IRB Infrastructure Developers Limited

Q2 Financial Year 2025
October 30, 2024

Moderator: Ladies and gentlemen, welcome to the IRB Infrastructure Developers Limited Conference Call to discuss the Financial Results for the Quarter Ended September 30, 2024, along with recent developments.

We have with us on the call today Mr. Virendra Mhaiskar, Mr. S.S. Rana, Mr. Sudhir Hoshing, Mr. Anil Yadav, Mr. Mehul Patel, Ms. Poonam Nishal and Mr. Tushar Kawedia.

As a reminder, all participants' lines will be in the listen-only mode and after the opening remarks by the management, there will be a question-and-answer session. Please note that the duration of the call will be 45 minutes, and any queries left unanswered after the call can be subsequently mailed to the management for adequate response and resolution. Please note that this conference is being recorded.

I now request Mr. Yadav to give an overview for the significant developments during the quarter. Thank you and what to you, sir.

Anil Yadav: Thank you. Good evening, everyone. I welcome all investors and analysts to our earnings call for Q2 results of the Financial Year 2024-25. I trust you have reviewed our detailed numbers and presentation. I will briefly highlight the key points for the quarter.

We are pleased to inform you that IRB has successfully completed the tap issuance and allotment of US$ 200 Mn. 7.11% Senior Secured Notes having final maturity in FY2032 at premium. Proceeds from issuance of notes will be utilized for capital expenditure and/or refinancing of loans availed for capital expenditure. This will further strengthen our liquidity position thereby ensuring business stability.

Being the issuer, IRB was rated as Ba1' and BB+ by reputed international rating firms – Moody's and Fitch respectively. We received an encouraging response with participation from marquee investors like Blackrock, Lombard Odier, HSBC, T. Rowe Price, PIMCO, BFAM Partners, Brevan Howard, Wellington, Goldman Sacs, etc. The Notes are listed on the India International Exchange (IFSC) Limited ("India INX").

Toll collection for this quarter was significantly impacted due to heavy rains across India, with many states witnessing their highest rainfall this monsoon, leading to flooding. Despite the impact of heavy rains, toll collection has shown growth. The Mumbai-Pune and Ahmedabad-Vadodara corridors reported a 2.3% increase in daily toll collection, from Rs. 6.25 crores in Q2FY24 to Rs. 6.40 crores in Q2FY25. In view of the forthcoming festive season, we are optimistic about sustaining growth, driven by increased travel and economic activities. The second half of the year is typically much better from a toll collection perspective.

For Private InvIT, per-day collection has risen to Rs. 9.94 crores for the quarter ended September 2024, compared to Rs. 6.82 crores per day for the quarter ended September 2023, recording a 46% growth. This increase is attributed to traffic growth, toll tariff revision, and addition of new projects.

Private InvIT has been generating positive cash flow since last financial year and has declared a distribution of ~Rs. 64 crores for Q2FY25, which will reflect in IRB's cash flow to the extent of its holding, i.e., 51%.

In line with our dividend policy, the company has declared an interim dividend of 10%, amounting to ~Rs. 60 crores.

Our total order book now stands at approximately Rs. 32,600 crores, with an EPC order book of approximately Rs. 4,000 crores. The next two years' executable order book, including EPC and O&M, is close to Rs. 6,200 crores excluding change of scope work and utility shifting.

CRISIL Ratings has reaffirmed its 'CRISIL AA- / Stable rating for long term credit facilities of the company.

Long term opportunity in the sector - NHAI has announced plans to double the national highway grid from 100,000 kilometres to 200,000 kilometres at an investment value of over Rs. 50 trillion over the next eight years. Considering existing high leverage, the authority is likely to increase their portfolio of projects that are being awarded on PPP and we expect around 40% of the plan to come up of approximately Rs.20 trillion on PPP mode. Even a 10% market share in the proposed PPP would mean addition of Rs. 2 trillion worth of projects to IRB portfolio.

IRB has transformed into a self-sufficient powerhouse, poised for continued growth and leadership fortification. Our cash flow strategy, fueled by:

1. Asset monetization

2. Two InvITs

3. Asset churn (BEST approach: Bid, Execute, Stabilize, and Transfer)

Supported by our extensive asset portfolio and prudent long-term leverage management, it will enable us to triple our portfolio over the next six to eight years, building on our established asset base of for FY25.

Near-term opportunities:

A large pipeline of approximately Rs. 37,000 crores, comprising BOT projects and four TOT projects, is already lined up. Although the bidding and awarding process has been slow, we expect it to accelerate in the second half of the current year.

With a lower consolidated net debt-to-equity ratio, we are well-capitalized to tap into these opportunities, which will include a significant portion of BOT/TOT projects in partnership with GIC affiliates and Cintra.

