



“Bharat Road Network Limited Q2 FY-18 Earnings
Conference Call”

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Moderator: Good day, ladies and gentlemen and welcome to the Q2 FY18 Earnings Conference Call of Bharat Road Network Limited. 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. Binay Sarda from Christensen IR. Thank you and over to you, sir.

Binay Sarda: Good afternoon to all the participants on this call. Welcome to Q2 FY18 Results earnings call of Bharat Road Network Limited.

Please note that we have made the results and the presentation and the same are also available on the company's website. In case if you have not received the same, you can write to us and we will be happy to send the same over to you.

Now to take us through the results and answer your questions today, we have Mr. Bajrang Choudhary – Managing Director, BRNL; Mr. Sanjay Banka – CFO; Mr. Rajesh Sirohia – Head – Corporate Strategy and Investments.

We will start the call with a brief overview of the quarter gone past and then we will go into the financials which will then be followed by the Q&A.

I would like to remind you that anything that is said on this call and any outlook for the future which can be construed as a forward-looking statement must be viewed in conjunction and uncertainties that we faced. These risks are included and are not limited to what we mentioned in prospectus filed with SEBI which you can find on our website. With that said, I will now turn over the call to Mr. Bajrang Choudhary. Over to you, sir.

Bajrang Choudhary: Thank you, Binay. Good afternoon and welcome everyone on this call. Well, as you know Bharat Road Network is a road and highway BOT company and just to give you a sense in terms of this sector, as all of you are aware, that this is the sector which has the highest potential in the current environment. We do believe, and we do see infra driving the economy at least for the next decade. So, we have a strong belief that you would see an infra led growth going forward. Also, you would have seen the recent set of announcements that the government has made in terms of the spend that they are talking about in infrastructure.

As all of us aware the country needs humongous build up on infrastructure. We are still at the nascent stage as far as the requirement of the country is concerned. Be it the highways sector, be it on the core side or any other energy side. So, there is a huge spend that we are talking

about in infrastructure and obviously highways has always remained a low-hanging fruit and the highest performing sector within infrastructure.

And as you might be aware that the type of spend that we are talking about and the type of budgetary allocations that are there, there are obvious inherent mismatches and we can only see those things happening if we see a larger private participation as far as development of infrastructure is concerned. And that is where we see a big play for us as a BOT operator in PPP with our focus remaining purely on the highway at this stage where most of the spend is going to happen. So, we see a larger opportunity going forward.

And just to give you a brief in terms of what we are, I mean, I am sure most of you are aware about the company. But to refresh and give you a short brief in terms of what we are, we currently own six highway assets. All are toll roads. The size of the total project cost of our portfolio would be closer to around Rs. 6,700 crores, with over 2,000 odd lane kilometers.

In terms of our balance concession period, we are one of the youngest portfolio in the marketplace today with 18.5 years yet to go. Just to take you back in terms of the model that we had adopted in the past as to the way we had looked at PPP, was that we had always gone ahead bidding for these assets with partners because we do believe as a financial investor, as a developer we always try to keep the EPC operations away from our development business because EPC business is altogether a different business. We do believe that both development and EPC are two different business for this sector.

Moreover, it does carry a conflict in terms of how you look at pricing the EPC contract. So, if you yourself are the EPC contractor and a developer there always remain a possibility of that conflict of interest. So, to keep that away, we have purely focused on the development part of it and SREI being the corporate promoter for us, one of the biggest advantage that we draw from there is that we have access to all the EPC companies in the country where we can look at developing our highways. So that was one more advantage that we have on this platform.

So, though we have been able to keep the conflict away, we still get the advantage of not being an EPC company while having access to all the EPC companies in the country. Having said that we have six assets; five are operational, one is under construction and that we expect to start tolling sometimes in March 2018.

Out of the five operational assets, the total growth that we had seen in the traffic volume last year, also earlier stated during our IPO, was in double digit and this year too has been very healthy for us in terms of traffic. We do believe the way the economy is behaving, despite having seen some impact because of demonetization and some impact because of GST, we will see a very significant growth at least in the near future as far as traffic is concerned though in our business model we always factor something which is very conservative on an average of around 4.25%.

