GR HIGHWAYS INVESTMENT MANAGER PRIVATE LIMITED

GRHIMPL

20th August 2024

To

BSE Limited
Phiroze Jeejeebhoy Towers
Dalal Street,
Mumbai – 400001
Scrip Code: 544137

National Stock Exchange of India Limited
Exchange Plaza, C-1, Block G
Bandra-Kurla Complex, Bandra(E)
Mumbai -400051
Symbol: BHINVIT

Subject: Transcript of the Earnings Conference Call of Bharat Highways InvIT

Dear Ma'am / Sir,

Please find enclosed Transcript of the Earnings Conference Call held on Wednesday, 14th August 2024, for the quarter ended 30th June 2024. The same is also uploaded on the website of the InvIT at www.bharatinvit.com.

You are requested to take the same on your record.

Thanking you,
Yours sincerely,

For GR Highways Investment Manager Private Limited
(Investment Manager to Bharat Highways InvIT)

Mohnish Dutta
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Date: 2024.08.20 15:07:05 +05'30'

Mohnish Dutta
Company Secretary & Compliance Officer
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Encl: as above

“Bharat Highways InvIT

Q1 FY ’25 Earnings Conference Call”

August 14, 2024

MANAGEMENT: MR. AMIT KUMAR SINGH – CHIEF EXECUTIVE OFFICER
MR. HARSHAEL SAWANT – CHIEF FINANCIAL OFFICER

Moderator: Ladies and gentlemen, good day and welcome to the Bharat Highways InvIT Q1 FY '25 Earnings Conference Call. 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 star then zero on your touch-tone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Amit Kumar Singh, the Chief Executive Officer of the Investment Manager. Thank you and over to you, Mr. Singh.

Amit Kumar Singh: Thank you. Thank you, Yusuf. Good Morning everyone and thank you so much for joining us today. We are pleased to welcome our investors and analysts to the second earnings conference call of Bharat Highways InvIT. Your continued interest and support are invaluable as we discuss the latest financial results and shared insight into our business performance. I will now take you through the quarterly operational highlights and progress made by the InvIT during the quarter ended June 30, 2024.

As of June 30, 2024, the AUM of Bharat Highways InvIT post our first distribution stood at almost INR 6,000 crores, having 7 HAM assets with an average balanced life of 11.58 years. As of June 30, 2024. The outstanding annuities of the project SPVs stood at INR 5,768 crores and 42 of the total 210 annuities have been received. On the acquisition front, in relation to the acquisition of GR Aligarh Kanpur Highway Private Limited, I would like to update you all that unitholders of your InvIT in their first Annual General Meeting held on July 25, 2024, had approved the proposed acquisition subject to receipt of necessary authorities' approvals.

The NHAI approval for the transfer of shareholding is expected soon and we expect to complete the acquisition of this asset before the end of current quarter. Apart from that, we are also exploring acquisition of third-party assets and will keep you updated as and when development happens. I am very pleased to inform you all that, reassuring our commitment on distribution, the Board of Directors of the Investment Managers on the meeting held yesterday had approved a DPU of INR 3 for Q1 FY '25 that is INR 0.72 paise in form of interest and INR 2.28 in form of dividend. Our cumulative DPU at the end of the first quarter will stand at INR 6 per unit.

In the road industry, we are witnessing significant advancement and shifts that are reshaping the sector. The Union Budget for FY '25 reflects the Government's commitment to infrastructure development and economic growth by allocating over INR 11 lakh crores for the infrastructure sector, including INR 2.78 lakh crores for the road, transport and highways. There is a clear visibility of completion of several key road projects, and we are excited about the opportunities these assets will present for our investment.

I will now pass it on to Harshael who will take you through the financial details before we open up for the queries. Thank you. Over to you Harshael.

Harshael Sawant: Thanks Amit. Coming to Q1 FY '25 performance on standalone basis, the interest income on the loans extended by the Trust to the SPVs was INR 135.84 crores and dividend received from the SPV was INR 138 crores. The dividend income getting reflected in the Profit and Loss Statement was utilized for distribution during last quarter.