We are well-prepared and in a strong position to actively pursue these opportunities. We will bid for BOT and TOT projects, which will be executed through Private InvIT, reducing equity requirements to 51% (approximately 15% of project cost).

Now, I will request Tushar to cover the financial highlights for Q2FY25. Over to you, Tushar.

Tushar Kawedia: Yeah. Thank you, sir. So I will just take you through the financial analysis of Q2 FY25 versus Q2 FY24. The total consolidated income for Q2 FY25 was at Rs. 1,752 crores from Rs. 1,875 crores, down by 7%. The decrease in the construction revenue is mainly on account of the heavy monsoon across all states.

The consolidated toll revenues for Q2 FY25 has increased to Rs. 600 crores from Rs. 588 crores for Q2 FY24, registering a growth of 2%. The consolidated construction revenues for Q2 FY25 decreased to Rs. 1,152 crores from Rs. 1,286 crores, down by 10%.

EBITDA for Q2FY25 slightly increased to Rs. 933 crores from Rs. 924 crores, registering a growth of 1%.

The interest cost remained stable at Rs. 434 crores in Q2FY25 from Rs. 435 crores in Q2FY 24.

The depreciation and amortization slightly decreased to Rs. 231 crores in Q2 FY25 from Rs. 233 crores, and PBT has increased to Rs. 267 crores as against Rs. 257 crores, an increase of 4%.

PAT after share of loss from JV of (Rs. 84 crores) has increased to Rs. 100 crores in Q2FY25 from profit of Rs. 96 crores in Q2FY24, an increase of 4%.

Cash profit has increased to Rs. 415 crores in Q2FY25 from Rs. 404 crores in Q2FY24, an increase of 3%.

Now, I request the moderator to open the session for question-and-answers.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Alok Deora from Motilal Oswal Financial Services. Please go ahead.

Alok Deora: Sir, just a few questions. First is on the execution, which has been pretty soft even on Y-o-Y basis if we see. So just wanted to understand what's happened, is it just because of the monsoon or any other reason also could be attributed to this? And how has October been for us and whether this could continue a little bit in 3Q as well?

Management: Thank you, Alok. As mentioned earlier, unprecedented monsoon rains led to record-breaking rainfall in several states. Consequently, EPC execution and toll revenue were impacted. However, with the monsoon now behind us, execution is gaining momentum, and we anticipate a significant pickup in construction activity during the third quarter.

Thank you, Alok. As discussed in the opening remarks, because of the very severe rain, some of the states have even seen the highest rainfall this monsoon. Consequently, EPC execution and toll revenue were impacted. However, with the monsoon now behind us, execution is gaining momentum, and we anticipate a pickup in construction activity during the third quarter.

Alok Deora: Sure. Just couple of data points. The other income has jumped quite a lot, even Q-on-Q and Y-o-Year, so any one-time included in that?

Management: So, as we discussed last time also, there is a fair value gain impact in the other income for which is on account of the fair value of deferred consideration receivable from the Private InvIT.

Alok Deora: Sure. And on this share of profit in associate, that has the actual losses have widened in 2Q, so that would normalize ahead or just wanted some color on?

Management: Please note that the fair value loss has also impact Profit & Loss account of Private InvIT, reflected in share of JV. Refer to our corporate presentation, Slide 4, for details on fair valuation impact. Adjusting for this loss in Q2 FY24 and Q2 FY25, Private InvIT losses remain steady despite adding three new projects: Hyderabad ORR, TOT 12, and TOT 13. Newly added projects typically generate positive cash flow initially, but amortization leads to losses. Notably, private InvIT losses haven't increased despite project additions.

Alok Deora: Got it. Just one last question. So, you have again in the presentation highlighted the bid pipeline across toll and TOT. So just wanted to understand, we are already at October end now, so have projects started coming up and have we started bidding? Are there projects where we have bid and outcome has not come yet? Or it will mostly come from December onwards?

Management: So, Alok, you are right, this is a concern the entire sector is having on its mind. And if you see, only one TOT has so far seen actual bidding going through. And the other four TOTs are now likely to happen between now and end of December and the BOT projects also keep getting postponed, and we now expect few of them to get bid out in the third quarter, assuming no further delays from NHAI on this. So, I would say that it is moving in a similar direction to what we have seen in the last couple of years when the bidding activity escalates significantly towards the end of the financial year.

Alok Deora: Sure. Thanks for that. But we are not changing our order inflow targets or guidance or anything of that sort?

Management: No.

Moderator: Thank you. The next question is from the line of Deepak Krishnan from Kotak Institutional Equities. Please go ahead.

Deepak Krishnan: Sir, maybe just one question, so you indicated that EPC revenue pipeline for next two years is Rs. 60 crores to Rs. 100 crores. We did about Rs. 4,900 crores in FY '24, so in case there are sort of no wins, how are we looking at EPC revenues for this particular year, the construction revenue for this particular year as well as sort of for FY '26?

