



“MEP Infrastructure Developers Limited Q1 FY2018 Earnings Conference Call”

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Moderator: Good day ladies and gentlemen and welcome to the Q1 FY2018 Earnings conference call of MEP Infrastructure Developers Limited, hosted by IDFC Securities. 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. Ashish Shah from IDFC Securities. Thank you and over to you Mr. Shah!

Ashish Shah: Very good morning to everybody on the call. On behalf of IDFC Securities, I welcome you all to the Q1 FY2018 Earnings call of MEP Infrastructure Developers Limited. We have from the management today Mr. Jayant Mhaiskar who is the Vice Chairman and Managing Director of the company, Mr. Murzash Manekshana who is the Deputy Managing Director, Mr. M. Sankaranarayanan who is the Chief Financial Officer, and Mr. Rohit Wade, Senior Manager - Project Finance. I hand over the call to Mr. Jayant Mhaiskar first for his initial remarks and later on Mr. Murzash will go through the other details of the financial results. Thank you.

Jayant D. Mhaiskar: Good morning Ashish. Thank you and good morning to everyone and a warm welcome to all of you on behalf of MEP Infrastructure Developers Limited. We thank you for participating in our earnings conference call for the Q1 of the financial year 2017-2018. We closed the first quarter of financial year 2017-18 with revenue from operations on consolidated basis at INR 380 cr, EBIT of INR 132 cr, and PAT at INR 13 cr.

Speaking specifically on our marquee project, Mumbai entry points project, we have recorded revenue of 114.4 Crores as compared to 107 Crores for the last year similar quarter. Hyderabad-Bangalore OMT project clocked a revenue of 41 odd Crores as compared to 38 Crores for the preceding year same quarter and Rajiv Gandhi Sea Link saw revenues in excess of 24.6 odd Crores as compared to 29.4 Crores for the preceding year same quarter.

I am happy to announce that we have been awarded the Rajiv Gandhi Sea Link Project for the period of three years on the operate and maintain basis with lump sum upfront payment of Rs.325 odd Crores to be paid by the company to the authority. The contract in its current Avatar entitles the company to collect the toll for the next three years. We are also responsible for maintaining the Sea Link, without any structural aspects covered in the current contract.

MSRDC has opened this particular link for the traffic since 2009 from which time onwards the company has been doing the tolling and at a particular point of time also doing the O&M.

Within the HAM portfolio that we have commenced currently we have already got appointed date for four of our projects i.e. two in Gujarat and two in Maharashtra where the construction has already started. I am also happy to announce that the company has got the first milestone for the Nagpur Project Ring Road 1, where 20% physical completion of the project has been done. The Independent Engineer and the Authority has already acknowledged and certified that and the revenues from that particular project along with the other three under construction projects have also being recorded as part of the Q1 revenues.

We are also expecting the appointed dates for the Arawali Kante and Kante Wakad projects, which are expected within the next two to three months, i.e. we expect construction too commence on these projects too, post monsoon.

As far as the InvIT is concerned, we are awaiting certain authority clearances post, which we should be able to file the DRHP, which is expected I would say very soon.

Talking about the overall sectoral developments, the government has set itself a deadline of October to make every single toll lane on all national highways electronic toll collection (ETC)-enabled. The ministry of road transport and highways has approved "In-Principle" declaration of about 51,300 km length of state roads as new National Highways subject to the outcome of their Detailed Project Reports (DPRs). The Ministry of Road Transport and Highways is also all set to construct total of 24,800 km of National Highways under the proposed Phase-I of Bharatmala Pariyojana. The Public Investment Board has already cleared the proposal for Bharatmala Pariyojana and CCEA proposal for the same is under inter-ministerial consultations.

We are currently evaluating close to Rs 10,000 plus crores of bidding in EPC and HAM to happen over the next 1 to 2 quarters. Over and above that, we are also expecting the toll operate transfer model, which was much talked about, to be finally up for bidding in the next couple of months where we are expecting two packages to be announced predominantly, which would be bundled, and close to around INR 2000 to 3000 odd Crores of bidding with upfront payable would be made.

