IRB Infrastructure Developers Limited
Q3 FY25 Earnings Conference Call
February 1, 2025

Moderator: Good morning, ladies and gentlemen, Welcome to the IRB Infrastructure Developers Limited Conference call for discussing the Financial Results for the quarter ended December 31, 2024, along with recent developments.

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

As a reminder, all participant 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 would 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 hand the conference over to Mr. Yadav to give you an overview of the significant developments during the quarter. Thank you and over to you, Sir.

Anil Yadav: Good morning, everyone. I welcome all investors and analysts to our earnings call for Q3 results of Financial Year 2024-25. I trust you have reviewed our detailed numbers and presentation. I will briefly highlight the key points for the quarter.

Pvt InvIT - IRB Infrastructure Trust, has issued a preliminary and non-binding offer ("NBO") to offer 5 of its matured assets to Pub InvIT - IRB InvIT Fund. As of Sep-24, the enterprise value of 5 offered assets is ~ Rs 15,000 Crores as outlined in the independent valuer's report of the Private InvIT. The consideration so received will be used for funding upcoming opportunities in the Sector.

This proposed transfer is a key step in our B.E.S.T (Bid, Execute, Stabilize & Transfer) strategy, under which projects are initially developed under our Private InvIT platform. Upon their completion and stabilization, these assets are then first offered to the Public InvIT platform. This process not only maximizes value for all stakeholders of the IRB Group but also ensures sustained long-term benefits.

The B.E.S.T growth strategy focuses on sourcing capital for growth through asset monetization. This transfer of assets from the Private InvIT to the Public InvIT will ensure that there is no need to dilute equity or alternatively raise debt at IRB level. For the Public InvIT, this is a win-win situation as not only their portfolio expands but also the residual life of the assets under management will get enhanced.

During the quarter, Pvt InvIT has acquired 80.4% of the equity share capital and 80.4% of the debentures of Ganga expressway Project ("MBEL"). The Project has already received three tranches of Grant aggregating to Rs. 8.70 Bn of the 17.46 Bn from UPEIDA. We are happy to inform that the project is progressing as per the scheduled timelines.

The investment manager of the Pvt InvIT, on behalf of the Trust, has issued and allotted 5.84 crore Units of the Trust aggregating to Rs. 1,714.92 crores. The Company, being the Sponsor of the Trust, has been allotted 2.98 crore units.

We have witnessed a robust toll Revenue growth of ~21% across projects in Private InvIT, Mumbai Pune & Ahmedabad Vadodara YoY for Q3FY25.

Private InvIT has been generating positive cash flow since last financial year and has declared a distribution of ~Rs. 54 crores for Q3FY25, which will reflect in IRB's cash flow to the extent of its holding, i.e., 51%. Cumulative distribution declared by private InvIT for 9MFY25 aggregates to Rs. ~190 crores.

In line with our dividend policy, the company has declared an interim dividend of 10%, amounting to approximately Rs. 60 crores. Total dividend for 9M FY25 aggregates to Rs.181.1 Crores.

Our total order book now stands at approximately Rs. 31,500 crores, with an EPC order book of approximately Rs. 3,200 crores. The next two years' executable order book, including EPC and O&M, is close to Rs. 6,000 crores.

With respect to new bidding, the government's push for Public-Private Partnership (PPP) projects is gaining momentum, with bidding for Build-Operate-Transfer (BOT) and Toll-Operate-Transfer (TOT) projects now underway. We are well-positioned to capitalize on these opportunities and intend to actively participate in these upcoming projects.

India Ratings and Research (Ind-Ra) has affirmed IRB Infrastructure Developers Limited's (IRBIDL) Long-Term Issuer Rating at 'IND AA-' with a stable outlook.

Now I will request Shri Tushar to cover the "Financial Highlights" for Q3 FY25. Over to you Tushar.

Tushar Kawedia: Thank you sir and good morning to all. I will first take you on the new accounting segment reported by the company for this quarter followed by the financial highlights for the quarter.

To align the accounting treatment in line with the regulatory changes relating to InvIT operations, shifting business environments and emerging business opportunities, the company has engaged experts to advise on the accounting approach to be adopted by IRB. Following an extensive study of IRB's business model and Indian and global accounting guidelines, the experts have recommended the accounting treatment. This treatment was considered and approved by the Audit Committee and Board after detailed deliberations. Accordingly, the Company has introduced a new segment 'InvIT and related assets' and reported the segment results in accordance with IndAS 108. As you are aware of that more than 85% of IRB's enterprise value is attributable to its asset business. Notably, the Private InvIT has an enterprise value of approximately Rs. 60,000 crores in which IRB holds 51% stake. Now with adoption of new measurement approach, the investments in Private InvIT will reflect the inherent value of these investments on an ongoing basis.