Management: Krishnan, our current order book stands at approximately Rs. 6,200 crores for the next two years, excluding utility shifting and change of scope (COS) works. Typically, COS and utility shifting works add Rs. 1000 to 1200 crores over the period. Considering this, our total order book is around Rs. 7,000 crores, executable over six quarters.

We have visibility for the next six quarters, and beyond that, our 20-year O&M contracts provide assurance. Even in a worst-case scenario, if new orders are delayed by 1-1.5 years, EPC revenue might decrease to 40-50%. However, our O&M revenue will grow to Rs. 2,000-2,500 crores, ensuring revenue continuity.

We're confident of securing new orders and sustaining EPC growth, consistent with our past performance.

Deepak Krishnan: Sure. And maybe just wanted to understand, till what time would we sort of continue to see losses from associates, like what are we expecting for the full year and when does this sort of impact of fair value go away and the impact of all the new assets come through and we start seeing, we are seeing cash flow but we are not seeing profitability, when does that start showing up in the associate line positive, is it FY26 or would it be FY27?

Management: I think you are very right, and you have touched upon a very good question. What is happening is these investments today reflect at book value, and the real value that this portfolio is generating is not getting duly captured in the essence of the results to my mind. And the company is working on this because the cash flow is very robust, as you know that we have already started distributions from this platform. So, we are working on it. I think you should see the results on that line sooner than later.

Deepak Krishnan: Sure. Any impact of this new change in toll collection now moving to satellite-based toll collection with first I think 30-odd kilometers no toll collection, does it impact us in any way? Or there is no sort of financial impact?

Management: None of the things which you mentioned have become operationalized. These are all academic discussions underway. And none of the toll notifications of any of the projects have seen any change. And to my understanding, these are all futuristic thought processes. The new software or the new technology is much in a primitive testing mode as of now. So, it will take some time for that to happen and as the outcome of the FastTag has been extraordinarily good for the company, we believe the new technology also will add further value to the portfolio going forward and in terms of the reform, what has taken place in the sector, whether we call it moving from tariff revision linked with the WPI and thereafter 3% fixed plus 40%, all the changes were with the prospective effect. So ideally, we assume that the changes whenever will happen for the new projects to begin with. And secondly, the concession agreement provides adequate compensation in case there is any change to the regulation.

Deepak Krishnan: And just one other thing, the one-time impact of fair value, how much would that be? If I look at Q-on-Q, other income is up by Rs. 47 crores and the loss is up by Rs. 30 crores. What would sort of the one-time impact in both of them?

Management: So, for this quarter it was around Rs. 80 crores one-time impact in the IRB results.

Deepak Krishnan: And part of it gets obviously adjusted out of the associate?

Management: Yes, that's right.

Deepak Krishnan: So, I think we have sort of already touched upon, but do you kind of see acceleration of bidding happening in second half? Do we sort of finally see all these awards picking up substantially? How are we looking at it, or are there still some uncertainties? Are we at a place where L1s are awarded? Or do we still probably think that L1 gets awarded two, three months?

Management: So, we are tracking more of the BOT and TOTs. And in that we can say that there are four TOTs lined up for bidding as per the present date before end of December, and there are six to seven BOT projects which are also up for bidding which are likely to happen between now and March. So, there is good visibility. And see, we must understand that all these BOT projects which have come after a long time for bidding involve a lot of queries and clarifications that must come from the client which are being asked by prospective bidders. And that entire exercise of understanding the project much better before we put in a bid, this is what is taking time and pushing the dates of submission forward. But I can say that in majority of these six, seven bids, most of the iterations are wanting to understand the nuances of the project, more clarification on the scope of work and timelines, etc., have all been iterated now. We don't expect any further delay in the date of submission now. That's why we believe that between now and March these six, seven BOTs and four TOTs should see the end of the tunnel.

Moderator: Thank you. The next question is from the line of Parikshit Kandpal from HDFC Securities Limited. Please go ahead.

Parikshit Kandpal: Congratulations on a decent quarter. Sir, what will be the sizes of these BOT assets which are coming up for bidding?

Management: Parikshit, the bidding size of the BOTs are in the range of Rs. 4,000 crores to Rs. 7,000 crores, each. I will not be able to give you a number because that is upfront number that we have to quote, but these are decent sized TOTs as well.

Parikshit Kandpal: You are saying each BOT project will be Rs. 4,000 crores to Rs. 7,000 crores, and the equity requirement will be almost Rs. 1,200 crores to Rs. 2,000 crores for each project?

Management: Yes. And as you will appreciate, our requirement falls to 51% of that, and we are very well capitalized because we will be partly redeploying the construction profit back to fund our share of equity. So, we are quite comfortable in terms of our ability to fund the equity for the project that may come our way.