But that does not mean that we have sort of a pessimistic view on the sector. We do believe that the sector in the immediate run will throw up numbers which will be pretty high from what we are talking about. Having said that now in terms of our growth, the way we are looking at is that we would want to use this platform as a consolidation and aggregator platform because we have analyzed and seen the sector, the way PPP had behaved in the past and which we do believe has always been a sort of a conflict as far as the sector is concerned is that when PPP came up, all the EPC cash contracts dried up.

So literally we had pushed each EPC company to become a PPP developer which was definitely something which was not warranted out of the model that PPP had envisaged. And because of that I mean today you will see lot of assets which are there in the secondary market because every EPC company had gone and bid for those assets which are now up. Most of the companies would want to take it off their balance sheets now.

So that is where we a huge opportunity going forward in inorganic space. Obviously in terms of organic, there is lot of opportunity there. So as a business strategy our focus in the immediate term would be to look at inorganic assets, assets which are near completion and which are throwing up cash. And we do believe looking at the market conditions that there are assets available at quite an attractive yield that we can look for ourselves.

So now coming back to our quarterly results, I will just give you some key highlight in terms of what we did last quarter and last six months. One is that, as stated in our objective and in our IPO document as well, we are looking at growth. So, keeping in line with that we have closed one of the acquisitions in one of our existing assets where we are moving up from 49% to 100% now. Obviously, that is subject to certain approvals which are already in the process. Secondly, we have also reworked on the refinancing and in three of our assets we have been able to do a substantial sort of repricing which could lead to an annualized saving of closed to around Rs. 75 crores to Rs. 80 crores. So that is a significant sort of a milestone or achievement that we have done during the last six months which is definitely going to help us free of lot of cash flow and also bring down our average cost of borrowing to closer to around 10.25%.

But having said that, that is not the end for us as far as the cost is concerned. We always try to bring it down to a single digit. We have done a refinancing at 9.5% in one of our assets and we always strive that each asset of ours should go into a single digit now.

The other important thing that has happened in one of our asset in Bhubaneswar- Chandikhol is that we have got an arbitration award of Rs. 104 crores which is a committed award, which we had said earlier during our show road that was something which we were expecting. There is another Rs. 40 crores attached to it which is subject to review by the authority and then to be awarded. So, in total if you see our award would be around Rs. 145 odd crores for the loss of toll that we had in Mahanadi.

In terms of growth, we have in the last six months seen a satisfying growth, which is around 4.5% to 5.0% at a portfolio level. Some asset, yes, has gone into double digits. In one of the assets, we have seen some slight negative growth as well. But that is actually a small asset. So, we are not too concerned as it is not so alarming for us. On a portfolio level it is 4.5% to 5.0% and which is what we were looking at. So that is in line with the sort of projections and expectations that we had.

In terms of our standalone numbers, we have seen a healthy growth in our numbers. Q2 last year was Rs. 3.9 crores, this quarter we closed at Rs. 14.6 crores which is 2.78 times of the last quarter. And on the bottom-line from Rs. 7 lakhs we have gone to around Rs. 7.9 crores which is a sizeable sort of a jump in the bottom-line from what we had last quarter.

So, these are the key parameters and some financial numbers that we have for you. And happy to take any questions that you all may have. Before we move on to the Q&A, just to give you a sense in terms of the toll revenue that we would have some in absolute numbers as far as our assets are concerned. In last six months, we are closer to overall toll collection of close to Rs. 300 crores which is in line with our expectations as far as the volume is concerned. Similarly, in terms of the revenue growth, the numbers are very much in line with what we expect as all of you might be aware also that Q2 always comes under the rainy season. So, we do see some sort of impact because of that. Otherwise we would have seen a much larger number here. So, revenue of Rs. 290 crores is something which is in line with what we had projected and we are very much on target there. So, we do expect to close the year at whatever targets we have set for ourselves and primarily if you see on two of our assets we have seen a sizeable growth which is in Ghaziabad-Aligarh and also in Bhubaneswar- Chandikhol.