Further EBITDA for the quarter was around INR 270-odd crores. On the debt side, during the quarter we had availed external debt of INR 662 crores at the InvIT which was utilized to repay the existing SPV level debt and as a result of which we don't have any external borrowings at SPVs. The total external borrowing at Trust stands at INR 1,135 crores and interest on the same was INR 18.8 crores in the last quarter.

The tax outflow getting reflected in the Profit and Loss Statement is only on the other income earned by the Trust at the rate of 42.744%. Just to highlight, in case of one of the SPVs, Varanasi Sangam Expressway Private Limited, there was a change in completion cost by NHAI which will result in lower annuity payments from NHAI for the balance concession period. The NPV of the differential cash flows, this is the earlier balance completion cost and now works out to INR 49.406 crores. Accordingly, InvIT has claimed and recorded the same amount as recoverable from GR Infra under the share purchase agreement, the InvIT has invoked as right and we have reduced our investment in the SPVs to the same amount.

On a consolidated basis, the revenue from operations was INR 127 crores which primarily includes O&M income, finance income on financial assets and change of scope income and other income for the period was INR 64.30 crores resulting in total income of INR 191.44 crores on a consolidated basis. The EBITDA for the period was INR 144.1 crores. In relation to NDCF at the trust and SPVs, the project SPVs have declared a dividend amount of INR 434.2 crores for Q1 FY '25 and interest income which was received for the period was INR 137.7 crores resulting in total cash upstream to the InvIT of INR 571.9 crores.

Post adjusting for finance cost, DSRA reserve, trust level expenses which has been captured on slide eight of the presentation, the NDCF works out to INR 523.43 crores out of which INR 390-odd crores has been retained towards consideration payable for acquisition of GR Aligarh Kanpur which Amit mentioned earlier and balance amount of INR 132.88 crores will be distributed to the unit holders resulting in a distribution of INR 3 per unit and breakup of which works out to INR 2.28 per unit in the form of dividend and balance is in the form of interest. Thank you and we are open to questions now.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Anant Mundra from MyTemple Capital. Please go ahead.

Anant Mundra: Hello. Good morning, sir. Thank you for the opportunity. The new asset that we have acquired, what is the IRR for that, the acquisition IRR?

Amit Kumar Singh: So, the new asset which we are in the process of acquiring is GR Aligarh Kanpur which is in the same range of IRR which is around 12%.

Anant Mundra: Okay. So, how would this lead to a change in our overall IRR because I think this will be debt funded majorly. So, we are borrowing at 8.1% and the IRR is 12%. So, this should lead to some bump-up in yield?

Amit Kumar Singh: Yes. So, if you see basically INR 390 crores of the equity which just Harshael mentioned which has been held back for acquisition of this and INR 766 crores of the debt what we have basically lined up from one of the lenders. So total enterprise value is INR 1,156 crores breaking up into

INR 390 crores of equity and INR 766 crores of the debt. So, it is not that entire is being funded through debt but a substantial portion is being funded through debt and I think because of this, my yield uptick for the overall InvIT is in the range of around 0.5% to around 0.9% to 1%.

Anant Mundra: Okay. So, this should lead to a 12, so 11.5 is what we have guided, now it should become 12 to 12.5. Is that correct?

Amit Kumar Singh: Yes, it is correct, but it is also under function of basically interest on annuities. So, while this is as on date, suppose if an interest rate movement happens, it might be basically changed. So, that is why we are saying that it should be in the range of 0.5% to 0.9% to 1% depending on how the repo movement happens. If the repo movement does not happen, then what rates or basically what range you said is right, should be around 12 to 12.30, 12.40 but on the safer side, we can say that they should have an uptick of around 0.5%.

Anant Mundra: But given that it is widely expected that repo rates will fall, should not we be going for acquisition that higher IRR because it is almost like if it does not happen in 6 months, it is going to happen in a year, it is inevitable?

Amit Kumar Singh: So, it is a function of, so in our case, the ROFO what we signed with GR Infra, out of 21 assets, there are I think only three more assets which are linked to repo and rest are linked to average MCLR of top five banks. So, it is not that it is only movement of repo because it is also a movement of when repo movement happens and how it gets transferred to MCLRs of the banks.