I will now take you through the financial analysis- Q3 FY25 v/s Q3 FY24.

The total consolidated income for Q3FY25 has increased to Rs.2,090 crores from Rs.2,077 crores, registering a growth of 1%. The income from BOT segment for Q3FY25 has increased to Rs.648 crores from Rs.616 crores for

Q3FY24, registering a growth of 5%. The income from InvIT and related asset segment for Q3FY25 has increased to Rs.245 crores from Rs.67 crores in Q3FY24, registering a growth of 267%. The income from construction segment for Q3FY25 has decreased to Rs.1,133 crores from Rs.1,353 crores, down by 16%. The other income for Q3FY25 has increased to Rs. 64 crores from Rs.42 crores in Q3FY24, an increase by 52%.

EBITDA for Q3FY25 increased to Rs. 1049 crores from Rs.978 crores in Q3FY24, registering a growth of 7%.

Interest cost has increased to Rs. 461 crores in Q3FY25 as against Rs.433 crores, an increase by 7%.

Depreciation and amortization expense increased to Rs.265 crores in Q3FY25 from Rs.251 crores in Q3FY24, an increase by 5%.

PBT has increased to Rs.323 crores in Q3FY25 from Rs. 294 crores, an increase by 10%.

PAT (before exceptional gain and post JV losses) has increased to Rs. 222 crores in Q3FY25 from a profit of Rs. 187 crores (JV loss for Q3 FY24 of Rs. 51 crores) in Q3FY24, an increase by 18%.

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. Anyone who wishes to ask a question may press “*” and “1" on their touch-tone telephone. If you wish to remove yourself from the question queue, you may press “*” and “2". Participants are requested to use handset while asking a question. Ladies and gentlemen, we will wait for a moment while the question queue assembles. The first question is from the line of Alok Deora from Motilal Oswal Financial Services. Please go ahead.

Alok Deora: So just a couple of questions. First is on the order inflow. So, if you could just highlight what is happening on the NHAI side because the order inflow has been poor YTD. Although it has picked up in the Q3 quarter but still on the overall basis it seems weak and now we are just left with two months. So, if you could just highlight on the total order inflow as well as what kind of projects are expected because even toll projects have not really come by.

Management: As you know the year opened for us with the two TOTs that we had backed starting from 1st April and as all of us are aware due to the elections getting conducted the ordering and the overall activity has slackened. But we see positive momentum coming back. Few of the TOT and BOT bids have already happened and we see a good traction over the next 2 months as far as TOT and BOT space is concerned. We are fully geared up to participate in these upcoming opportunities and we will be working very closely on these opportunities to see what best we can get in for the company's prospects.

Alok Deora: Sure. So, based on what has happened I am sure it has been below our expectation also that last time when we spoke in the earning call post that also 2 months nothing has really materialized in a concrete way. So, have we trimmed down our expectations for the remaining 2 months because this is when most of the ordering was expected in the last 4 months and two months have already gone by.

Management: So, Alok on a lighter version, India has won many matches on the last over. We have not revised our target as yet. We stay tuned with the same target number even now.

Alok Deora: Absolutely and after this reclassification exercise which we have done, so now the recurring number will be the gain from InvIT and everything will be counted in the revenue part. So, the classification would look like this only, right? How it is given in the P&L and just at the 58 billion of one time this thing will go away from next quarter onwards.

Management: Yes, Alok. You are correct. This will be a recurring in nature.

Alok Deora: Sure. Just one last question. Why is this gain included in revenue? I mean isn't it part of the non-operating or the non-core revenue? Because then it actually does not give a true picture of the core revenue, right? Because this is coming from the InvIT operations so.

Management: Alok, as you're aware, InvIT investments typically operate on a Net Distributable Cash Flow (NDCF) basis, where cash flows generated are distributed to unit holders.

Given the long life of these assets, their value will appreciate as revenue and cash surplus increase. In fact, in the analyst models, which use Discounted Cash Flow (DCF) analysis, demonstrate this appreciation in value and corresponding target price increase as you roll forward the projections.

