GMR Infrastructure Limited
Transcript of Conference Call with Investor / Analyst
to discuss the fund raising of US$ 300 mn
08 December 2015 at 4.30 p.m.

Moderator: Ladies and Gentlemen, Good Day and Welcome to the GMR Infrastructure Limited's Conference Call to Discuss the Fund Raising of US $300 million. 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 '*' then '0' on your touch tone phone. Please note that this conference is being recorded. We have with us today from the company, Mr. Grandhi Kiran Kumar -- Corporate Chairman, GMR Group and Mr. Madhu Terdal -- Group CFO. Before we begin I would like to state that some of the statements made in today's discussion may be forward-looking in nature and may involve risk and uncertainties. Also recording or transcribing of this call without prior permission of the management is strictly prohibited. I now hand the conference over to Mr. Grandhi Kiran Kumar -- Corporate Chairman, GMR Group. Thank you and over to you sir.

Grandhi Kiran Kumar: Welcome and Thank You for taking time for this call. As you are aware GMR has announced on Friday a Landmark Deal of Issuance of 60-Year FCCB to Kuwait Investment Authority, which is yet another milestone for Indian Infrastructure due to the differentiated nature of this instrument vis-à-vis what we have seen in the past. In the past few days you have been hearing different versions on this transaction in the media. The purpose of this call is to present the management's view and to remove any unfounded concerns regarding this deal.

Before we get into the details I would like to set a little more Context and Relevance of this for GMR and Overall Financial Strategy of the Group: In the current times, we feel liquidity is the most critical for Indian Infrastructure companies. We have witnessed testing times in the past 3 to 4-years and as the turnaround unfolds in the future we will need to maximize liquidity. It is in this context that GMR has focused on multiple approaches to generate and conserve liquidity. We have in past 2 to 3-years raised Rs.8,000 crores of equity including Rs.3,000 crores from market initiatives, Rs.5,000 crores through divestments. We have also refinanced Rs.10,000 crores of project debt to extend tenure and reduce interest cost.

In our view, there are Five Pillars to our strategy of ensuring and maximize liquidity: #1, Enhancing revenues and reducing cost through business turnaround, operational excellence and commissioning of our assets; #2 successful assets divestments across all business verticals; #3 fresh equity through market and through strategic partners, financial investors at subsidiary level; #4, refinancing the debt to a longer tenure with reduced interest rates primarily to align the repayments with cash flows from our assets; #5 and the last category is the quasi-equity which includes equity-linked instruments like FCCB. We continue to put in significant efforts in these multiple areas and take up opportunities as and when they are available. This is what differentiates us from other groups in the Infra space.

Let me first touch upon the profile of Kuwait Investment Authority: GMR believes that an association with an investor like Kuwait Investment Authority has many positives; #1 being it is a credible and one of the oldest sovereign wealth funds in the world with over US$500 billion of assets under management. This is the first large investments from Kuwait Investment Authority into India. By nature, sovereign wealth funds are long term investors. Specifically for KIA, their objective is to invest the money into long-term businesses to preserve this wealth for future generations, hence they are yield-loving investors who prefer the certainty of a coupon over a long period rather than volatile gains through short-term investments. KIA has long-term association with some of the leading companies across the globe including Daimler, British Petroleum, Dow Chemicals. At Daimler, they have been invested over the last 40-years. This long-term nature of sovereign wealth funds meets the requirements of infrastructure financing.

Now let me share with you the contours of this transaction: This fund raising is the first FCCB under revised ECB guidelines. It is an issuance of USD 300 million of FCCB to KIA. These are bonds having characteristics of perpetuity with maturity of 60-years till 2075 and a coupon of 7.5% annually. KIA has an option to convert at Rs.18 after 18-months which is at a premium of 30% to GMR 3-month average stock price. GMR retains right to force mandatory conversion into equity after 3-years if the price is 130% above the conversion price. GMR has a Call Option to redeem the bonds post 10-year. At an overall level this FCCB brings various benefits to the GMR Group -- replacement of high cost and short tenure rupee debt of 13 to 14% with low cost and long tenure debt at 7.5%. It will help us save 4 to 5% interest cost. Since this is only an annual payout it gives us additional flexibility to manage liquidity during the year. There is a no principle repayment involved for 60-years unless we choose to do so after 10-years. Key leverage ratios will improve resulting in strengthening of balance sheet which would lead to improvement in credit rating which can further lead to reduction in interest rates. Bond Covenants like mandatory conversion after 3-years and Call Option after 10-years are in GMR's favor. GMR has a flexibility to decide on these based on the business environment at that time. It is a matter of pride that Kuwait Investment Authority has chosen GMR for its first bilateral transaction in India.