So, having said that, happy to take your calls and answer any of the queries that you may have.

Moderator: Thank you very much. We will now begin with the question-and-answer session.

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

Prem Khurana: Sir, in your press release you have given out standalone numbers. Maybe I was wondering if it will be possible for you to share the consolidated number. What kind of an EBITDA could we manage this quarter or first half and what was the PAT number in this year and specifically if you could give us cash PAT number because which is what would decide whether we are able to generate money for growth on because essentially I mean PAT would have been negative only because of some of these assets which have come very, very recently. So their depreciation interest would a big number as of now?

Bajrang Choudhary: As I said that at the asset level obviously we had done an overall toll collection of around Rs. 290 odd crores and EBITDA generally remain in the range of around 75% to 80% in the early stage. But as we had said earlier as well that once it gets into a maturity stage we do get an

EBITDA which is north of 85%. And the good part for us is that as we said that we have been able to re-price all our assets. So currently as we speak, all our assets are cash positive assets and are able to sustain their debt both in terms of interest and repayments.

But still having said that, we are always working to re-price our asset and the objective remains to bring this cost down below 10% in a single digit and also if you would have seen as I said earlier also we have an average life of around 18.5 years and if you see our debt maturity sort of a cycle it is around close to 10 years. So still we have a large balance period left which is debt free. So that gives us a huge opportunity in terms of going and sort of retenuing our debt as well. So that helps us free up our cash flow towards the early life of the asset.

Prem Khurana:

Which is what my second question. I mean given the fact we have seen some refinancing some of these basically three assets so have you opted for any top up loans because I mean essentially if I were to look at our numbers from IPO proceeds you seemed to have already utilized more than Rs. 500 odd crores. I mean if I were to consider that you would have already paid this Rs. 97 crores to KMC. So, we would hardly be left with almost Rs. 50 odd crores from there which is insignificant I mean if I am looking at growth opportunity. So, have you opted for top up loans in these three assets wherein we have had the refinancing or is it still early?

Bajrang Choudhary:

See at the asset level we have not yet I mean what we have done is we have re-priced to the extent what the project needed whatever the cash flow was needed at the project. But just to answer your question in terms of the growth if you look at the standalone balance sheet our net worth today is around Rs. 1,174 crores and we hardly have a debt of around Rs. 130 odd crores. So, I think there is a huge, huge room there for us to sort of lever the balance sheet and look for growth. And as you said earlier during the year we do expect like for example with this acquisition that we have done in Guruvayoor I mean we have a surplus close to around Rs. 100 odd crores free cash flow in that SPV. So, we do get access to that cash flow as well to look at growth. And also, as I said that most of the SPVs now have started throwing up cash, Yes, during the initial years, the quantum may be a bit low. But we do expect that going forward every year we will have around Rs. 50 crores or Rs. 60 crores odd to get from these assets in the initial next two to three years and thereafter there is a huge sort of cash flow which starts flowing in from these SPVs. So, looking at all these different avenues of access to capital we do believe that, yes, that would not be a challenge for us to look at growth.

Prem Khurana:

And this Guruvayoor Rs. 100 odd crores, has it already come in or basically when do we expect this to come to us?

Bajrang Choudhary:

See we have just concluded this deal. I mean as we said that these are subject to couple of approvals. The cash flow is there in the SPV. So as and when we see some opportunities we will see as to how to utilize that.

Prem Khurana: And for the SJEPL arbitration proceedings of Rs. 104 crores, when do we expect that to come to us or we would get to about 75% of this as of now and the remaining would be I mean if the client was not to approach any higher authorities then only we will be able to get that?

Bajrang Choudhary: That is right.

Prem Khurana: And sir, just one last from my end. So, in Guruvayoor if I remember correctly we were not able to collect toll from the state buses so when we have done this transactions with our partners so do they have any right to this. I mean if we will get any claim in the future towards this state bus transportation toll collection which we were not able to collect earlier? So, would they get to have a part of?