With that said. I now hand over the cag ll to our CFO, Mr. Sankaranarayanan to give you – run you though some details about the financials for the Q1. Thank you.

M. Sankaranarayanan: Thank you Sir. Good morning everybody. I will just take you through the consolidated financial results for this quarter. Revenues for this quarter stood at INR 3,801 Mn as compared to INR 4,611 Mn last quarter. This is due to the completion of Kini Tasawade project and handover of Madurai-Kanyakumari project to the authority.

As per the regular practice of Ind-AS, the concession fee paid to the authorities is recognized as an intangible on the balance sheet and amortized in the P&L account. The depreciation and amortization comprised of INR 871.7 Mn as compared to INR 2,426.3 Mn in the last quarter.

EBIT margins have increased by 780 BPS in the current quarter due to higher contribution from EPC. PAT for the last quarter included an exceptional item, which is on account of reversal of significant maintenance obligation of Madurai-Kanyakumari project, which was handed over. So if you exclude that effect, the PAT margin has gone up by 387 BPS to 3.4%. The finance cost has also reduced to INR 1,159 Mn in this quarter as compared to INR 1,246 Mn in the earlier quarter. This includes INR 894.5 Mn on account of interest of borrowing and the balance is on account of Ind-AS adjustment that is accretion of trade payables. Thank you.

Moderator: Thank you very much. We will now begin with the question and answer session. The first question is from the line of Giriraj Daga from KM Visaria Family Trust. Please go ahead.

Giriraj Daga: Good morning, team. I have a couple of questions. First of all congratulations on a good set of numbers in the EPC segment as we have been guiding so far. I just want to understand that last quarter we had guided about INR 1,200 Crores of revenue for FY2018 so are we still standing on that number since the last two projects has not got appointed date so far?

Murzash Manekshana: No, there will be a reduction in that number. When I say reduction, it is shifting by a couple of quarters and not an elimination. As you correctly pointed out, because the appointed date of two projects is delayed by a quarter and a half of what we had expected, there will be a reduction in that number projected for EPC revenue.

Giriraj Daga: So what kind of new numbers you would be sharing with us?

Murzash Manekshana: To be honest it will be a function of when actually the appointed date kicks in, but I think by September we will have good visibility on how we will end the year with.

Giriraj Daga: My second question is on margin, if you look at the segment margin we did close to 15% on the EBIT margin for EPC. So should we assume is there any one off in that or should we assume because my understanding is since the amount of volume increase/the revenue

increase, the margin should further get better when the operating leverage comes in. So should we assume this is the base and it will increase going forward?

Murzash Manekshana: I think conservatively we can assume it at this level rather than assuming an increase in volume going forward.

Giriraj Daga: So EBIT margin 15%. Second, coming to the tolling side of the business, what was the cash outgo which we have included in the depreciation and amortization in this quarter?

M. Sankaranarayanan: The depreciation and amortization for this quarter is INR 871.7 Mn.

Giriraj Daga: And rest is the cash outgo?

Murzash Manekshana: That is the concession fee outgo.

Giriraj Daga: And what was this number last two quarters, 1Q of last year and 4Q of last year?

M. Sankaranarayanan: Last year is INR 2,426.3 Mn.

Giriraj Daga: Come again Sir? Sorry Sir, I am confused.

M. Sankaranarayanan: INR 2,426.3 Mn. I will give you the details. The tangible asset depreciation for the current quarter is INR 2.9 Crores in the current quarter and the total amount of amortization/depreciation is 87.87 Crores.

Giriraj Daga: No Sir I understand but what I am looking at is that like amortization as we include of MEP also?

M. Sankaranarayanan: MEP Infrastructure Developers it is INR 34.48 Crores. MIPL that is Mumbai Entry Point is INR 25.75 Crores which we have been doing it from day one. Hyderabad-Bangalore, on account of Ind-AS, is INR 17.56 Crores. HRBC, which we have been doing from day one, is INR 9.69 Crores.

