GR HIGHWAYS INVESTMENT MANAGER PRIVATE LIMITED

GRHIMPL

14th November 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 Friday, 8th November 2024 2024, for the quarter ended 30th September 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: 2024.11.14 09:51:12 +05'30'

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Company Secretary & Compliance Officer
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Encl: as above

“Bharat Highways InvIT

Q2 FY’25 Earnings Conference Call”

November 08, 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 Q2-FY25 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, sir.

Amit Kumar Singh: Thank you. Thank you, Yashashvi. Good morning, everyone, and I would like to thank all of you for joining us today. At the outset, I would like to wish a belated happy Diwali to all of you. Hope you all had really had a blast. I welcome you all to the Q2 FY25 Earnings Conference Call of Bharat Highways InvIT. While we'll be sharing the updates on operational and financial highlights on the InvIT for the September quarter, we'll move on to the Q&A sessions towards the end.

As of September 30, 2024, the AUM of Bharat Highways InvIT stood at INR6,628 crores, having 8 HAM road assets with an average balance of approx. 11.3 years. As on September 30, 2024, the outstanding annuities of the project SPV stood at INR6,835 crores and 49 of the total 240 annuities have been received.

As an update on the acquisition of GR Aligarh Kanpur project from GR Infraprojects, I wish to inform you all that we could complete this acquisition in the September quarter. Your InvIT had entered into a share purchase agreement dated September 13, 2024 with GR Infra for acquisition of 100% equity stake in GR Aligarh Kanpur Highways Private Limited for an equity consideration of INR339.5 crores, out of which INR98.6 crores was paid towards the equity and INR240.9 crores were paid towards the assignment of loan to Bharat Highways InvIT.

Accordingly, the equity shares of GR Aligarh Kanpur Highways Private Limited was transferred to the InvIT on September 17, 2024 pursuant to which InvIT obtained control over this new subsidiary. I would also like to mention that InvIT is also exploring acquisition of third-party assets and will keep continuing doing that.

We had a board meeting of investment managers which took place on 6th of November, that was day before yesterday, and I am very happy to inform that Board of Directors had approved a DPU of INR2.20 for Q2 FY25. Break-up of INR2.20 is as follows. Interest is INR1.66 per unit. Return of capital is INR0.19 per unit. Dividend is INR0.30 per unit. Income from other sources is INR0.05 per unit. Income from other sources is nothing, but the treasury income which InvIT has earned on its investments.

Again, I am repeating, this INR2.20 break-up is INR1.66 is interest. Return of capital is INR0.19. Dividend is INR0.30 and income from other sources is INR0.05. Our cumulative DPU at the end of the second quarter, including the current distribution, stood at INR9.20 per unit.

I would also briefly update on the sector trend. So, I think as all of you would be aware that in the road sector, awarding activities of NHAI and MORTH put together during first half was comparatively a little muted. However, awarding activity by MORTH is gradually pacing up and up to August '24-25, 1,152 kilometres of project have been awarded. We have also witnessed construction of 2,961 kilometres of national highways up to August '24-25.

Further, the Cabinet Committee on Economic Affairs, chaired by the Honourable Prime Minister had also approved the development of eight national highway corridor projects at a cost of INR50,655 crores across the country. Approval of new infra projects, increasing awarding activities and completion of existing road projects in the country are expected to open the opportunities for channelising the financial capital in the InvIT space and anyway, we will be actively tracking the awarding activities across MORTH and NHAI.

I will now pass it on to Harshael who will take you through the financial details before we open up for questions. Thank you once again and over to you, Harshael.

Harshael Sawant: Thanks, Amit. Coming to Q2 FY25 performance on a standalone basis, the interest income on the loan extended by the trust to the SPV was INR147.8 crores. As mentioned by Amit earlier, we have completed the acquisition of Aligarh Kanpur project. So, the interest income factors in the interest income generated by, for the period post the acquisition.

The dividend received during the period from the SPV was INR434.22 crores. The dividend income reflected in the P&L statement was utilised for distribution during last quarter and for acquisition of GR Aligarh Kanpur project.

Further EBITDA for the quarter was INR575.84 crores. This was post adjustment for the diminishing value of investment at a non-cash entry. The diminishing of investment value is on account of difference in the fair value and book value of investment. The reduction in fair value of investments was on account of cash upstream by SPV, which is primarily utilised for acquisition, as I mentioned earlier, for the acquisition of Aligarh Kanpur project and distribution made till date.