Bajrang Choudhary: There are certain pass through till the day that they were there. So, if anything comes then that will go to them as a pass through but that is not something which has been taken into the revenue or which has been factored as a part of the value as well.

Prem Khurana: And Solapur Maharashtra how much is the equity pending to be invested there?

Bajrang Choudhary: Solapur we are fully funded now.

Moderator: Thank you. The next question is from the line of Priyankar Biswas from Nomura Securities. Please go ahead.

Priyankar Biswas: So, my question is like in several of your road assets I have seen very strong pick up in traffic growth. So, what is the underlying reason for that I mean because what we understand is due to GST related destocking initially there should have been some decline in the initial months but still you have managed such great numbers, so what causes that?

Bajrang Choudhary: See if you see the location of all the six assets that we have, I mean inherently they are at a location which are pretty good in terms of either be the economy or be in terms of the overall connectivity between the regions. So, one is that the location itself is at a prime sort of a location so gives us that advantage. Number two, in terms of GST yes, we did feel that impact when it was sort of initially implemented. So probably that month of July we did see that impact. But as I said that with the growth in the economy I mean these are in areas in sectors which are highly industrialized so a small spurt in economy does give us a huge boost in terms of the traffic.

Priyankar Biswas: Sir, just harping on that again. So, we had spoken to other peers and truck operators as well. So, what we hear that in the last few months there has been intense crackdown on overloading from MORTH. So, is that helping in the growth of let us say the truck traffic like since overloading is declining? I hope it is declining so how much is it leading to let us say an underlying growth at traffic toll levels?

Bajrang Choudhary: Yes, if you see this has come as a focus since last quite a few months I mean where the government is trying to sort of bring down that overloading. Overloading as a revenue, yes, to us as a concessional that was always we were charging a slightly higher rate for the overloading. But the good part is that with the overloading what happens is that the more the overloading brought down it converts into more number of trucks so that is more good for us. And we do believe that going forward also we will see this trend happening because as you rightly said that, yes, the focus and attention is there to bring that overloading down but it is not that fully done as yet. So, we will see a significant contribution coming from that initiative of the government as well.

Priyankar Biswas: So just follow up on this. Like you said the crackdown is happening like let us say 5-6 months so can you just broadly like a ballpark number, can you tell me like let us say what was the extent of trucks that were overloaded let us say six months back versus what is now? So, I am progressively trying to understand that how incrementally things are improving and where it can go finally?

Bajrang Choudhary: See in couple of our assets we had not started charging overloading, so we will not have that data in terms of as to what is the number of trucks earlier and how much that has got converted. But wherever we were in two or three of our assets we were doing that so what we had seen was that over the last couple of months or a year or, so I will say and the calculations that we had done that we were getting sort of a only from a perspective of the overloaded trucks at least we were getting incremental 10% to 15% sort of increase in terms of traffic because of overloading not been there. But that 10% to 15% does not translate into overall PCUs this I am just talking about only on that particular category where these class of vehicles gets classified.

Moderator: Thank you. The next question is from the line of Rajat Jain from Principal Mutual Fund. Please go ahead.

Rajat Jain: Sir, this is a question on this news that the government has just proposed this Bharatmala project and there are so many different corridors, the economic corridor, the inter corridor and feeder roads and so on. So, we have a young portfolio of lasting about 18 odd years from now. And these new roads are supposed to come by 2021 or 2022. So, would they potentially be competition to some of our toll roads?

Bajrang Choudhary: See it will be too early to guess that and secondly also the moment we see a competing road classification coming up then obviously there are clauses in the Concession agreement which does protect you. But at this point of time we do not see that sort of a threat because as we said that the locations that we are talking about where we are situated we would rather see an enhancement happening or there could be a possibility that under Bharatmala we may see that these roads may get slightly sort of expanded and be classified into expressways or probably get into an eight laning.

But we do not expect sort of a competing road throwing up as far as the current highways are concerned. Especially because couple of them are under the golden quadrilateral so we do not expect that there will be a parallel road being built to this.

Rajat Jain: Sir, roughly by when do we get some clarity on new projects which are likely to come especially in those important corridors under the Bharatmala project?