Giriraj Daga: Just a follow up there, if you can give me the last quarter what is the cash outgo?

M. Sankaranarayanan: I will give you the numbers of last corresponding quarter, MEPIDL - INR 157.14 Crore, Mumbai Entry Point - INR 23.71 Crore, Hyderabad-Bengaluru - INR 16.05 Crore, HRBC - INR 10.46 Crores and Kini Tasawade - INR 17.52 Crores.

Giriraj Daga: Understood. Sir what is the Mumbai Entry Point revenue in this quarter.

- M. Sankaranarayanan:** INR 114.16 crore.
- Giriraj Daga:** Rajiv Gandhi Sea Link like we see that this time amount is obviously higher than the last year so rather would we seeing any toll hikes coming in?
- Murzash Manekshana:** You are talking about the Sea Link Project correct?
- Giriraj Daga:** Yes I am talking about Sea Link Project.
- Murzash Manekshana:** Yes it will be on April 1, 2018.
- Giriraj Daga:** And what would be the quantum.
- Murzash Manekshana:** This is an MSRDC format and hence it is once in three years and the number expected based on past track record is in the range out of 15%-18%.
- Giriraj Daga:** And we will not see any upgradation in our costing of INR 325 Crores upfront payment like that is what we have bidded so far?
- Murzash Manekshana:** Could you repeat the question please?
- Giriraj Daga:** My understanding is the 15%-18% and we have bidded for the upfront payment of INR 325 Crores on Sea Link. So there is no condition that when the hike comes in, there will be some hike in that upfront payment?
- Murzash Manekshana:** No.
- Giriraj Daga:** Just the last few things on the macro side you said we have evaluating INR 10,000 Crores of pipeline so is it fair to assume that this is our bid pipeline?
- Murzash Manekshana:** No, so we have not bid for INR 10,000 Crores worth of work as yet. We have currently bid for the Allahabad-Chakri project which is around INR 3,400 Crores. We are looking at additional projects in the range of around another INR 3,000 to 4,000 Crores in the next three to four months. So it is all a function of which projects we win and the build-up that we get on our order book.
- Giriraj Daga:** Last thing, any update on fund raising plan.
- Murzash Manekshana:** Could you repeat that please I am sorry?
- Giriraj Daga:** Fund raising, we were looking for some preference issue or QIP?

Murzash Manekshana: Yes. We are evaluating all kinds of options to be honest and we have got approvals in place from our shareholders for undertaking potential fund raising by way of either preferential allotment or QIP or even by way of a convertible bond or anything like that. So we are in advanced stages of those discussions and hopefully by next quarter we should be able to give you an update.

Giriraj Daga: Thanks a lot and all the best.

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

Prem Khurana: Good morning. Thanks for taking my question. Sir just to understand little more on this delay in getting appointed date. So what is holding back this appointed date from the government as because as I see it's been more than 200 odd days since we have been able to achieve financial closure for the last two projects. So is there some kind of land acquisition issue or there are some other issues, which is kind of holding back the government from giving you appointed date?

Murzash Manekshana: Largely land acquisition.

Prem Khurana: Would it be possible for you to share as in how much land is already in place and how much is stuck and any progress there?

Murzash Manekshana: Sure those details we can provide you offline.

Prem Khurana: Perfect, no problem. Also if you could help me with the debt number and how much is the debt number right now and have made the payment of Rajiv Gandhi Sea Link of INR 325 odd Crores?

Murzash Manekshana: We still have to make that payment. So not now because these are numbers as on June 30 which we will be sharing with you right now. So there has been a reduction of approximately INR 90 odd Crores in the overall debt profile. The number now stands at INR 2,880 odd Crores.

Prem Khurana: So this 90 Crore reduction would have been led by what? As I see it, last year only we received INR 340 odd Crores of mobilization advance from all the hybrid annuity projects put together and I doubt if you would get to raise any bill at least in the immediate future because you would exhaust a part of this mobilization then only you would be eligible for raising any incremental bill on your SPVs or on the JV entities. So where did we get this money for INR 90 odd Crores for the reduction that we have seen in the quarter?