On the debt side, during the quarter, we had availed external debt of INR682 crores at the trust level which was utilised to repay the existing debt of GR Aligarh Kanpur. The total external borrowing now at the trust level stands at INR1179.5 crores and the interest income on the same during the quarter was INR25.05 crores.

As additional debt of INR682 was availed over last week of September, the full impact of the same will start reflecting from the next quarter. The tax outflow is only on the account of other income earned by the trust. On a consolidated basis, the revenue from operations was INR156 crores, which primarily included O&M income, finance income on the financial asset and exchange of scope income.

The increase in revenue from operations is an account of increase in the finance income, which was in last quarter impacted because of the one-off event in Varanasi Sangam project. The other income for the quarter stood at INR15.24 crores and the total income was INR171.25 crores. The EBITDA for the period was INR134.74 crores on a consolidated basis.

In relation to the NDCF at the trust level, the SPVs declared a dividend of INR26.75 crores for quarter 2 FY25 and interest income, as I mentioned earlier was INR147.8 crores. Further, SPVs have made a repayment of INR16.5 crores, resulting in a total cash upstreaming of INR191.1 crores for the quarter 2.

During this quarter, InvIT had realized the receivables against the invocation of indemnity of Varanasi Sangam, which is getting reflected as a cash surplus in the NDCF slide on the page number 8 of the presentation. Further, the trust earned an treasury income of INR4.09 crores. The post-adjustment for finance cost, [DESA] reserve and trust level expenses, the NDCF works out to INR97.50 crores. As Amit mentioned, the total distribution works out to INR2.20 per unit and breakup was provided earlier.

Thank you and we are open to questions now.

Moderator: Thank you very much. We will now begin the question and answer session. We will take a first question from the line of Sarvesh Gupta from Maximal Capital. Please go ahead.

Sarvesh Gupta: Good morning, sir. So, first question on the DPU. Now, for this quarter, including the entering DPU, we have paid out INR3.2 per unit. So, should we consider this as the quarterly run rate going forward or was it just done? So, how should we sort of look at the quarterly DPUs going forward?

Amit Kumar Singh: So, Sarvesh, if you see, at the time of IPO, at the time of roadshows where we will, you know, listing within on course to list our unit, we had given a guidance of INR11.5. Now, if you see, we gave INR3, then we gave INR3 again, then we gave INR1 and of course, that was basically you can say, increment this quarter INR2.2. So, while we put together, come together INR9.2, but as a guidance, you can see in form of what we have been given in the earlier quarter, that only remains as a guidance. And our guidance still, you know, we stand to INR11.5, which we had given at the time of IPO.

Harshael Sawant: Of course, we do want to better that, but the guidance remains the same, INR11.5.

Sarvesh Gupta: So, somewhere between INR2.75 to INR3, we can expect in the coming quarter?

Amit Kumar Singh: Yeah, you are happy, you are happy to do that, math. But the guidance remains the same, what you said. But if you do just addition, deletion, the number what you're saying, it comes around to that.

Sarvesh Gupta: Understood. And secondly, I think earlier most of the DPU was being sent in the form of interest and dividends. But in this quarter, around 16% has also come in the form of return of capital and treasury income, which I'm guessing is tax free as of now. So, is that proportion also going to be maintained for the future distributions? Or this is one of sort of a thing?

Amit Kumar Singh: No, I think maybe Harshael will explain it better. But what I understand is that, look, you can give interest anyway, SPVs has to pay interest to InvIT, right, at whatever rate it's been entered in the loan agreement. So, that anyway will remain as a, you can say, one of the substantial way of income of DPU, you can say. But of course, the composition is going to be a little bit changed because company law allows you to make a dividend only till the time your net worth is positive, right.

So, when the moment the net worth becomes negative, of course, you have to resort to return of capital. Treasury income is very less, you see, because treasury is like whatever InvIT has other basically income on this investment. So, that again, I don't think that is ever going to be a very substantial or very high amount. But yeah, return of capital is going to increase going forward. And the major, I think, is going to be its interest and the return of capital.

Dividend to the extent of the new SPVs you will keep acquiring and to the extent of there will be some surplus at the SPVs level that will be, say, passed on to InvIT and maybe that can become as a dividend. Otherwise, predominantly going forward is going to be interest and return of capital. Yeah.

