point, Mumbai entry point, Rajiv Gandhi Sea Link.

We have ten HAM projects out of which two are in Gujarat, eight are in Maharashtra. We have three OMT projects and one BoT project. As you are already aware, the overall sectoral outlook continues to be robust. A total of 2 lakhs national highway kilometers our target to be completed by 2022 under NHAI and Ministry of Road Transport. The construction of highways has already reached around 9,800 during FY18 which was constructed at an average of about 26 kilometers per day.

During the current year the overall target was to hovered around 15,000 kilometers and construct of over 10,000 kilometers to 12,000 kilometers during FY19. Further several other initiatives are being taken by the government to attract further investor interest and participant interest in this sector. From what has already been achieved from above, a total of around 34,800 kilometers have been proposed to be constructed under the Bharat Mala Pariyojana Project in Phase 1.

As of October 2018 around 6,400 of such projects have already been awarded by National Highways Authority. The government has also further approved several highway projects of approximately Rs. 2 billion which is around $13 million to improve connectivity among Gujarat, Maharashtra, Rajasthan, Madhya Pradesh and Diu.

MEP today is well poised to participate in this sustained sectoral growth and we think that once we are stabilized with operationalizing or completing our existing order book projects on hand, we will be able to take advantage of this further potential growth opportunity.

With this overview I would now hand over the call to our Group CFO, Mr. Sankaranarayanan to give us specific inputs and insights on company's financials during this current quarter, Quarter 3 of FY 2019. Over to you.

M. Sankaranarayanan: I will take you through the nine months financial numbers, consolidated financial numbers today. The nine month financial revenues were up by 37% to Rs. 2,120 crores as compared to Rs. 1,546 crores, that is because of substantial contribution from the long term projects like Delhi entry point, Mumbai entry point, Hyderabad, Bangalore OMT and HRBC projects.

The operating maintenance expenses also went up in line with the turnover. The employee expenses increased due to the higher headcount on account of Delhi entry point because Delhi entry point was there for only three months in the last corresponding period. And also we have hired people for the purpose of our recently won HAM so that is why the employee expenses is on the higher side.

Depreciation and amortization of Rs. 3,922 million includes depreciation of Rs. 188 million and amortization of Rs. 3,733 million. The amortization is on the higher side on account of **(Inaudible 6:01)** project. The finance cost went down by 100 bps because of repayment in Mumbai entry point and also unwinding of trade payables on account of Hyderabad Bangalore project.

The decrease was partially offset by the increase in the interest payment for RGSL project which is an upfront payment to the authority. Profit before exceptional items went up by 65% because of the better margins overall. With this I hand over for question and answer session.

Moderator: Thank you very much. Ladies and gentlemen, we will now begin the question-and-answer session.

The first question is from the line of Prem Khurana from Anand Rathi. Please go ahead.

Prem Khurana: So the first question was basically on our construction revenues. I think in Q1 we repeat the number of around Rs. 200 odd crores which is where we believe would improve, I mean would improve further on but for the last two quarters it seems that I mean the number has not been moving as far as our expectations.

Would you be able to share why is this number so low I mean given the fact that we have two, two-and-a-half years of execution cycle whereas actually the number ideally should have picked up from the numbers that we saw or the levels that we saw in Q1 FY19? And second if you could share your thoughts on the MoU that we had done with the monetization of the projects?

Murzash Manekshana: So I think with respect to construction revenue there has been particular slippage or slowness in the progress on certain projects mainly in our Mumbai-Goa projects as well as Kante Wakad. That is largely was because of when we started off it was mainly around tree cutting and also some alignment issues which are now resolved.

We also had certain delays on our Nagpur 2 project again because of certain realignment at Supreme Court orders with respect to handing over of lots of land that was available at the time of the appointed date was then gone into a little bit of abeyance because of particular order that came across which has got resolved and now come back.

Further there has been certain realignments that have been done in the project layout by the authority because of it certain high value items like structures were not able to be addressed which has now again been addressed or resolved.

As a result of this on our fourth project on our Bombay-Goa projects we are in the advanced stages and we have had a very positive meeting with the authority where potentially we will get extension of milestones and completion timelines to compensate us for these kind of delays on behalf of the authority, within which we will be able to complete the projects in a timely manner.

Likewise we have had a similar representations being made on our other two projects also where similar issues were faced with NHAI and we are in the advanced stages of getting that resolved. Having said that both Nagpur projects are now over 50% or close to 50% completed and we do not see any further future delays going forward.