We've already offered 5 assets to the Public InvIT and are in the process of realizing value. This will be an ongoing, recurring process, and we believe it should be treated as regular income, in line with accounting standards and norms.

Management: Alok, to add to that, IRB's strategy has shifted, with bidding now happening at the Trust level. For IRB, this represents a regular investment opportunity, where we'll deploy capital against our stake. This makes it a major operational segment, as all future bids will be made at the Private InvIT level.

Regarding your question on Fair Value Through Profit and Loss (FVTPL) versus Other Comprehensive Income (OCI), the key point is that toll revenues are reflected at the Private InvIT level, providing investors with visibility into the portfolio's performance. However, due to the joint control mechanism in the Private InvIT, the cash flows generated aren't reflected in IRB's balance sheet, despite our 51% ownership. This creates an incomplete picture for investors.

Therefore, these fair value changes are recognized through the Profit and Loss (P&L) statement.

Moderator: Thank you. Before we take the next question, a reminder to all the participants that you may press “*” and “1" to ask a question. The next question is from the line of Vishal Periwal from Antique Stock Broking. Please go ahead.

Vishal Periwal: Yes, sir. Thanks for the opportunity. Two questions from me. First, in the P&L, in the revenue when we have booked a dividend, interest income from InvIT of Rs. 167 million, how does this differ from the PPT where we have mentioned distribution of Rs. 540 odd million? Are they the same thing or are they different?

Management: So, Rs. 167 million is the distribution which includes the distribution from Private InvIT and Public InvIT.

Vishal Periwal: Okay. No, but quarter 3 in the PPT mentioned 540 odd million. So, roughly like 51% of it will be almost like Rs. 27-28 odd crore vis-vis the Rs. 16-17 crore that we have booked.

Management: Vishal, to clarify, under the revised accounting standard, dividends or distributions from the InvIT are recognized only on a receipt basis. Therefore, any distributions declared in Q3 will be accounted for in the subsequent quarter. The distribution reflected in our current numbers pertains to the previous quarter. Further, Rs.540 million declared by Private InvIT in current quarter also includes the repayment of capital which will not form part of Profit and loss statement.

Vishal Periwal: Okay. Got it and then second is on this the treatment of the investment that we have done for the InvIT, according to you how this will have an impact on ROEs, and I think margins may be largely same EBITDA margin, but ROEs will this have a positive impact? Is that fair to understand?

Management: Indeed, the impact will be positive on our Return on Equity (ROE). However, our business is typically evaluated on different metrics. Given that 80-85% of our value is derived from our assets, investors often use Discounted Cash Flow (DCF) analysis for the asset side and apply multiples for the EPC business. As a result, our business valuation is not heavily reliant on ROE. Nonetheless, you're correct that our ROE will show improvement.

Vishal Periwal: Okay. Sure, sir. That's all from my side, sir. Thank you very much, sir.

Moderator: Thank you. Ladies and gentlemen, you may press “*” and “1" to ask a question. The next question is from the line of Parikshit Kandpal from HDFC Securities. Please go ahead.

Parikshit Kandpal: My question is on the monetization part which we are taking from Private to Public. So, are we now in a position where this will become a more regular phenomenon because for these 5 assets whatever time it takes, I think you have given a timeline of first half of FY26. So, you think that on a periodic basis each financial year from here on you can see more assets coming and getting monetized to this route?

Management: So, Parikshit, this is a more strategic thought process that we've adopted. You're right that this will be an ongoing phenomenon, given the way we've built our business and created the structure of Private InvIT as a development platform, alongside owning Public InvIT, which primarily houses mature assets.

I think this combination is a perfect fit, where value unlocking occurs based on the project's risk allocation. At the IRB end, we capture executional risk and reap benefits from construction and O&M margins. We also end up owning investments in both platforms, which will now reflect the treatment we discussed earlier.

Value unlocking will continue to happen, where mature assets can be offered to Public InvIT, providing fresh growth opportunities. This, in turn, unlocks capital for Private InvIT, enabling faster deployment for new assets.

Going forward, the government of India's focus is likely to be on asset monetization, presenting a huge opportunity for the sector. We intend to maintain our leadership position and undertake a large number of assets.

This unlocking will enable us to catapult into faster growth of our asset base without accumulating excessive debt. Instead, we'll efficiently utilize unlocked capital and distribute risk across the portfolio.

Parikshit Kandpal: So, what kind of annual inflows or monetization potential do you think near to mid-term can it generate for you which can come in as a growth capital for assets?