Sarvesh Gupta: Okay. And now coming to your acquisition pipeline. So, how is that looking at and given that you have retained the guidance of the same DPU, do you feel that we will not be able to do a healthy sort of acquisition that we were earlier targeting through this financial year?

Amit Kumar Singh: No, no, I think we are very much on our -- basically on track. So, we had given a guidance of two to three incremental asset acquisitions for this year. We have already acquired one. I think we have in the next maybe five months or so, whatever the remaining for the year. We live to complete two more. That should happen.

Of course, given the acquisition, there's one, so one moving part is NHAI approval. And so, you can't be 100% certain to, say, give you a complete final deadline or timeline. But I think we are on track to acquire those two assets. What we have given two to three assets, we have given guidance.

It's not that my guidance that what, again, I'm repeating that that is the minimum guidance. And we are committed to better that. So, if, of course, if we acquire more assets, which will be incremental or yield accretive in nature, of course, there's guidance or maybe the final DPU will improve.

Sarvesh Gupta: And I'm guessing that the project IRRs of these acquired assets will be 11.5% or more as well?

Amit Kumar Singh: Of course, that we had always maintained and we are, we remain committed that project IRRs will be in such a range that whatever we acquire will be yield accretive. So, if we're given guidance of as of now 11.5% and since the interest rates remain same, there's no rate cut and all. I think my project IRR or IRR at which I'm going to acquire will be north of this.

Sarvesh Gupta: Okay. So, that means that given your cost of debt is 8%-9%. So, you will be able to better your overall IRR for the unit holders. That's why acquiring this.

Amit Kumar Singh: Yes. The only thing you need to understand also that basically my cost of debt is lesser that my project IRR, but that only benefits to the extent of leverage I have. So, right now, as we speak, our leverage is only around 27%.

Sarvesh Gupta: Yeah, up to 70% you can go, right?

Amit Kumar Singh: 30% you can go, but that only if you have six successful distributions and your InvIT remains AAA. As of now, we do have six successful. With this, we'll be completing four only. So, post that, initially it can be only 49%. So, of course, I can say my threshold gets increased. Of course, then that benefit will be more. As of now, we are, whatever our working is keeping the 49 in mind.

Sarvesh Gupta: Okay. Yeah. And finally, you mentioned this number from NHAI on the project award, but that has been something which has been sort of been indefinitely sort of people have been waiting for the awards of the road projects, but we've been seeing very less awarding in general. So, if you can just enlighten us as to what is the ground situation like in terms of awarding and why it is getting so much delayed for this financial year, that would be great.

Amit Kumar Singh: No. So, if you see historically, if you see awarding of NHAI, it has been more towards the second half than the first half. Actually, first half in the first quarter, you only see the awards which happens, which are like spill-over from the last quarter. So, historically, if you see, so I think awarding anyway, and one more thing we have to keep in mind that overall underlying construct, which is like, is also going to change.

So, you can see, maybe more awards towards BOT this year than HAM or EPC. So, because of that, it may happen that, and of course, BOT, you have so many new concessions coming on, there are a lot of new concessions, completely new concessions coming, a lot of discuss, it was sent to all the, basically relevant stakeholders for their comments and all.

So, now all those things are done, we expect that awarding of BOT and HAM to pick up from the December onwards. And it should be in the range of what the guidance given by NHAI. Generally, as a road developer, or maybe as a road in which we are not surprised to see, basically that the first half, of course, this year, first half is also a little muted because of elections and all.

But now, since everything is in place, I think we should see the award to be picked up, say from 11 point, sorry, from maybe 11th, which was in maybe November, December onwards, and maybe the Q4, you will see the sudden pick up of this.

Moderator: Thank you. We will take our next question from the line of Anant Mundra from Mytemple Capital.

Anant Mundra: Sir, so just wanted to understand this better. When you say that you are acquiring assets at about 11.5%-12% IRR, you are referring to the equity IRR here, right? Because…

Amit Kumar Singh: That's right. Yeah.

Anant Mundra: So the debt is replaced as it is 70%. On that 30% is where you get that incremental extra return, because we'll be doing 8.1% borrowing, and then that will be deployed at 11.5%-12%. So that's where we learn the spread.

Amit Kumar Singh: Yeah, but as of now, Anant, we are not at 70%, right? We are a little lesser. So of course, maybe while my equity IRR is going to be what we said, it is in the range of 11.5% to 12%, but debt exactly is not always 70%. We'll be reaching debt of 70% once we'll have, say, six distributions done. Then only we'll be reaching 70%.