Also our earlier estimates of Q3, Q4 mainly Q3 have gone a bit lower than before because the four new HAM projects that were expected to be started around October, November has got pushed behind because of land availability on behalf of NHAI of which one project we started in January and the other three projects we hope to commence end of this month early March.

So combination of all of these things has resulted in lesser than anticipated construction revenue. With respect to the Cube Highway the diligence process is significantly underway or towards completion and we may hopefully get a positive outlook I mean finalization on that before March, but I will not be able to share much more on that right now.

Prem Khurana: But is it fair to assume you would have to sell only 49% or you are allowed to sell only 49% as of now because the projects are under construction and post COD you will be able to transfer incrementally and then two year plus CODs when you would be able to kind of?

Murzash Manekshana: Theoretically Prem, it restricts us to transfer our entire ownership before two years post COD, but we are finding NHAI and Ministry in a fairly positive mindset where if there are credible investors or buyers such as a Cube in our case and other reputed fund houses who have demonstrated capital and effort in being strategic players in this space. NHAI is giving or we think will be able to give permissions to transfer those ownerships sooner on COD rather than wait till two years. So once that happens then the entire thing can move out on COD.

Prem Khurana: Sure and for the three remaining HAM projects which are yet awaiting appointed date, how would be the land status there basically because the idea was to understand whether we have land in place to be able to seek appointed dates or where are we in terms of?

Murzash Manekshana: To be honest the appointed date is pending largely only mainly because of the land lack of availability and I think we are in the last 10%, 15% of acquisition of that to be able to get the appointed date.

Prem Khurana: So 10%, 15% to hit that 18% mark right so eventually it is around 65%, 70% is what you are saying?

Murzash Manekshana: No, I am saying yes so around 70% plus inventory so hopefully we should tip over the 80%, 85%. We also want some buffer more than just, we do not want to just touch 80%.

Prem Khurana: And how about equity requirement, how much is pending now and how much is already invested?

Murzash Manekshana: So from equity requirement's perspective, in the first six projects we needed to invest around Rs. 575 crores of equity and out of which Rs. 400 crores was to come from MEP and Rs. 175 crores was to come from Sanjose. So we have invested over Rs. 310 crores of equity in that so just around Rs. 90 crores is left in that. And Sanjose has invested around over Rs. 112 crores, Rs. 113 crores in that.

They have around Rs. 63 crores left in that. And for the new projects we have already infused around Rs. 40 crores of equity in the first Thane-Vadape project we took the appointed date to fall in line with our financing document requirements and we are well underway to basically we are quite confident that along with monetization of the existing projects and certain other plans that we have in place we should be able to meet the equity requirements for them too.

Prem Khurana: Sure and the total equity requirement for these new four projects was almost around Rs. 500 odd crores, am I right?

Murzash Manekshana: Yes around Rs. 500 crores.

Prem Khurana: And sir, on this Delhi entry point project, the average run rate seems to be down sequentially as well as on a YoY basis so does it mean the traffic has not come back as yet I mean after this toll suspension that we saw last quarter?

Murzash Manekshana: Yes so I think there is definite impact because of the Western territory and Eastern territory both opening up now so there is some rebalancing that we are hoping that will still get achieved over the next quarter or so.

Prem Khurana: Okay but the agreement that we have in place with the government does it provide for these kinds of things wherein you have two new projects come through and which is traffic divergent, because if I were to take this route I would have to pay you green taxes as well right?

Murzash Manekshana: Yes so the impact is larger than what we thought it would be so but there is no real clause where we can compensate ourselves for that.

Prem Khurana: Just one last if you could help me with the debt number, gross as well as net?

M. Sankaranarayanan: So the closing consolidated net debt number is Rs. 2,880 crores and the standalone net is Rs. 430 crores.

Prem Khurana: And how much is the cash number sir the cash on the books console?

M. Sankaranarayanan: It depends upon it also includes the total FDs kept on account of margin and all put together.

Prem Khurana: Yes including FDs, cash and cash equivalents including bank balances that you have in the form of FD?

M. Sankaranarayanan: Roughly around Rs. 70 odd crores.

Moderator: Thank you. The next question is from the line of Alok Deora from Yes Securities. Please go ahead.

Alok Deora: Just one question I had. What is the industry scenario looking like ahead of the elections? Are we seeing any slowdown in ordering and what is our big pipeline like?

Murzash Manekshana: So I think it is a double edged sword. I think in the last couple of months there has been a bit of a slowdown in the bidding and the allocations and all of that but we suspect that just running into the next four, five months there will be a slew of further bidding that will happen because authorities will be under pressure to achieve their stated targets.

