Operator: Good evening, ladies and gentlemen. Welcome to the IRB InvIT Fund call hosted by the company to discuss the financial results for the quarter ended September 2022.

We have with us on the call today Mr. Anil Yadav, Mr. Rushabh Gandhi, and Ms. Swapna Vengurlekar from IRB InvIT Fund.

As a reminder, all participant lines will be in 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 subsequently be mailed to the management for an adequate response and resolution. Please note that this conference is being recorded.

I now request Mr. Rushabh to give you an overview of the significant developments during the quarter. Thank you, and over to you, sir.

Rushabh Gandhi: Good evening, everyone, and welcome to all the investors and analysts joining us today on the call.

I trust you have all had a chance to review our financial results and the investor presentation.

During the quarter, we acquired two operational BOT road assets from IRB Infrastructure Trust: Solapur Yavatmal, which is located in the state of Maharashtra, and the Chittorgarh-Gulabpura project, which is situated in the state of Rajasthan. Together, they were acquired at an enterprise value of around INR 4,600 crore, and the acquisition was effective from September 30, 2022.

With this addition, the Trust portfolio now has 11 operational road assets, including 9 BOT and 2 HAM assets, covering 5,314 lane kilometers. The Trust portfolio has an enterprise value of around 23,000 crore. The weighted average residual concession life is around 17 years, which provides strong long-term visibility of cash flows.

These acquisitions were funded through a mix of equity and debt. On the equity side, the Trust raised 2,351 crore of unit capital during the quarter. This included an institutional placement of around 2,000 crore at a price of 63 per unit, and a preferential issue of 351 crore at a price of 65 per unit to our sponsor, IRB Infrastructure Developers Limited. This has allowed the sponsor to maintain its holding at around 16%.

The institutional placement drew a strong, broad-based response from domestic as well as global investors, including pension funds, insurance companies, mutual funds, and family offices. We thank all our investors for their continued confidence in the Trust.

The balance was funded through debt at an interest rate of 7.5% per annum.

Coming to the toll revenue performance, for the quarter ended September 30, 2022, gross toll revenue was 417 crore, as compared to 394 crore in the corresponding quarter of the previous year. That represents growth of 5.8%. For a like-to-like comparison, we have excluded the MVR project, since the project was handed over to the authorities on September 1, 2022.

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At the asset level, year-on-year growth for the quarter was 13.2% for the Pathankot-Amritsar project, 9.8% for the Talegaon-Amravati project, 9.2% for the Tumkur-Chitradurga project, 8.6% for the Jaipur-Deoli project, and 6.8% for the Kaithal-Rajasthan project.

The growth was moderated by two factors. The first was softer traffic on the Kaithal project, which was linked to the ongoing geopolitical situation. The second was seasonality, since the second quarter is a monsoon quarter and is typically weaker for traffic. We expect traffic on this project to normalize over the coming quarters.

Coming to the RBI rate hike and the inflation outlook, our toll rates are revised annually and linked to WPI inflation. WPI was relatively subdued over the last couple of years. With the current geopolitical pressures, WPI is now trending at around 9%. That should feed into future toll rate revisions and provide the portfolio with a natural hedge against rising costs.

Regarding interest rates, more than 30% of our debt is fixed in nature, and the balance is floating. Taking these factors together, we do not currently expect the rate environment to have a material impact on the financial position of the Trust.

On the distribution side, with the expanded capital base, the Trust has declared a distribution of Rs. 268 crore, translating to 1.65 per unit. The distribution comprises 1.475 per unit in the form of interest and 0.175 per unit in the form of return of capital. Since the Solapur-Yavatmal and Chittorgarh-Gulabpura projects were acquired on September 30, 2022, they are expected to contribute to NDCF from the third quarter.

Regarding the credit profile, the Trust continues to maintain a strong credit profile, with its AAA rating maintained by India Ratings and CARE Ratings. The recent debt was raised at 7.5% per annum, reflecting the Trust's strong access to capital markets.

Coming to the financial performance, I will walk you through the financial performance for the current quarter as compared to the corresponding quarter of the previous year. During the third quarter of the previous year, 3 BOT assets, and in the fourth quarter, 1 HAM asset, were added to the portfolio. Accordingly, the year-on-year numbers are not strictly comparable.

Total consolidated income for the current quarter stood at 514 crore, as compared to 278 crore for the corresponding quarter of the previous year.

Consolidated toll revenue for the current quarter stood at 377 crore, as against 242 crore in the corresponding quarter of the previous year.

EBITDA stood at 359 crore in the current quarter, as against 233 crore in the corresponding quarter of the previous year.

Interest cost, which includes interest on deferred premium, for the current quarter stood at 208 crore, as against 70 crore in the corresponding quarter of the previous year.

Depreciation, which includes amortization, for the current quarter stood at 116 crore, as against 72 crore in the corresponding quarter of the previous year.

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Profit after tax stood at 26 crore, as against 83 crore in the corresponding quarter of the previous year.