Anant Mundra: Got it. So I remember in the first con-call that we had done, you'd mentioned that you aspire to be the best InvIT platform listed in the country. And if I look at your peers who held in high regard, I mean, for someone who got in at the IP of INR100 is enjoying a payout of about INR15, so that they're enjoying 15% IRR, and they're even informally guided for doing better than that. So is this something that we can also achieve as and when we keep adding assets?

Amit Kumar Singh: So if you see, we listed at 100 and in the month of March, and currently we are trading in the range of 113-114. And we have also already saved this announcement, 9.2, which is a cumulative guidance. So I think now you can do the back math, I don't need to do that calculation. So how much in on an analyzed basis, basically what we would have given, right, including the, if you say the price also.

So right now we have already given INR9.2. We also listed came out with INR100, and now we're at INR114. So INR14 plus INR9.2. So that way, our annualized IRR is more than what you'd be talking about. But of course, that's a short term, I can't just say that it will keep will it will be at that level. But we still say that what I said in the first call, I come, I'm again reiterating that we continue to do that. And we remain to be we work towards will, of course, keep working towards to become one of the highest yield platform.

So far as concerned, you also have to keep in mind that these are all our underlying ham assets, where we don't have a basically, revenue uptake. So my entities are fixed. So whatever we need to do, we need to do with, our cost, and then maybe how best we can negotiate, say my incremental assets, with incremental IRRs, so that it becomes a yield aggregator. So we are doing that, I think with each asset acquisition, we can see, we keep showing some uptake in our distribution.

Anant Mundra: Got it. So one more thing is, we've paid INR2.2 for this, for this quarter, and one was paid as interim dividend. But I'm assuming that one was paid out of as an interim dividend, because the acquisition cost was slightly lower on account of one annuity coming in. So from the operating cash flows, we've paid only INR2.2 for the quarter, which is slightly lower, if you see our guidance of INR11.5, INR12, from the operating cash flows, we should be doing INR2.75 to INR3. So why has there been a slightly lower payout this quarter?

Amit Kumar Singh: No, so if you see, cash flows are fluid, right? And basically, if I have cash, same cash, I can utilize to acquire assets, so that my yield becomes accurate. Now, same thing we did. So we first set aside INR390 crores, which again, were from our cash flows only. Out of that, maybe amount we ended up paying for the asset is INR340-odd crores. So INR44 crores we distributed, but suppose it would have just INR340 crores, then that for that INR44 crores plus whatever we use now, would have, we would have paid you which again would have been 3 or 3.2.

So I think guidance wise, we are ahead. It is just a common cash flow, same cash flow I can use for acquisition and have said something remains as a of course, as per the inventory regulation, we need to distribute so which we did. So I either paid INR1 earlier, maybe I could have kept that and I could have kept that, that INR50 maybe INR44 plus whatever we are paying maybe INR1 and INR2.2. Now, I could have given INR3.2 and for which maybe you'd have said, you're on track on guidance. I rather, broke up in two parts.

Since we had cash, we thought let's give INR1 because as per the IRR wise, if I'm giving INR1 earlier, maybe my IRR to Investors would be better. The balance whatever we left with the cash flows, we distributed now. So I think we are very much on track just because INR1 I paid earlier. It's not that I'm not on the guidance. We should have been INR2.753 and we have given INR3.2.

Anant Mundra: So coming to Slide number 8, if I look at the net distributable cash flow chart that you've given, so if you can just refer to that Slide. So at the SPV level, there are two payments that are happening. One is SPV debt obligation and the other is SPV encumbered cash. So one is where you mentioned that there is no debt at the SPV level. So why is there any debt obligation there and what is this SPV encumbered cash?

Harshael Sawant: Yeah. So Anant, we acquired Aligarh Kanpur and whatever was the interest approved till the date of acquisition, that has been paid out from the cash flow. So that's why you see a SPV debt obligation there. Plus, we did the refinancing as I mentioned earlier in the last week of September.

So there are certain requirements of no dues, which we have to obtain from the lenders. So since it was not, the lenders take their time to give that no dues certificate. So that's why the desk area and the major maintenance reserve, which is there at that SPV was encumbered. So once we have now obtained it, so subsequently it will get to me.

