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INTERVIEW: VIRENDRA D MHAISKAR

CHAIRMAN AND MANAGING DIRECTOR, IRB INFRASTRUCTURE

We will put six projects worth ₹7,500 crore in InvIT

Mumbai-based IRB Infrastructure Developers is well on track to float perhaps the country's first infrastructure investment trust (InvIT). Virendra D Mhaiskar, chairman and managing director of the company, tells Shubhra Tandon that he is confident that the instrument will be received well by investors, though concerns over domestic participation remain. As for business, Mhaiskar says that despite the share of BOT assets going down in a number of project awards from National Highways Authority of India (NHAI) and the ministry of road, there is enough coming in to keep its order book healthy. Excerpts:

Have you finalised the plans for InvIT and how much are you looking to raise?

We will put six projects in the trust worth ₹7,500 crore. They are all NHAI toll roads having average concession period of 18-18.5 years. The trust has been registered with Sebi, and we may file the DRHP by August end. Initial estimates suggest we would be able to raise up to ₹5,700 crore.

Have all the issues relating to taxation and investor interest been ironed out by now?

The concerns which continue to be there are on local participation as their yield expectations are slightly higher. From tax perspective the product continues to be more lucrative for FIIs. Also, there is not much clarity on the interest of insurance and pension funds for InvITs, and that is the sector which should come in fully to contribute to this new

product. They want that the product should be rated before they decide to invest. However, this is not a debt product. It is an equity product or a quasi-equity product and hence no rating instrument is available for the units that would get listed. So, PFRDA is yet to notify whether they will allow insurance companies to invest in InvITs or not.

What are the yield and IRRs that investors can expect?

Equity IRR of the investor to invest in this product is 11%-11.5%. Yields initially will be lower, but it will get ramped up because it is not a fixed yield product unlike what we see in the western countries. So, there will be an initial yield plus growth. On a combined basis we are looking at a yield of 9%-9.5% to begin



with and then ramping up giving an equity IRR of around 11.5%.

Not many infrastructure companies are confident of the success of this instrument yet. Are you taking a risk and putting too much on line?

It is not risky. It is just that the IRR and yield expectations have

to be matched. IRB balance sheet at present is leveraged at 3:1, and it is not a do or die idea at all. This is a value realisation game, and will allow us to ramp up our ability to bid for more projects. Going forward at IRB, we want to bid, execute, stabilise the project and transfer it to the trust. So, without leveraging the IRB balance sheet too much or without diluting at the IRB level, we will be generating a product which will allow us to do sustainable growth. Also, we are adequately funded to execute the projects at hand.

Why is the success of InvIT model important for IRB?

We strongly believe that this product is a necessity of the day not just for IRB, but the country as a whole. So far, we have only

had debt and equity as capital available unlike other countries. We do not have a robust bond market. We need to have some other instrument which will give long-term funds as quasi-capital to fund infrastructure. And this is one product which can fill in that gap. Also, if this product comes into existence it is going to free up large amount of bank debt stuck in infra projects.

Do you have a Plan B if InvIT does not see enough investor interest?

There is no Plan B. If the project has strength, cash flows are visible, the product will get sold. All our projects are well known to investors because IRB today has 30% FII holding and over the last so many years they have looked at all our projects in detail. If the IRR

expectations get matched, the product should become a success.

The share of BOT assets in road projects is coming down. Is that a concern?

We did not see much traction in the first half of the year for BOT, but in the second half we should witness more projects bids. A total of 2000-3000 kilometres of projects should be bid out on BOT from NHAI and ministry this year. This is a good enough number because we are not looking at more than 400-odd kilometres to add in a year to the IRB portfolio. Being declared the preferred bidder for Rajasthan project, 115 kilometres is already done. So incremental 200-300 kilometres is what we will be chasing for the balance financial year.