With this I hand it over to the analysts for the queries. We will be pleased to clear your doubts and answer all your concerns regarding the issuance. Thank you very much.

Moderator: Thank you very much. We will now begin the Question-and-Answer-Session. The first question is from the line of Abhijit Mukherjee from Lucky Investment Managers. Please go ahead.

Abhijit Mukherjee: Just to understand; this 7.5% is the interest payment payable annually in dollars, correct?

Madhu Terdal: That is right, Abhijit.

Abhijit Mukherjee: Sir how do we take care of the rupee depreciation and how do you account for it also?

Madhu Terdal: First of all, the nature of the instrument is perpetual in nature. In fact, that is the real beauty of structuring of this deal. Obviously, we do not want to take any foreign exchange risk at all because since GMR Infrastructure does not have the natural inflows. So the principal amount is not intended to be repaid. So what is required is to hedge only the $22.5 million that is required to be paid annually and that we will take a call because it is a very small amount and GMR with all its resources is capable of managing this risk, but we feel it is appropriate, we may take cover, in that event the cost will be 0.50% p.a. So at the maximum, only that is what we would hedge as we do not intend to take any foreign exchange risk at all.

Abhijit Mukherjee: Sir, any particular reasoning for diluting at such low valuation and low market cap considering that we are sitting on some good assets?

Madhu Terdal: We have to consider this dilution very carefully. First of all it is not correct to say that we have diluted at a low valuation. If you recall Rights Issue was made at Rs.15. This is 20% premium to the Rights Issue. But it you take even last 3-months, the issuance have been made for about 30% premium to the 3-months average value. Now the question is, it must not be seen as a dilution because institutions like Kuwait Investment Authority, they are an yield-loving investor, they are not interested in a normal investor who will flip around the portfolio. Indeed their dividend revenues per year is of the size of $48 billion. So this is a completely unsecured bond and it is meant to be paid by way of coupon. Now only with a view to protect ourselves from perennial debt we have retained our right to convert it into equity. In fact if you look at the KIA history, it has invested in big companies like Daimler-Benz, they have invested in BP, they have invested in AIG, they have invested in Dow Chemicals, they have invested in Citibank. The way in which the KIA has gone whenever the good companies are having not-so-good times, for example, post-recession some of the companies which I mentioned they had come under pressure. So KIA has gone and invested in these companies and they are very happy to continue to get these returns. So they will choose good quality corporate. So what important is, KIA has chosen GMR as their first foray into India; they have trusted India they have trusted Indian infrastructure, more so they have trusted GMR. Their investment is not to go for dilution at all.

Abhijit Mukherjee: Sir just I do not know if I am permitted to ask this question, but there was an article in media regarding the Fairfax Airport deal. Any comments on that sir?

Madhu Terdal: We have already denied through the stock exchange this report, Abhijit.

Moderator: Thank you. We will take our next question from the line of Dhaval Patel from Antique. Please go ahead.

Dhaval Patel: Sir, is this fund raising for any specific purpose payment of CCPS or anything else specific or is it just to keep liquidity right now?

Madhu Terdal: I think you have asked an indirect question from Abhijit. It is not intended to the payment of any CCPS of any investors. Basically, it is a method of replacement of our high cost Indian rupee debt with low cost forex debt of 7.5% without taking any kind of hedge and it is intended to replace the short tenor Indian rupee debt with a long term foreign exchange debt.

Dhaval Patel: So this will be primarily for GIL to replace the holdco debt?

Madhu Terdal: Yes, GIL and GEL combined.

Dhaval Patel: Currently, if I look at our asset portfolio sir most of them are getting commissioned except for Chhattisgarh all projects are commissioned now and the performance of the assets per se is improving themselves, even for Hyderabad Airport we have gotten favorable order so performance again will keep improving. So in the context sir in terms of a stock price performance we should see some improvement because of improvement in performance. So in 1-1/2-years hence, when all our assets would be commissioned would that not be the time to actually go in for this… just a thought process sir?

Madhu Terdal: Mr. Dhaval, of course, if an investment is involved all the time is best time only. What is important for us at this point of time, while the operational performance is improving and debt-to-EBITDA ratio, interest cover ratios is going up, at the same time there is a need to take out the corporate debt as quickly as possible. So today if you look out of the total around ~Rs.6,900 crores, this deal alone will take care of almost about 29% of the consolidated corporate debt and about 53% of standalone corporate debt. Our intention is we want to assure the investors the corporate debt is cleared as early as possible through a slew of measures.

Dhaval Patel: So sir how much is the holdco debt now if I remove this Rs.2000 crores?

