

Rising through challenges



Dear Stakeholders,

At the end of a challenging and volatile financial year, I am filled with a sense of immense pride and satisfaction to share that IRB has emerged stronger than before. Even as the market remained difficult and new opportunities were scarce, our focus was on implementing solutions to create value while enhancing growth for the business.

Performance review FY 2019-20

FY20 was a milestone year for your Company, marked by two significant accomplishments:

1. We joined hands with one of the largest Global Sovereign Funds, GIC (Government of Singapore Sovereign Fund) to launch a Private Infrastructure Trust (IRB Infrastructure Trust) with 51:49 ownership between IRB and GIC Affiliates.
2. Secured the largest and one of the most prestigious TOTs in India – Mumbai Pune Expressway project, for a fee of ₹ 8,262 Crores to be paid in four instalments

till March 2023 for concession tenure of 10 years and two months.

Private InvIT transaction

This transaction involves GIC Affiliates committing ~₹ 4,400 Crores for 49% stake in the Trust with ownership of 9 BOT assets (transferred from IRB) and incrementally exploring future opportunities together. Out of the first tranche of ₹ 3,750 Crores investment, ₹ 3,000 Crores has been used to part deleverage the 9 SPVs, while the balance is earmarked towards equity contribution for under construction projects. With lower debt to be serviced, the portfolio becomes cashflow positive and self-sustainable, even during the initial years of concession. Accordingly, financial liabilities for IRB are now limited to its wholly owned projects and businesses – and you would find that we are moving to partial consolidation of our business segments to reflect the same. As a result, your Company now has an encouraging net D:E of 0.76x and is poised for taking up growth opportunities with a bigger appetite as well as stronger balance sheet. Following these developments, India Ratings has re-affirmed the Credit Rating of A+ for the Company.

Mumbai-Pune Expressway TOT

Winning country's largest road TOT concession for the second time in a row has been nothing less than a roaring success of our efforts and strategy. A lighter balance sheet with reduced debt on books, enabled the necessary headroom for us to take up the commitment of a large fee of ₹ 8,262 Crores for this concession. Given the merits of this project, driven by it being only road connectivity between the twin cities of Mumbai and Pune, we expect a promising equity IRR from the project. We have experienced the same while managing this project for 15 years earlier as well.

During the year, we also achieved Provisional Commercial Operation Date (PCOD) for Karwar Kundapura project; with this, all projects in our BOT portfolio are now tolling, including 5 of our 4 to 6 laning projects – that are under various stages of construction. Around the end of February 2020, we were relishing the business momentum of the Private InvIT transaction closure, Mumbai-Pune concession win, strong pick-up in traffic registering a comfortable double-digit y-o-y growth in collections, when the world was hit by the unprecedented pandemic - COVID-19. The month of March

was marred as construction activities as well as traffic movement slowed down, until a complete national lockdown was implemented on orders from the Central Government – which extended until the end of May 2020.

Our FY20 numbers are not comparable to that of FY19 due to the transfer of 9 assets to Pvt InvIT for part of the year as well as the impact of pandemic. To combat liquidity challenges caused due to the lockdown and compensate for slowed economic activity, the government has extended support in the form of moratorium for existing loans, increase in working capital limits, NHAI loans and an extension of concession period of projects. On the whole, these initiatives are expected to make the COVID impact NPV neutral. We have meticulously planned and used each of these options selectively – to conserve cash and shore up liquidity on books, which has helped us in proposing a final dividend of 50% for the year.

Strategy and game-plan

Liquidity and a strong balance sheet are the need of the hour to ride out the pandemic period while also tapping unfolding growth opportunities. The same focus and efforts could not have yielded results at a better time for us. We closed the transaction with GIC Affiliates and won Mumbai-Pune concession, just days before spread of COVID-19 grasped India. We were ₹ 3,000 Crores lighter on debt with fund availability for ongoing execution and had also won strong cashflow stream with 10-year visibility.

With the Mumbai-Pune Expressway win we have been able to continue legacy and gain leadership at the same time. IRB's business can now be simply modelled in two business segments: EPC and owned assets, which include 3 BOT, 1 HAM and 1 TOT; and investments in two InvITs as their sponsor. We have ~16% stake in the Public InvIT and 51% stake in the Private InvIT and we continue to manage O&M for all assets housed under both these InvITs through our EPC arm, which also undertakes construction and execution of projects under the umbrella of the IRB Group.

Expanding horizons

We now have, to our credit:

- The largest TOT project in India as per time value concept, given the concession tenure of 10 years 2 months
- The largest asset base of over ₹ 45,000 Crores backed by largest portfolio of tolled projects in the country
- Single largest debt tie-up of ₹ 6,610 Crores for Mumbai Pune Concession, closed in the stipulated time even amidst the pandemic
- A long-term marquee financial partner for 49% stake in the largest roads Infrastructure Trust in India

It will take some more time for the COVID-19 impact to be over. As a result of the pandemic, a shift to usage of private vehicles is becoming apparent the world over and a similar trend is expected to emerge in India. This will provide further boost to traffic in post-COVID times.

From here on, our focus will be laid on consolidating our leadership further, through execution of the order book in

hand and new project wins. By FY21 end, we expect to have completed the construction of all the projects in our portfolio, except some part of Hapur-Moradabad – which will be completed in FY22.

BOT: Preferred choice for emerging times

There wasn't a significant awarding activity in FY20 by NHAI as most of Q4FY20, when a good number of tenders were lined up, was lost due to the pandemic. The authority had lined up some tenders on the BOT mode earlier as well, of which a few will likely be awarded in the ensuing months. During the pandemic, however, the Government has prioritised the usage of its corpus for supporting the financial health of the industry, safeguarding MSMEs and agriculture, aiding marginalised population, and expanding healthcare infrastructure. The Authority, too, has had to spruce up funds available to compensate the industry for losses due to the lockdown and slowed economic activity. The authority is also working on smoothening the Model Concession Agreement (MCA) for the BOT model to make it more bankable.

The Ministry of Road Transport and Highways has guided for 3,000 kms of highways to be built on the BOT mode and tenders to be awarded based on the new MCA soon.

IRB is the leading Roads BOT developer in India and is well poised to bag a meaningful market share in the segment.

Outlook

We witnessed a strong uptick in collections being clocked for our assets towards end of February 2020, which is indicative of the demand scenario in India. The same is also reflected in the rebound being witnessed in traffic as the country is opening up in phases. We are back to over 80% pre-COVID level traffic for our portfolio, even when many cities or state sections are not allowing traffic movement freely, and expect to reach pre-COVID collections in the coming months.

Further, out of the 9 projects in Private InvIT, 5 projects are under construction – all being 4 to 6 laning assets. 4 of these will be completed in FY21, resulting in over 45% jump in tariffs on completion. This will provide a strong boost in collections and facilitate operations.

With the transfer of 9 projects, their corresponding O&M now becomes a part of our order book – which has increased to ₹ 12,000 Crores, ensuring strong visibility for the EPC segment for foreseeable future.

We are well poised and geared up to win a large number of BOT projects in the upcoming bids, which will ensure a steady growth in execution as well as our Toll revenues in the long term.

All this has been made possible with the continued support and trust of all our stakeholders over the years. I am humbled by your association, guidance and encouragement, and want to thank you all for helping IRB reach these heights. We will continue to strive and remain focused on creating more value for all.

Regards

Virendra D. Mhaiskar

Chairman and Managing Director