Management: So, let's consider it this way: the first tranche of assets already offered to Public InvIT has an enterprise value of approximately Rs. 15,000 crores. If we net out the debt of around Rs. 6,500-7,000 crores, we're looking at significant equity unlocking that will accrue to Private InvIT.

	Let's do a simple calculation: if Rs. 8,000 crores-plus of equity unlocking occurs at the Private InvIT end, where IRB owns 51%, this equity capital can then be deployed for another Rs. 25,000 crores worth of projects that Private InvIT can develop. This will create significant capacity for IRB to participate in upcoming opportunities. Note that I'm only discussing the first tranche here. Remember that the total enterprise value of Private InvIT today exceeds Rs. 60,000 crores.
Parikshit Kandpal:	So, you are saying the debt on this Rs.15000 crores is about Rs. 115000. So, you have...
Management:	No, I said the debt is around Rs.6500 to Rs. 7000 crores.
Parikshit Kandpal:	Rs. 7,000 crores. Okay, sorry.
Management:	Yes. Out of the Rs.15000 crore EV, the debt is around Rs.6500 cr to Rs.7,000 cr and balance is equity unblocking that will happen.
Parikshit Kandpal:	Oh, Rs. 8,000 crore. But looking at the current market cap of Public InvIT, so do you think there is appetite, and I mean that kind of resources. So, how do you intend to do this?
Management:	So, naturally Public InvIT is right now in the grip of things and certainly if that fund has to grow, it has certain amount of leg room on the debt side and the balance capital also can be looked upon by the Public InvIT to acquire assets because for any such platform to grow, if we look across any other InvIT, they have significantly grown by adding a mix of capital and debt and I think that is the way forward that even Public InvIT will involve itself on.
Parikshit Kandpal:	Okay. And will the sponsor get diluted here on the Public InvIT side because you as a sponsor, I mean will you be?
Management:	No, I think we stand committed to supporting the Public InvIT platform, which we very much believe in, and we intend to subscribe in case of a capital raise as a sponsor.

Parikshit Kandpal: And the intent on right current IRRs which Public InvIT is giving and when you bring in assets, it must be at a positive IRR. So, how are your thoughts there? I mean what could be the numbers look like?

Management: I think it will not be very fair on my part to talk on behalf of the Public InvIT, but the simple math suggests that with long dated assets getting added to the Public InvIT platform, the overall yield is expected to grow.

Parikshit Kandpal: Okay and sir, on the BOT side, we have been hearing the bid getting postponed, I mean I think multiple times that has happened like Gwalior and other bids. So, when do you think, I mean why it is happening, and do you really think that, this year you will see the daylight at the end of the tunnel in terms of bids happening? As I hear that these are large bids like Rs. 4000, 7000 crores in that ballpark size. So, do you think that they will see the light of day?

Management: So, I think you have answered the question yourself that these are large size bids and they are serious numbers. So, you will appreciate that, the sector here has consolidated and serious players who are looking at bidding on these large ventures and I think I would like to appreciate NHAI here that rather than rushing through on bidding half-cooked project, they are keen to answer all the queries that are being put across to them in a very, very scientific manner. Yes, that is taking time, but I think that it will avoid a lot of accidents in future with all these bids getting properly evaluated and bid upon. So, while the anxiety level can be understood that it is getting delayed, I am actually happier that, a more thought through approach is being adopted, all right reasons are being provided to the bidding community and post that the bid is taking place. So, any freak bid or any accident happening, ending up in the project, getting stuck at a later stage can be avoided by this kind of a studied approach and I would like to appreciate the effort of NHAI here.

Moderator: Thank you. A reminder to all the participants that you may press "*" and "1" to ask a question. Ladies and gentlemen, you may press "*" and "1" to ask a question. A reminder to all the participants that you may press "*" and "1" to ask a question. As there are no further questions from the participants, I would now like to hand the conference over to the management for closing comments.

Management: Yeah, I think everybody is equally keen to go back to the TV screens and watch what the budget has to offer. So, I would not like to take the time of all the community that we have here and thank you everyone for taking time out and coming for this call on a Saturday morning and look forward to engage with you again soon over the next quarter. Thank you everyone and have a great weekend.

Management: Thank you, Sir. Ladies and gentlemen, this concludes your conference for today. We thank you for your participation. You may please disconnect your lines now. Thank you and have a great day ahead.