Bajrang Choudhary: See, I think the government has a target. Whatever they have thought in Bharatmala they are trying to sort of do it. I mean though they are keeping it very ambitious, we believe by the end of next year, they will be able to come up and sort of bid out most of these assets. So Yes, in the next six to nine months we should have some rough visibility in terms of what the stretches are and what do they plan to do under this.

Moderator: Thank you.

Binay Sarda: Can you take us through the new projects that might be on the final stages of acquisition and also please if you could share some color on how many projects roughly you have submitted bids for and some timeline on when we can expect something on that front?

Bajrang Choudhary: See as far as the new bids are concerned we do keep on evaluating the bids which are in the pipeline. And especially if you see because of HAM most of the bids which are coming out do not have two stage bidding. You straightaway go into the final stage of bidding which is RFQ cum RFP. Like earlier we used to have RFQ then RFP. So, unless and until we are pretty sure in terms of a bid where we want to, and we believe that yes, this is within our striking range we just do not go ahead and bid because obviously we do believe that every bid does come with a certain cost and hence we remain sensitive in terms of bidding. But that does not mean that we are not looking at and evaluating those opportunities in the marketplace. Like for example, that we do understand that there are we are currently working on six to seven bids which we are evaluating. But ultimately whether we will participate or not is something a call we will take depending upon the cost that we get for our stretches and also the way we see how competition is going to come out in those assets.

In terms of inorganic and to name a few will be difficult because one obviously we do not want to sort of go and spell out as to who we are talking to. But at the same time this remains a continuous process as all of us are aware there are quite a few opportunities in the marketplace we are working directly with our partners. When I mean partners here means which most of the EPC companies who are either directly or indirectly sort of known to us. We are working closely with the banks, we are closely working with the other financial institutions because everybody has some or the other assets in their balance sheet and are trying to sort of dispose them off.

So that remains a continuous exercise for us. In terms of closing on a deal, I mean we would only want to go ahead and look at an opportunity where we do believe that it does come under our sort of a broad parameters that we have set for ourselves which is north of 16% as far as yields are concerned. So, though we are looking at growth, but we will be opportunistic in growth in terms of adding assets where we do see not only sort of a near term value but a long-term value as well.

Moderator: Thank you.

Binay Sarda: Just wanted to know any reason for the decline in traffic volume for MTPL when we see others have shown growth and what are the future expectations that you have related to this particular project?

Bajrang Choudhary: See if you look at the traffic, what had happened was that the two half that we have or the two periods that we are evaluating as all of us would be aware that the last April and May there was Simhastha which was there. So tolling was not happening in those two months. So, the comparable periods are four months to six months and hence you see on the revenue side you see a larger revenue which is coming up irrespective of the fact that we see a slight sort of a de-growth in the traffic. If you really see this last one month, we would see just the reverse trend because the traffic has gone much higher than the de-growth owing to one or two reasons. Obviously, there were some local issues which we were facing earlier which we were able to sort of set right a month and half back. So now going forward we do believe that we will have some positive numbers seeing going forward.

And also, if you see that the stretch connects two big cities of or two main cities of MP and Indore. As such as the city is now turning out into a big educational hub and the asset in itself has a long period. It has more than 22 years still to go. So, we do believe there is a large sort of a period. Two decades is a large period there and the sort of developments that we see in and around Indore, and also in terms of the connectivity if you see what they are trying to do is they are trying to create some bypasses around Indore which makes this zone more accessible for a multi-axle traffic which currently had a problem because they were not allowing multi-axle traffic to go through the city of Indore. So with these certain developments we will see sort of a traffic bouncing back in these assets as well.

Moderator: Thank you. As there are no further questions from the participants, I now hand the conference over to the management for closing comments.

Bajrang Choudhary: Thank you very much for participating on the call and in case you have any further queries we are happy to answer that. You can touch base with Binay or you can reach out as to us as well.

Moderator: Thank you. On behalf of Bharat Road Network Limited, that concludes this conference. Thank you for joining us and you may now disconnect your lines.