So we think that there will be a good amount of bidding happening of course overall national environmental and political environmental scenario remains slightly precarious I might say right now so subject to all of that I think there will be good amount of bidding that will happen in March before the elections.

Alok Deora: Right so what is our strategy now in terms of bidding like are we looking for HAM projects or are we looking at EPC also or what is the strategy like?

Murzash Manekshana: So I think as we have stated earlier we continue to evaluate HAM projects and we have a good order book over the next two to three years to execute currently so we do not intend to be aggressive. But we definitely will look out for adding few marky projects a year into our portfolio to continue the growth in our HAM order book as we complete the old and the earlier projects going along.

Alok Deora: Alright. Just one last question. So we have seen some of these projects struggling with financial closures so have you faced any issues on that and have you also seen any rise in the cost of debt for you?

Murzash Manekshana: So cost of debt rise has thankfully not yet happened so we are still 10% to 10.5% during EPC construction phase which I think is a fairly decent rate to be at given circumstances or scenario. With respect to financial closure issues yes the NBFC issues in the past six months have definitely distracted the banks and also taken away the alternate investment source that was there for some of the projects.

But overall we think that all of that should ease out in the next few months and government will take necessary action and steps to ensure that if their targets of completing road projects have to be met, then they have to help the investors and strategic players to also financially close their projects.

So we think that things will play themselves out well in the next three to six months especially if the government comes back then we expect a very strong push in from May-June onwards till end of the year to facilitate several reforms and HAM projects in the road sector.

Moderator: Thank you. The next question is from the line of Jinesh Pagaria from CLSA. Please go ahead.

Jinesh Pagaria: Sir, I wanted to know the order book as on 31st December?

Murzash Manekshana: So our total ten projects that we have, these projects cost is close to around Rs. 8,000 crores including cost escalations rise everything plus of which we have only executed around Rs. 1,200 crores to Rs. 1,400 crores. So we have around another Rs. 6,800 crores of order book left to be executed over the next two years.

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

Rachit Kamath: This is Rachit Kamath over here. Sir, just wanted to know the split of your order backlog as in appointed rates and un-appointed ones?

Murzash Manekshana: Split of the order book in appointed and non appointed?

Rachit Kamath: Yes sir.

Murzash Manekshana: So three projects are left. The average value of those three projects is around Rs. 3,000 crores. So Rs. 3,000 crores worth of projects appointed date we are hoping to commence as I said in the next four to five weeks and we have already commenced work for the balance.

Rachit Kamath: But of these MoRTH projects I think there is one from Bombay-Goa the two packages they have been slow moving for quite some time is it not?

Murzash Manekshana: Yes, the terrain is difficult it is extremely hill terrain. There are issues not only with respect to hill cutting and all of that there are issues with respect to monsoons, there are issues with respect to existing encumbrances by way of excessive number of trees and some utilities. So a combination of all of that has resulted in some delay on that project.

Rachit Kamath: But going forward do you see some traction on these projects?

Murzash Manekshana: Absolutely, we hope that in the next couple of quarters there will be not only a steady progress but also a catch up on some of the delay that has happened in the last two quarters.

Rachit Kamath: And sir, my understanding is these project would not have taken to hit the first milestone is it not? Have we achieved milestone one?

Murzash Manekshana: No, not for these two projects.

Rachit Kamath: So what will be the yearly guidance for FY19 and then for FY20?

Murzash Manekshana: So to be honest we would prefer not to give any guidance on the call we can share those numbers with you separately.

Rachit Kamath: Sir, CAPEX numbers can you explain, the CAPEX for the nine months?

Murzash Manekshana: Which has already been incurred?

Rachit Kamath: Yes, the nine months that has already been incurred?

Murzash Manekshana: Yes, so given that we are mobilizing some of our existing four projects right now, we will be incurring additional CAPEX on the four projects going forward in the next quarter. I unfortunately do not have the numbers handy right now but I can share them with you.

Rachit Kamath: Sure, and is my understanding right that you still have almost around Rs. 300 crores of mobilization advances that will be pending to come given that the three appointed dates are not yet received?

Murzash Manekshana: Yes we also have the mobilization advance on the project that we have already started so we have over Rs. 400 crores of mobilization advance to be received.

Rachit Kamath: That is yet to come, right?

Murzash Manekshana: Yes.

Moderator: Thank you. As there are no further questions, I now hand the conference over to Mr. Murzash Manekshana – Deputy Managing Director for the closing remarks.

Murzash Manekshana: Thank you everybody for attending the Q3 call for MEP Infrastructure Developers Limited and we look forward to you all joining us on our next quarter call. Thank you very much for your time.

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