Murzash Manekshana: That reduction is normal repayment of our principal on Mumbai Entry Point mainly and across our various working capital loans that we have in MEPIDPL, there has been a reduction on that also with the reduction of short-term tolling projects that we have experienced.

Prem Khurana: Sir our short-term toll collection numbers seems to come down substantially on a quarterly basis I mean on a sequential basis, if I were to look at our last quarter number was around INR 137 odd Crores which is down to almost INR 57 odd Crores in this quarter and as I see it at least on short-term toll collection there was only one particular project that was supposed to go out of our book viz. Paduna was the only project. What would explain this and there again I mean as far as I understand Paduna has been given to you on an extension basis till the time this is bid out again?

Murzash Manekshana: Basically if you look at the way NHAI bidding is happening in short-term tolling now, many of them are coming in by way of short-term three month extensions because NHAI is in a transition phase. Every three to four years, they go through the transition phase and now I think they are in transitioning in to the four year tolling contracts and the long-term 25 plus years TOT contracts. So even on the PPP model which don't go into TOT, NHAI is contemplating moving those into longer-term contracts as opposed to one year contracts and between projects moving into BOT, EPC, hybrid annuity, many of these PPP tolling projects are just being extend by two, three months in which we are not participating. So that has been the kind of swing. So even if you see three, four years back, the one year tolling numbers had swung from around INR 900 odd Crores back to around INR 600 Crores and gone back to INR 750 crore. So there is an unfortunate couple of 100 Crores in the revenue side which swings due to the short-term tolling segment.

Prem Khurana: On hybrid annuity side, how much is our appetite? You already have six projects. You already put in bid for Allahabad-Chakri. You are saying INR 3,000 to INR 4,000 odd Crores of incremental order is what you intend to bid for. But as an entity how much is our appetite? Will we would continue at this model and how much kilometers would we want to bid for on a yearly basis or how much value would we want to bid in the segment on a yearly basis or is it only till the time you were to get some TOT opportunities that you are bidding for this and once you have TOT in place then ideally you would not want to look at this opportunity?

Murzash Manekshana: There are a few strands of various options that you mentioned. One, is that until we do not win projects unfortunately we do not have visibility on which. Just because we bid for Allahabad-Chakri project, it does not mean that we are going to necessarily win it. Of course, once we win a large project like Allahabad-Chakri, our strategy of evaluating for the future pipeline would be relooked at or revaluated for sure. Second, please appreciate in the

HAM projects, it takes almost nine months to a year for the technical appointed date to kick in and in the given scenario, we have seen that there could be a couple of months further extension on that too. So if there is a project that results are going to come out or which we are going to bid in September, October, November this year, we will operationalize those projects only between May, June, July next year by which time our Nagpur I and II projects and our Gujarat projects would have been almost 60% to 70% complete. So if you evaluate it by that logic and if you take a weighted average of what the technical project pipeline is, I think there is a good amount of projects that we can continue to evaluate and bid for on an ongoing basis and very effectively or successfully we will be able to even execute those projects both by way of equity or execution capability perspective.

Prem Khurana: The idea would be to complete these projects and exit right so we do not intent to kind of sit on these projects for the entire concession period right?

Murzash Manekshana: When you say exit, you mean after two years?

Prem Khurana: Yes.

Murzash Manekshana: Yes sure. Ideally you exit or there are various options available where we have lots of financial institutions who are talking to us about securitization of the annuity cash flows or anything like that so there are various options that are possible.

Prem Khurana: Sir how much equity has already been invested in all the hybrid annuity projects put together?

Murzash Manekshana: From our side, around INR 210 crore. Our partners have put in another INR 40 to 50 Crores so we have definitely covered 50% of our total equity requirement across all six projects. In our Nagpur projects, it would be higher than 50%.

Prem Khurana: Just one last on this TOT, have we been able to firm up any partner because upfront investment would be huge in these kind of projects and we were always been talking about that kind of tie-up with some financial partner to get into this segment, so any updates there.