Madhu Terdal: ~Rs.4,900 crores approximately on consolidated basis.

Dhaval Patel: Again, just we do not have any cash flows per se right now. So, are there any more asset sales or anything else in the pipeline which we are looking at to reduce this further?

Madhu Terdal: Only I can say is, 'Wait and Watch'.

Grandhi Kiran Kumar: As we said I think as part of our strategy to look at some of the either strategic investments or financial investments at subsidiary level. So that could be one in the next future Yes.

Dhaval Patel: Strategic investments in terms of either an investor on the energy holdco or airport holdco?

Grandhi Kiran Kumar: Yes, that is right.

Moderator: Thank you. The next question is from the line of Ashish Shah from IDFC Securities. Please go ahead.

Ashish Shah: I just want to know how do we intend to address the forex risk that comes along with raising FCCB because essentially we are replacing INR debt with forex while the cost is low but obviously there is forex loss?

Madhu Terdal: Ashish, first of all let me clarify this is not a normal FCCB which the world or India has known. All normal FCCBs in India are 5 or 7-years tenure. Even in globally also there are a very few transactions of FCCB beyond 15-years. This FCCB is not intended to be converted into equity in a hurry. That is why this kind of perpetuality in this FCCB has been created. To our knowledge this is the 3rd longest tenure instrument in the world itself. So we do not intend that this dilution will happen in a hurry. What will happen is they will continue to get an yield as long as we are comfortable and both the parties will sit together and decide what should be the right way of doing it. So since there is no risk of any principal repayment for next year, we are not planning to hedge this, so our cost will continue to be 7.5% only.

Ashish Shah: Any INR depreciation will keep adding to the 7.5% coupon?

Madhu Terdal: That is a very small portion; for a group of our size $22.5 million is nothing really one should be worried about. If required we will cover it. That will have hardly 0.50% per annum, but that is only for $22.5 million only not for $300 million.

Ashish Shah: Sir also we said that at the end of 3-years if the price is about 130% of the conversion price which comes to about Rs.23.40. We said that you have the option to convert but then there could be some conditionality to that. Can you throw some more light on what is that will trigger mandatory conversion?

Madhu Terdal: The only conditionality is that the price should be Rs.23.40 for 20 successive business days. There are no other conditionalities.

Ashish Shah: But then hypothetically let us say the price is Rs.25, then on what grounds do we decide whether to convert or not, how does that…?

Madhu Terdal: Always you have an option, we will have to decide depending upon circumstances, I cannot really spell out the circumstances at this point of time. Only it is good to know that we do have an option. If we feel that there is a need to force a conversion we will be doing it otherwise it will continue as it is.

Ashish Shah: For the purpose of computing the dilution if at all is the forex rate fixed or it depends on the forex rate that day, I mean, in this entire computation of the number of shares that likely can be issued because of conversion have we fixed the forex rate for the purpose of conversion?

Madhu Terdal: Total amount it has been already covered, it is fixed but fixed in the sense the number of shares are fixed, we are not carrying any forex risk, on that day we have taken the rupee rate $300 million is converted, it comes to almost Rs.2,000 crores, on that basis shares have been issued at Rs.18 so the number of shares are frozen now. So there is nothing any kind of a speculation or risk as far as the forex risk movement is concerned.

Ashish Shah: Sir, on the repayment profile of the balance debt let us say out of ~Rs.6,900 crores we said that Rs.2000 crores has been in a way taken care. So how does repayment profile of the remaining ~Rs.4,900 crores look over the next 2-3-years, what is due for repayment or refinancing?

Madhu Terdal: Ashish, just now our Chairman has very nicely articulated our overall "Five-Pillar Strategy" in terms of improving the business parameters; we would like to enhance the revenues and improve the profitability; we will be still be pursuing with some of the divestments, we have not closed our chapter on that. Only thing is that, GMR will not be seen as selling any assets at distress. So this is the cornerstone of our strategy. Then we will be also looking at fresh equity; it can come from the markets; it can be through strategic investors or financial investor, it can come at a subsidiary level, it can come at a holding company level, anywhere it can come. Then lastly we have to bring down our cost of debt because today our total cost in the book is ~Rs.47000 crores. We are getting Rs.2000 crores of almost as an equity; we have pumped in 3000 crores of equity last year; our debt-to-EBITDA is improving, our interest rate cover is going up. Considering all these factors we feel our project debt has to be rerated. Once happen, 100 basis points if we get the benefit on Rs.47,000 crores of debt my EBITDA will straight away improve by ~Rs.500 crores, that is another strategy and lastly we will be of course like FCCB we have done this was also one of the strategies. So we will be looking at a variety of methods to repay on that. In addition to that, there is a big cash flows are expected through regulatory resolutions, lot of our claims are pending including you have seen even Maldives is a big item, almost about Rs.7,000 crores kind of claims we have to receive. So we do have enough of avenues to take care of the balance debt.