Anant Mundra: Got it. And sir, what is the third last number on that on this slide? Because it's not complete amount utilized for SPV dot. So what is that exactly?

Harshael Sawant: So as Amit mentioned, we had utilized, last quarter INR390.5 crores. After that we utilized INR340-odd crores towards the concentration. Now the total debt in the SPV was INR745 crores and we availed an external debt of INR682 crores. So the difference between the two numbers, so gross number is INR403 crores and INR390.5 crores. So that worked out to INR12.8 crores. So that number is represented.

Anant Mundra: Okay. Got it. And so you did some kind of refinancing for the -- for the new asset that you acquired and that is also at 8.1% levels.

Harshael Sawant: That's correct.

Anant Mundra: That's right. I think that was it from my end. Thank you.

Moderator: Thank you. We have a question from the line of Sarvesh Gupta from Maximal Capital. Please go ahead.

Sarvesh Gupta: So, thanks for the follow up. So given the pipeline, by so this four distributions are already done, in the next one quarter or two quarters, we will be done with the six also. So now by when can we expect to hit 70% leverage?

Amit Kumar Singh: So 70% leverage actually was the, guidelines to place that you can have a 70% leverage only when you have -- when you would have done six distributions, you remain AAA. And those six distributions, suppose if I do four this year and I do next year, then I can remain, I can go to 70% after the end of financial year of next year. So after the next financial only I can do.

So suppose I, if just for simplicity, if I do the distribution in month, say in the June, or maybe in the month of May and in month of July or August, then I can go up to 70% -- up to 70% only after the end of next financial year. So we'll see that whether we could finish the six distribution in this, or this financial year itself, or it goes up to next financial year.

But that's not a problem because if there's a good opportunity comes, I think we can always go in the market, raise, and we can acquire those assets so that it gives us the, the higher rate. So for example, if I have something which where I can do the discounting of 13%, 14%, right, I can always go back in the market and we can raise and we can again, we can acquire those assets. So basically, just because, leverage level will not become a constraint for our aggression. And we have, as of now, we have a decent headroom also where within 49% also we can acquire.

Sarvesh Gupta: So by FY '26 or 27, we can reach, right? If not FY '26, then at least by FY '27, we can reach.

Amit Kumar Singh: Yes. Absolutely.

Sarvesh Gupta: Okay. And apart from the ROFO assets, how are we looking at the pipeline? Are we finding, like you mentioned, you know, attractive assets in the market currently?

Amit Kumar Singh: Yeah. We are, basically actively looking at third-party assets also, and we are seeing good traction from those side as well.

Sarvesh Gupta: But now, there are many other private index also which are actively acquiring the portfolio of ham assets, etc. So given that competition, are you able to find decent IRRs on the assets which are available from third parties?

Amit Kumar Singh: Yeah, we are. We are.

Sarvesh Gupta: Okay. Thank you.

Moderator: Thank you. We'll take our next question from the line of Anant Mundra from Mytemple Capital. Please go ahead.

Anant Mundra: Thank you for the follow-up, sir. So just want to understand, has there been any instance of NHAI delaying payments to any, any ham assets due to reasons apart from non-maintenance of road? And if they do so, do you get any kind of interest carry on that?

Amit Kumar Singh: Anant, so as I said on the call, the 49 annuities have been received. And I can very proudly say that till date, all those 49 annuities received on time, not delayed. So of course, we haven't encountered any situation where we could get any kind of interest or from NHAI. But just to answer to your question, they don't pay any interest even there's a delay.

Anant Mundra: Okay. No, I'm not specifically referring to our case, but maybe from the industry, you might be aware of some cases where they've delayed payments apart from reasons not attributable to non-maintenance of roads. So I just wanted to understand from that perspective and how, I mean, how are we covered for that risk?

Amit Kumar Singh: No, I don't think I have, I would have come across where there would have been delays from authority, where there's a non-compliance on the concessional side and, authority would have delayed and then maybe there's a delay from authority side and authority would have paid any kind of carry on that. I don't think we would have come across any kind of situation in ham. There could be any, but I think, I don't think I'm aware of that.

Anant Mundra: Got it. That's it from my end. Thank you, sir.

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

Amit Kumar Singh: Thank you everyone for coming on the call. We'll keep updating you all for any updates which we do. We remain committed to grow the DPU and look forward for your cooperation as always. Thanks everyone. Thank you so much.

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