Murzash Manekshana: Yes so we have three or four partners who we have shortlisted or zoned in on and we are in discussions with them in the evaluation phase for the TOT projects and depending on what best terms we are able to finalize between the JV partners both financial and maybe also strategic then we will be able to share more details on that.

Prem Khurana: Thank you. That is it from my end.

- Moderator:** Thank you. The next question is from the line of Ronald Siyoni from Sharekhan. Please go ahead.
- Ronald Siyoni:** Just wanted to know about this Rajiv Gandhi Sea Link project in which you are going to make about INR 325 odd Crores but the toll revenue which we are getting the quarterly run rate and even if after taking the hike in April 2018, the project does not seem to be much profitable like you also going to about 6% to 7% O&M, there would be tax also and if we add up all these and the INR 325 odd Crores payment, seems on the higher side?
- Murzash Manekshana:** You are absolutely right that the historic profitability of the project is not envisage to be repeated or replicated in the current project tenure. Having said that, we expect revenues, if you look at the toll hike increase and the traffic growth that we are seeing on Rajiv Gandhi Sea Link because of the rail metro work and the growth of the BKC on a year-on-year basis, we expect toll revenues to be in excess of around INR 460 plus Crores which automatically will translate into a reasonable or a good profitability for the project.
- Ronald Siyoni:** Second thing was the depreciation, which you had incurred during the quarter, will it be the normal rate going ahead at least for FY2018 if we think that short-term toll projects, we are not going to go much after that?
- M. Sankaranarayanan:** According to Ind-AS change, even the short-term tolling contracts are classified as intangibles and we amortize that in the P&L. But in case of short-term contracts where there is no end date specified or if it is on extension, it is shown as concession fee.
- Ronald Siyoni:** That is the reason and third thing was that for this funding issue like you would be requiring equity in HAM and this INR 325 odd Crores payment also so how do we see the debt number. Does this INR 325 odd Crores would be financed through mobilization advance received from the HAM or it has been infused as equity in HAM already.
- Murzash Manekshana:** Which INR 325 Crores you are referring to?
- Ronald Siyoni:** The upfront payment for Rajiv Gandhi Sea Link
- Murzash Manekshana:** No, that will be debt financed.
- Ronald Siyoni:** That will be totally debt financed.
- Murzash Manekshana:** Yes.
- Ronald Siyoni:** So the debt would go up inch up in FY2018.

Murzash Manekshana: Yes of course, it will inch up but then you have a three-year visible asset or a revenue-generating asset. The debt will go to the specific SPV ring fenced towards the specific cash flows of this project and will be adequately serviced and paid through those cash flows.

Ronald Siyoni: Balance INR 200 odd Crore in HAM equity, that would also be funded through debt?

Murzash Manekshana: No, HAM equity is equity. We intend to fund it through equity sources and the debt of the HAM side is INR 1,721 Crores across the six projects for which the financial closure has been achieved and which we will draw down as and when the projects progress. Currently as Mr. Mhaiskar mentioned to you that we have been successful in getting our certification for our first project that we started Nagpur I and hopefully Nagpur II certification also we will get within the next few weeks or if not, within the month which demonstrates or justifies that there is a lot of progress that has happened on the ground based on which we are getting NHAI milestone payments also and against which there will be a good amount of debt drawdown that will happen as a pro-rata towards that too. So the point I am trying to make is that the next real infusion of equity is not due for quite a few months if you actually look at the periodic cash flows that need to come in by way of equity, NHAI payments and bank drawdowns.

Ronald Siyoni: Thank you very much Sir. Best of luck.

Moderator: Thank you. The next question is from the line of Jiten Rushi from IDFC Securities. Please go ahead.

Jiten Rushi: Good afternoon Sir. Sir my question is related to the EPC component of the HAM project so what is the revenue so far we have booked from the EPC component on the HAM project?

Murzash Manekshana: It is around INR 115 odd Crores.

Jiten Rushi: What would be total EPC order backlog on these projects?