With that, I will now open the floor for questions and answers. Over to the moderator.

Operator: Thank you so much, sir. Ladies and gentlemen, we will now begin with the question-and-answer session. Anyone who wishes to ask a question may press star and one on their touchtone telephone. If you wish to remove yourself from the question queue, you may press star and two. Participants are requested to use handsets while asking a question.

Ladies and gentlemen, we will wait for a moment while the question queue assembles.

The first question comes from the line of Sarvesh Gupta with Maximal Capital Private Limited. Please go ahead.

Sarvesh Gupta – Maximal Capital Private Limited: Good evening, sir, and congratulations on a good set of numbers. My first question is on the interest rate hike. You will be getting, I think, 40% of this WPI hike on your revenue line. At the same time, you have 70% of your debt as floating. What is the net impact that you will see on the P&L, and what would be the impact on your NAV calculations, if you can throw some light on that?

Rushabh Gandhi: Sure, sir. On the revenue side, as we explained, the WPI of the December month is critical for us, as it will be considered for the tariff revision and revenue growth for next year. Considering the current situation, we believe that should be on the higher side. Correspondingly, on the interest cost, 30% is fixed and the balance 70%, a major part, is linked to MCLR. Currently, we are not seeing any increase on that part, but typically what we see is that MCLR increases are lagged by a couple of quarters. So, the impact ideally would be seen after March. However, looking at the net impact, we do not foresee any material impact on the distribution side.

Management: As you heard earlier in the commentary itself, we are expecting the inflation number to be at least 9% today. So 40% of that comes to around, say, 3.6 or 4. Then add 3% to this. So around 7-8% is the expected inflation growth. Assuming that is there for the next year, the interest cost hike that we are talking about on the floating rate will also increase very slowly and gradually, linked to MCLR. So we do not foresee any impact from an interest rate hike in the coming quarters due to this inflation increase that we will be receiving in the coming quarters for the next year.

Management: In addition, our revenue is far higher than the debt that we have. So revenue will increase by almost 8%, a direct increase, whereas the impact on debt, or the increase in the cost of debt, would be on a relatively smaller base. So, net-net, it is not going to be negative here.

Sarvesh Gupta – Maximal Capital Private Limited: Understood. On the NAV side, what would be your broad sensitivity in your NAV calculations for every 50 basis point increase in the interest rate?

Management: [pause] The blended NAV, when you see it today, is at 75-odd. What we have already observed over the last couple of years, due to the higher inflationary situation that existed 3-4 years back, was a tariff hike close to 10%. We have not seen much difference or impact on NAV either because, correspondingly, the hedge we have available today is this interest rate, which applies to 30%, and the other 70% is also floating, again linked to T-bills, which are also growing

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slowly and gradually. So, definitely, when we move 1 quarter or 2 quarters forward, we will not have much impact on NAV, but NAV will definitely improve due to the growing revenue and the rollover impact. It will be difficult to say how much it will be, and we will not be able to answer that right now, but there will be a positive impact because revenue is growing by 8% due to inflation and interest is growing slowly and gradually. So the net impact will be positive, but we will not be able to tell you what it will be for the next couple of quarters.

Sarvesh Gupta – Maximal Capital Private Limited: Okay. On the DPU side, you have given a projection of 3.45 for the second half. Given that we have acquired a lot of assets recently, beyond the second half of this financial year, how should we pencil in the growth, and what kind of growth can we assume because of these assets that have come into the system? If you can throw some light on that, going forward from FY24 onwards, how should it look?

Rushabh Gandhi: In the past, we have given guidance of around 3-5% for future years. However, we will be able to provide that guidance in the fourth quarter, once we see the actual traffic numbers and how the inflation rate is moving.

Management: Just to give you an indication for this year, 3.45 is after factoring in any impact that is there today due to the interest rate hike. We are expecting 1.65 for the fourth quarter. For next year, what we have been factoring in is around 5% year-on-year growth for at least the next 3-4 years. We do not foresee any impact right now because the interest rate hike today is being compensated by the inflation that we are going to receive. So, with the 5% growth that was guided earlier, we continue with the same guidance going forward as well.

Sarvesh Gupta – Maximal Capital Private Limited: Okay. After making this acquisition, what kind of pipeline exists for us to acquire more assets, and how are we planning to do that? Do we want to digest these assets first and then take a 6- or 9-month pause before acquiring more assets, or is there also a pipeline that we need to look at? How are we looking at the acquisition front now?

Rushabh Gandhi: On the sponsor side, we have 2 HAM assets. Upon completion, as per the ROFO, they will be offered to the public InvIT. Those are small in size, not much. We also have a ROFO with the private trust. As and when the private trust offers any asset, we will evaluate those assets in the future.

Management: Also, as you rightly said, the assets acquired presently will take the next 6-8 months. After that, we will definitely have an opportunity. What we have been discussing with the sponsor was that every year a couple of assets will be available for transfer to the public InvIT. This year, we have added 2 assets. We can definitely expect assets of a similar size next year as well.