But yes, going forward, I cannot say that we should go for higher IRRs because if the interest rate movements to the downward side happens, of course, expectations will also move on because right now our discounting is 12, maybe tomorrow somebody can expect 575. But in case, suppose if MCLR movement also happens, we should have an acquisition and that is what I think we had given guidance that every asset acquisition should happen to a higher yield of the current trading yield so that my incremental asset acquisition becomes the yield aggregative.

Anant Mundra: Okay. So, currently our external debt is linked to repo or is it linked to MCLR?

Amit Kumar Singh: Currently, because all my assets, basically interest and annuities are linked to bank rate. So, all the debt what we had availed are linked to repo.

Anant Mundra: Okay. All right. And sir, how does our NAV change with this acquisition?

Amit Kumar Singh: NAV change, I think, NAV on a combined basis, maybe I need to just get back to you. How much is that? Because right now my AUM first post distribution was almost INR 6,000 crores. With addition to this, my AUM should be in the range of INR 7,156 and then accordingly I need to calculate the NAV. So, maybe I'll just revert on the NAV bit to you.

Anant Mundra: Sure, sure. And sir, given that we have a AAA rating only up to INR 3,000 crores leverage, and we are already, if we acquire the asset, I think we are at INR 1,135 now and then we've acquired the asset, INR 766 crores will get added. It's about INR 2,000 crores, INR 1,900 crores, INR 2,000 crores debt. And then our headroom is only another INR 1,000 crores, whereas we have a repo pipeline of I think 21 or 23 assets. So, how do we plan future funding?

Amit Kumar Singh: No, no, it doesn't work that way. So, how, what basically regulation says that you need to be, your leverage should not cost 49% of the EV. So, my EV will also change once I keep acquiring the assets. So, right now if you see, I had a headroom of almost INR 3,000 crores of the debt I can take to reach this 49%. Even I'm not saying 49%, it's 45%, 46%. Because on the higher EV or the resultant EV, it should be 49%.

So, INR 3,000, that was not just for the 49% we are taking. INR 3,000 we had started with that time and that INR 3,000 number was incremental. So, right now, basically if you see INR 6,000 crores EV, we are currently at, so we can take INR 6,000 crores for 50%, which is INR 3,000 crores as of now, while we are at INR 1136 crores, which is just 18%, 19%.

After this also, EV will be INR7,156 and if you do 49% of that, it will be almost INR3,500 crores, INR3,600 crores, after acquisition of this. So, I have a headroom of more, actually almost, you can say INR1,700-odd crores headroom. So, it's not only INR1,000 crores I'll have. So, once I take more assets, of course that assets, EV will also get added and then 49% of that resultant EV we need to take care of. It's not only what we have decided now.

Anant Mundra: So, how many more assets are we trying to acquire this year?

Amit Kumar Singh: See, this year, there is one more asset of GR, basically which we are exploring whether we should acquire, because the second annuity of that will get due in April. So, if we need to acquire that, we need to acquire 10% of the under-construction criteria and there are also some third-party assets, which I can't disclose now, we are looking at. So, if all those things works out, maybe one or two more assets we should acquire this year.

Anant Mundra: But sir, why just one asset of GR, because you mentioned there is a 21 assets pipeline that we have. So, most of them are under construction right now?

Amit Kumar Singh: Yes, yes. So, they are not under construction, different phases of construction. So, how it works is, I think the InvIT regulation, you can only take asset into InvIT, if you have operational or revenue generation track record of one year. So, at least you should have received two annuities before you take. However, InvIT also provides you to acquire under construction asset up to 10% of your EV. So, for example, my resultant EV is, for example, is INR7,000 crores.

I can acquire INR700 crores of the asset, even if under my 10% under construction criteria. So, we can do that, but it gives me very little headroom to acquire under construction assets. So, that is why I am not over committing. And those more assets from GR, which will be like having a track record of more than two annuities will start coming from next year onwards. So, you will see maybe more number of asset acquisition next year onwards, other than third party.