Murzash Manekshana: If you just look at the four projects for which we have received appointed date, it will be around INR 2,400-2,500 Crores.

Jiten Rushi: Thanks a lot Sir.

Murzash Manekshana: When you said order backlog you meant the balance portion of the EPC contract so this revenue is largely across the four projects for which we have got appointed dates. To give you perspective two appointed dates were in January however two appointed dates were as

recent as May so really a large part of the project is yet to be factored in because these numbers are only till June 30. Post June 30, in July and August itself, the current run rate is significant on both our Gujarat projects and Nagpur projects, so you will see a big jump in that in the next few quarters.

- M. Sankaranarayanan:** To add that we have already completed 10% in Mahuva Kagavadar project.
- Murzash Manekshana:** Which is one of our Gujarat projects.
- Jiten Rushi:** So you mean to say that overall EPC portion is around INR 2,500 Crores to INR 2,400 Crores.
- Murzash Manekshana:** Overall EPC portion is around INR 3,500 Crores across six projects. Because you mentioned in relation to the revenues we booked what is the balance, so I did not include two other projects which is the Arawali Kante, Kante Wakad project which we have not yet started. Those two projects itself contribute another INR 1,500 Crores.
- Jiten Rushi:** Thank you.
- Moderator:** Thank you. The next question is from the line of Karn Bhargav from WealthBridge Capital Advisors. Please go ahead.
- Karn Bhargav:** My first question is regarding the memorandum which is signed with the Malaysian group regarding the railway development project. So when can we expect an announcement for that?
- Murzash Manekshana:** The CIBD memorandum you are talking about with Malaysian group?
- Karan Bhargav:** Yes.
- Murzash Manekshana:** So I think that announcement has happened. We are working with the board. We have had a couple of interactions with delegations from Malaysia evaluating a few of the projects that we are looking at. Finally there is good amount of traction for the wider infrastructure sector, not only just the road sector. So we are talking to a few entities on that front.
- Karn Bhargav:** The hybrid projects you mentioned that INR 210 odd Crores have been infused as equity right?
- Murzash Manekshana:** Yes.
- Karan Bhargav:** So how the equity was infused funded?

- Murzash Manekshana:** How was it funded?
- Karn Bhargav:** How was the equity funded because how much of it was promoter infusion and how much of cash flows?
- Murzash Manekshana:** Sure, so we had a mix .There was optimizing of our working capital by way of certain group company loans that were provided. There were also certain advances that we had given to third party contractors in relation to long-term contracts that we sort of completed/gave up over the last 12 to 15 months so we were able to effectively receive those advances also back. In addition to that there are almost around INR 80 to 90 Crores of promoter's capital funding that was raised to facilitate the equity infusion.
- Karn Bhargav:** One last question is your Chakri project in Allahabad do you have a JV partner for that?
- Murzash Manekshana:** Yes we have a JV partner.
- Karn Bhargav:** And who are the partners there?
- Murzash Manekshana:** Longjiang from China.
- Karn Bhargav:** Great. Thank you.
- Moderator:** Thank you. Ladies and gentlemen that was the last question. I now hand the conference over to Mr. Ashish Shah for their closing comments.
- Ashish Shah:** I thank the participants for attending this call. I also thank the management of MEP Infrastructure Developers for giving us the opportunity to host this call. Sir would you like to make any closing remarks.
- Murzash Manekshana:** Thanks Ashish. Thanks everybody to make time to attend our call and thank you for the participants who sort clarification hence questions because that I think always helps everybody get a better understanding of our operations. We are quite excited at this stage of our evolution where we are progressing well with respect to our hybrid annuity projects that we have won and the execution on the ground is testament to our ability to effectively execute these projects going forward and we look forward to certain new developments in industry also, with respect to the TOT and on the tolling side which will continue to boost our tolling operations. We are excited about the times with respect to the road infrastructure space in India and we thank all our stakeholders and people who show interest in our company and thank you again.

Moderator: Thank you. On behalf of IDFC Securities that concludes this conference. Thank you for joining us. You may now disconnect your lines.