Parikshit Kandpal: And how do you envisage these, I mean, will this be on the positive revenue share with NHAI or do you think there could be some grant element? So, this new bidding which kicks in, so how do you read into these bids?

Management: Very difficult to say because each of the bid will be different, but largely it will be grant project.

Parikshit Kandpal: But not touching 40% times grant. I mean, maybe a much smaller grant.

Management: The upper limit is 20% now, the contract provides for the highest grant of 20%.

Parikshit Kandpal: So 30% is the highest and 20% --

Management: 20% is the highest.

Parikshit Kandpal: Sir, I mean, this will require huge outlay and even we are bidding for TOTs. So in that sense, between Private InvITs where the assets are getting matured, so how do you look at monetization internally? Because TOTs will not give you much of value addition as BOTs because BOT brings in a construction element and then you reinvest that profits into equity. But since you are also following both the paths, so how do you now look at monetization of the

Private InvIT assets, especially the ones which have now some history or nearing maturity so stability on revenues?

Management: So you have touched upon a very valid point, and even at the risk of jumping the gun, I would say that, yes, we have been working on BEST policy, as we have always articulated, which is bid, execute, stabilize and transfer. And while I will not be able to give you a detailed color on what is underway, we are seriously working on this strategy to ensure that we at all times will have enough resources to tap the upcoming TOT opportunities and bid on them. And you will see more color of what we are trying to say here in near future, in terms of our strategy to rise to this requirement of Government of India wanting to do asset monetization. And we will be positively supplementing and supporting this initiative.

Parikshit Kandpal: Sir, how many projects do you think realistically you can win? I mean, there will be limited competition given the sizes are humongous, we have rarely seen this kind of size coming in. So, what kind of appetite do you think we can have? You have a partner obviously, but do you think in terms of order inflows, can you know how much can you take in a financial year?

Management: Parikshit, no cost is attached to wishing. So definitely we would like to retain our market share that we presently command, which is 34%.

Parikshit Kandpal: So, these five, six projects, each is about Rs. 30,000 crores, Rs. 35,000 crores.

Management: I would refrain myself from putting a math and a number to it.

Parikshit Kandpal: No, guidance wise, order inflow guidance wise how much?

Management: Please do not take this as guidance, but I am giving you a roundabout strategy, what our wish list would be.

Parikshit Kandpal: But do we have that kind of appetite? I mean, if we can get two, three projects and we need to invest Rs. 4,000 crores of equity, so that is like enough bandwidth on our equity side to do that?

Management: 100%.

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

Prem Khurana: Sir, I mean, most of my questions on the quarterly results are already answered. I mean, I had two questions on them, I mean, the observations from the annual report, if you could help me understand those. One was our deferred consideration for stake sale seems to have gone up. I mean, we have not transferred any new asset, I mean, these are all old assets which were transferred long back. Why would we see any increase in the deferred consideration? I mean, I was under the impression that ideally, they should come down because YATL order was ruled in our favor, so I thought that money would come to you and which is where the number should ideally come down over a period of time whenever you get to have that money. But the number seems to have gone up.

And second thing that I wanted to clarify was, so when I look at the investments part, some of these assets which are with the Private InvIT, we seem to have infused money from our balance sheet. I mean, it's shown as a part of subordinate debt, Rs. 1,600 crores, Rs. 1700 crore Investment, I mean, there are multiple entities. So, I mean, why would you invest directly in these SPVs and subordinate it? Ideally I mean it should have gone to Private InvIT, and Private InvIT should have invested money, right, if there was any requirement, why would we use our balance sheet to do that?

Management: Prem, to address your first question, the deferred consideration is accounted for on a discounted basis, which increases as we approach the receipt date.

Regarding Yedeshi Aurangabad, we've received an arbitration award of over Rs. 1,700 crores, plus a concession period extension. However, we're yet to receive this amount from NHAI, and once received, it will reduce the deferred consideration.

Concerning private InvIT funding, rights issue timelines involve prospectus filing with SEBI. In the interim, we may directly infuse funds into SPVs, which are reimbursed post-rights issue.

Prem Khurana: Thank you. And all the very best for future and wish you a very Happy Diwali.

Moderator: Thank you.

Management: I think there are no more questions, we can do the closing remark and conclude the call.

Moderator: Okay. I would now like to hand over the conference to the management for closing remarks.

Anil Yadav: Yeah, I would like to thank all of you for being on the call today. And we would like to wish you all a very Happy Diwali and a prosperous New Year ahead. And we look forward to have you again with us on the next update of the company very soon.

Moderator: Thank you. Ladies and gentlemen, this concludes your conference for today. We thank you for your participation and for using Researchbytes Conferencing Services. You may now please disconnect your lines now. Thank you and have a great evening ahead.