Anant Mundra: Okay. Yes. And sir, we have paid out dividend this quarter. But if I look at the consol level, there is no tax payout that is happening. There is just a 4% tax rate. So, if you are paying dividends, then the SPVs are making a profit and there should be tax at the SPV level. So, not able to understand even if we are incurring a profit, but we are not paying any tax?

Harshael Sawant: So, Anant, we are distributing the dividends on the accumulated reserves, which are there in these SPVs. So, that is the reason why there is no tax outflow at the SPV level.

Anant Mundra: Okay. So, going ahead, I think there should not be any, I mean, have the reserves been depleted or it is still available? How would be the payout structure going forward?

Amit Kumar Singh: So, I think till the time we will have reserve, we will have positive reserve, we will keep paying through in the form of dividend, whatever available. And then maybe we will see that it should be through interest, or we should start repaying the debt. So, maybe as of now, I think we have sufficient reserves, positive reserves. So, I think you can expect more dividend to come in the coming distributions.

Anant Mundra: Okay. And so, this payout is for what period? Last quarter, you had mentioned that it was up to 10th June, from listing to 10th June. So, this payout is for till what period?

Amit Kumar Singh: You can add three months. It is simple.

Anant Mundra: Okay. But then the payout is happening before the three months, I am guessing, because the record date is the 16th.

Amit Kumar Singh: Yes, yes. That is right.

Anant Mundra: Okay. And we are not required to maintain any major maintenance reserve because I do not see any cash being allocated to that?

Amit Kumar Singh: So, major maintenance reserve, it depends on lender to lender. It's not that we are not required. See, there is no requirement, it is a regulatory requirement. These requirements come from lenders under the loan agreements. So, maybe with some of the lenders, we may have negotiated better. So, we are not required to maintain reserve now. But I cannot commit tomorrow, somebody, different lender comes, and he asks me to put a reserve and that offsets for the benefit he is providing.

We may have to. But as of now, under the loan agreements, what we have entered into, we do not have any requirement to maintain any major maintenance reserve.

Anant Mundra: So, the valuation has been done considering that we have to maintain the reserve, right? No.

Amit Kumar Singh: No. So, there are two things. One, you basically -- once you maintain, make the SPV model and once you make the InvIT model. So, valuation has not been arrived considering the major maintenance reserve because this we have tied up with lender where the major maintenance requirement has been dispensed with. So, that is how valuation has been done.

Anant Mundra: Okay. So, if there is a requirement tomorrow from the lender then to maintain a major maintenance reserve that might result to a yield loss. Is that a correct assumption?

Amit Kumar Singh: No. Difficult to say that because if there will be a requirement, then maybe different other ways also to look at. So, very difficult to maybe say comment on that assumptions now. But generally, what happens at the InvIT level, there is a pool of cash flows. So, you can, if you are able to explain to your lenders that major maintenance reserves are not required and if they agree, then you may not require going forward as well.

Anant Mundra: Okay. And sir, one final question, how much of our portfolio would be in high-risk zones like maybe ghat areas or high seismic zones or some flood prone areas?

Amit Kumar Singh: Nothing. Nothing. Out of seven and this potential equation eight, nothing is like that.

Anant Mundra: Okay. Thank you, sir. That it all from my side.

Amit Kumar Singh: Thank you.

Moderator: Thank you. Okay. Next question is from the line of Ashish Shah from HDFC AMC. Please go ahead.

Ashish Shah: Yes. Hi. Good morning, gentlemen. Sorry if this was covered earlier. I logged in late. By when are we expecting the NOC for the transfer of Aligarh to Kanpur from GR? Because I saw that we have got the completion certificate very recently. So, by when could we expect the transfer to happen now?

Amit Kumar Singh: So, Ashish, we are expecting it very soon. And, you know, as we had said on the call also, we are very sure that we should be able to confirm or complete this acquisition by this quarter itself. It is very soon what we are expecting. Difficult to give a timeline, but could be, say, maybe a couple of weeks. But the transaction to complete before this quarter, that we are working towards and that looks feasible.