Sarvesh Gupta – Maximal Capital Private Limited: Understood, sir. Thank you, and all the best.

Rushabh Gandhi: Thank you.

Management: Thank you.

Operator: Thank you. Ladies and gentlemen, anyone who wishes to ask a question may press star and one.

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Our next question comes from the line of Saurabh Lakhotia, an individual investor. Please go ahead.

Saurabh Lakhotia – Individual Investor: Good evening. Actually, my first question is, am I audible?

Rushabh Gandhi: Yes, yes, sir. You are audible.

Saurabh Lakhotia – Individual Investor: My first question is that, given the uncertainties of high interest rates, high inflation, and traffic volumes, what effect are you seeing across the board in traffic volumes? In terms of traffic volume, are private vehicles being more affected, or are commercial vehicles being more affected?

Rushabh Gandhi: If you look at the current traffic mix or the current traffic growth for the current quarter, we have

Management: [cut off] seeing very good growth in terms of car traffic. On the commercial side, we are seeing some softening. There are a couple of reasons. One is geopolitical issues, and the other is that the second quarter is a monsoon quarter, so typically commercial traffic is on the softer side. The third quarter and fourth quarter may be better for observing traffic on the projects. However, in spite of that, the projects have performed quite well, with high single-digit growth.

Saurabh Lakhotia – Individual Investor: For the future, given that inflation is on the higher side, will we be looking toward BOT or HAM assets?

Management: On the sponsor side, we have a ROFO, and the sponsor currently has 2 HAM assets that are on the verge of completion. Apart from that, the private trust currently has a portfolio of both BOT and TOT assets. As and when the private trust offers an asset, it will be evaluated by us. As and when the HAM assets are completed, we understand that the sponsor will offer those assets to the public InvIT.

Saurabh Lakhotia – Individual Investor: The reason was that, because of this higher inflation and the traffic, meaning the number of vehicles, if we acquire a BOT asset, will we get any benefits compared with acquiring HAM assets?

Management: As a policy, we would have a mix of both BOT and HAM assets. Currently, we have 2 HAM and 9 BOT assets. In the future also, we will maintain an optimal mix between BOT and HAM assets. So we will get the benefit of both. From a higher inflation perspective, the BOT asset, also considering the WPI component, will provide us with the benefit of a tariff hike as well.

Saurabh Lakhotia – Individual Investor: Okay. My last question is regarding the DPU. Because of this price hike, which is dependent on WPI, can we expect some increase in the DPU going forward?

Management: For the second half, we have already guided 6.7 annualized, so 3.45 for the second half. On the cost side, the best part is that our O&M is under a fixed-price contract. So, on the cost side, we are quite insulated.

Management: For next year also, as we discussed earlier, we are expecting 5% growth in the DPU. Any further increase due to higher inflation or a rate hike will also help us in increasing the DPU. That will be seen early next year, when we receive the inflation benefit in the tariff.

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Saurabh Lakhotia – Individual Investor: Okay. Thank you so much. That is all from my side.

Management: Thank you, Saurabh. Thank you.

Operator: Thank you. Ladies and gentlemen, anyone who wishes to ask a question may press star and one. The next question comes from the line of Tarun Bhatnagar with Tribeca Investment Partners. Please go ahead.

Tarun Bhatnagar – Tribeca Investment Partners: Hi. Thank you for your time today. My only question is on the consolidated statement. Your operating costs seem to be very high for this quarter. Could you explain why they are that high? It is around 980 million versus usually around 300–400 million. Thank you.

Management: During the current quarter, we received some change-of-scope and utility-shifting work from the authority. That is typically on a cost-to-cost basis. It is therefore reflected on the revenue side and correspondingly on the cost side as well. That amount itself was around 60 crores. That is why the operating cost is on the higher side in the current quarter.

Management: Net of that, how much did it come to?

Management: No, it will come close to 38 crores.

Tarun Bhatnagar – Tribeca Investment Partners: So this is a cost that you have recovered? Could you explain it again? I did not quite get it.

Management: It is a sort of reimbursement from the authority. Apart from the normal work, NHAI gave us some additional work, and this is toward that.

Tarun Bhatnagar – Tribeca Investment Partners: Okay. That is around 60 crores, I thought?

Management: Yes, yes.

Tarun Bhatnagar – Tribeca Investment Partners: Okay, got it. Thank you so much.

Management: Thank you, Tarun. Thank you.

Operator: Thank you. Ladies and gentlemen, anyone who wishes to ask a question may press star and one. A reminder to all participants: if you wish to ask a question, you may press star and one. As there are no further questions from the participants, I now hand the conference over to the management for the closing remarks. Thank you, and over to you, team.

Management: Thank you very much to all the investors and analysts for joining the call. Thank you.

Operator: Thank you so much, sir. Ladies and gentlemen, on behalf of IRB InvIT Fund, that concludes today's call. Thank you for joining us, and you may now disconnect your lines.

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