Ashish Shah: Right. Also, our full year guidance, which was earlier given at close to INR11, is that maintained for the FY25?

Amit Kumar Singh: Yes, Ashish. So, the guidance was INR11.5. And if you see the two distributions put together, which is INR6. So, we are enroute to our guidance, maybe beating our guidance.

Ashish Shah: Got it. Right. And any more acquisition that could be completed within this year from the ROFO assets or now we could look at an acquisition potential in the next year only?

Amit Kumar Singh: No, Ashish. So, I think one asset of GR, which is completed asset and basically completion, I think completion certificate came on, I think, 6th or 7th of April. So, technically, for two annuities, it might spill over to next year, next financial year. But what we are thinking that regulation allows to do 10%, basically 10% of the EV of the, basically, EV of our investment. Those value of that 10% asset I can acquire under construction category.

So, I am just exploring that, we are just exploring whether can we take that asset. Even the first annuity would have been received and second would be very close to the end of financial year. Can we do that acquisition within the year itself as a second acquisition? So, we are just exploring that because I think that may happen and that may be workable.

So, we can do that. And other than that, we are also looking at some third-party acquisition. Wouldn't want to comment on those now. If that rectifies, so maybe we can say at least see one more asset which can happen within this year. So, this is the pipeline, one or two more assets within this year.

But next year onwards, we have a decent pipeline because the assets are getting completed, two annuities have been received or completing. So, I think then we can see more asset acquisition next year onwards.

Ashish Shah: Right. And the third-party acquisition we are talking about, that would be HAM? Or that could be BOT as well?

Amit Kumar Singh: That's HAM as of now. No BOT as of now. That's HAM.

Ashish Shah: Yes. Right. Sure. Thank you. Thank you for your answers.

Amit Kumar Singh: Thanks, Ashish. Thank you.

Moderator: Thank you. Next question is from the line of Dhiraj Dave from Samvad Financial Services LLP. Please go ahead.

Dhiraj Dave: Thanks a lot. Yes. So, my question is basically you did indicate -- and congratulation on outperforming on your guidance. We do anticipate INR12, as you are suggesting, going by whatever last two distributions. My question is basically how we see, assuming that there is no acquisition instance.

It means basically we manage with the seven assets. What's the kind of distribution we should see in next three years? And also, what would be component? Basically, it would be dividend interest. Broadly, if you can give some guidance on that, it would be helpful?

Amit Kumar Singh: Okay. So, see, first thing I think you would have heard that maybe we are going to acquire one asset very soon within this quarter. That should happen because, thanks to you all, I think you all have, all the unit holders have given us approval. Our board has approved and even GR's board has approved. So, I think just pending NHAI NOC, we should be able to, so, pending NHAI NOC, we are waiting.

Once that NHAI NOC is released, I think we should be able to, and we are very sure about that, we should be able to –

Dhiraj Dave: So, we can consider eight assets. Yes, it's just a matter of time. So, yes, formality check. So, we can assume eight assets. So, let us assume eight assets, whatever we have and stand still. It doesn't require doing…

Amit Kumar Singh: Yes, yes. I can tell you that the guidance, what we talk about, right, and if there's not much movement on, say, interest rate, with this acquisition of GR Aligarh Kanpur, over the next three years, we are -- the guidance what we spoke, we are very much in line of basically meeting that guidance.

Dhiraj Dave: It should be INR12 approximately per annum?

Amit Kumar Singh: Yes. So, basically, around that, we should be able to maintain that guidance, even with the acquisition of GR Aligarh Kanpur, and forget all the future of asset acquisitions.

Dhiraj Dave: And the second question would be, what would be the composition? So, basically, this time we find that dividend is almost INR2.20 paisa, and that's tax rate, under the tax law?

Amit Kumar Singh: No, I think dividend is taxable. See, it's the first year, because most of the SPVs have basically positive reserves, right, accumulated reserves. That's why it's more dividend. You can, but I can tell you that this composition is going to change, maybe sometime next year onwards, yes. And then you can start seeing maybe a balance of dividend interest as well as the capital redemption.

Dhiraj Dave: Okay, so we cannot extrapolate this year's dividend, which is like substantial portion. So, would it be like kind of 50-50 or something interest and capital redemption next two years?

Amit Kumar Singh: I just need to see that, because I just need to see the model. But interest is going to be, say, in the range of around 55%-60%. Dividend is going to be coming down heavily. That is going to be, say, around the range of 10%-12%, 15%. I'm just talking about range. And the balance will be, you can say, repayment update.

Dhiraj Dave: And we are not looking at any tolling assets. Broadly, it would be HAM assets, which will give a reasonable assurance of cash outflow?

Amit Kumar Singh: No, see, since you just asked for eight assets, these eight assets are the underlying HAM assets, right? So, basically, what numbers I'm talking to you about is all including these eight HAM assets.

Dhiraj Dave: I'm talking about eight assets. Basically, this asset is HAM. I'm saying future acquisition. Not to be confused with the previous question. Yes, I understand. But in future, do you look into acquiring toll assets?

Amit Kumar Singh: See, to be honest, it's not that we have closed our eyes towards the toll assets. Because, the thing is, see, as an investment manager, wherever I see opportunity, where I can see a higher number, or maybe the uptick in my yield, which I can distribute to my unit holders. If there's any opportunity, it's not that we'll be closing our eyes off to those assets.

Because there may be some opportunity may come up. But one thing is very sure that the guidance, what we had given to our unit holders initially at the time of IPO, whatever guidance we keep giving over the calls, those guidance should not get disturbed. That's the primary, basic investment thesis we have in mind.

And any asset we acquire, we ensure that the guidance, what we are given, those guidance are being met on quarter to quarter, or maybe yearly. We don't want to disturb those guidance.

Dhiraj Dave: Fair enough. Thanks a lot. Wish you all the best.

Amit Kumar Singh: Thank you.

Moderator: Thank you. We have our next follow-up question from the line of Anant Mundra from Mytemple Capital. Please go ahead.

Anant Mundra: Thank you for the opportunity, sir. I just wanted to understand, even if we acquire the under-construction asset, because the second annuity is due in April, so it will immediately be converted to an operating asset, right? So it's just a matter of five-six months, if we have to do the acquisition?

Amit Kumar Singh: It's not even, to be honest, five-six months, because how it works, Anant, is that suppose April 6th or 8th, whatever that was the PCOD date. So, you can't take that asset, basically when you can't apply to NHI, NOC and all, before 6th or 7th of October. Because as per NHI, you can't, NHI won't, you won't be able to transfer your rights to any of your SPV to anybody else.

Before six months of completion. So once you start, you'll be only able to start the process after six months. Like October 1st, we can start the process. Maybe because we need to, maybe lender NOC and all, we can run parallelly, but again you need to go to NHI for taking the approval. So that approval you take and generally takes time, right? Easily two-three months.

So maybe the best case, you'll be able to finish the acquisition by December and by 7th or 8th of April, it will become an operational asset. So, my, that 10% thing will get, get freed up. So actually, it works like that. So, it's not five-six months. In the best case, it would be, I think, two-three months. And the moment it receives the second annuity, of course it will have, I'll have a higher EV, right?

And I'll have a higher 10% of my, basically, opportunity which I can again acquire under the under construction.

Anant Mundra: Correct.

Amit Kumar Singh: Yes.

Anant Mundra: Okay. Thank you. That’s it from my end.

Amit Kumar Singh: Thank you.

Moderator: Thank you. As there are no further questions, I would now like to hand the conference over to Mr. Amit Kumar Singh for the closing comments.

Amit Kumar Singh: Thank you. So, thanks everyone for joining the call. We remain committed towards the guidance we have provided, and we'll keep working towards the achievement of those guidances. And before we all head out, I would like to thank everyone again who showed up for this call. Thanks everyone. Good day. Thanks.

Moderator: Thank you very much. On behalf of Bharat Highways InvIT, that concludes this conference. Thank you all for joining us and you may now disconnect your lines.