Inderjeet Bhatia: This is Inder here from Macquarie. Actually I have two questions; one is during this entire discussion I still am not fully clear whether I should look at this whole thing as debt deal or as an equity deal. So if you can kind of provide some kind of guidance on that as to how are you approaching it because finally it still going to depend on when you decide to get this forcibly converted or when the investor decides to do that? That is one. The second part is regarding your strategy in trying to get overseas assets especially the airports when you are trying to kind of so aggressively trying to bring down our debt. So is there a change in that strategy how should we kind of think about in terms of your future project acquisitions?

Grandhi Kiran Kumar: With regard to the airports in the overseas assets I think our strategy is to pursue airport operational assets which will add cash flows immediately, for example, what we have done in Cebu in Philippines, the moment we have taken over an airport, we are operational cash flow positive from the first month itself. So we will look at assets of that nature so that it adds to the cash flows which will add to the bottom lines. So that is our strategy, not to go for any large Greenfield assets or anything which will drain the cash flow.

Madhu Terdal: Inder, of course, you have asked a very intelligent question, in our opinion of course I may have a bias in my judgment, from an overall balance sheet angle you have to look at as an equity like quasi-equity something akin to Tier-II capital of the Indian Banking System. If you look at Indian Banking system anything above 15-year it is looked as a Tier-II capital from a capital adequacy ratio or a debt adequacy ratio. But when it comes to the dilution situation you have to look at as a long-term debt of 60-years, because he is not interested in flipping around… I do not know whether you were on the call, Kuwait Investment Authority is in the process of derisking your entire portfolio, they are looking at India from a long-term destination, they are not here to make some quick equity returns like a normal investor, he is not a type of person who is going to strip the coupon and strip the debt and equity and make a quick buck, they are not of that type at all. They will be very happy to be contended to continue to enjoy yield. So time will come when we feel comfortable they will also feel comfortable at that point of dilution we should look for. So from a dilution angle in my opinion it should be treated as a long-term debt but from capital and debt-equity ratio you must look at it as an equity angle.

Moderator: Thank you. We have one more question from the line of Prem Khurana from Anand Rathi. Please go ahead.

Prem Khurana: In your opening remarks you talked about Call Option after 10-years. So how are the things work there, as in I mean the amount is already fixed, in terms of exchange rate there you would have to kind of apply at the time of Call Option, would we be required to pay any redemption premium or anything of that, so if you would elaborate a little more on this Call Option that you have?

Madhu Terdal: There is no redemption premium at all, so it is only a 7.5% coupon, that is all, but whether actually you will redeem or you will not redeem it is a question of a business call at that point of time. Neither we are intending to repay nor we are intending to see this as a risk or perceive anything at all. So it is just only an option kept with us.

Prem Khurana: And how about the exchange rate, has this number been fixed now, hypothetically if I were to believe that you would exercise this Call Option, so the exchange rate would be of that date or we have already decided on that today itself?

Madhu Terdal: No, I would like you to again draw the attention. Kindly do not get into this conversion at all. We are not intending to repay nor we are intending to dilute in a hurry. As I told you just now before this call it should be treated as a debt for the purpose of a long term debt, so accordingly you should factor. I am running a risk of foreign exchange only on $22.5 million which is my annual outflow by way of interest. To make it further clear, let me even go to the extent of saying that, let us say, tomorrow rupee becomes very-very strong the group may take a view, is it not? I think the message is very clear. So I will not do anything. Suppose rupee is getting depreciated I may take a view. So whatever is there we have taken an option which will exercise if it is in the favor of the company and it is good for the investor.

Prem Khurana: The annual saving that you will get to have because of this lower interest rate, what do we intend to utilize this for --- would this go towards deleveraging balance sheet or could you look at some newer projects now given the fact that most of your projects are already operational now?

Madhu Terdal: I just described it…it is a replacement of short term, high cost Indian rupee debt with low cost and long tenor forex without necessitating any hedging. Also, we will use this as a plank to create more moratorium, more cash liquidity on the back of this. So for these twin objectives, it will be used so that there is no pressure on us for the corporate debt in the foreseeable future. As I mentioned you, with this Rs.2,000 crores when we are refinancing some of the corporate debt and the operational improvements, we believe that our credit rating will improve. That is the most important whereby my cost of debt is to come down. So on Rs.47,000 crores I put a number, so even if we achieve on Rs.30,000 crores debt, so it will be a huge-huge upside for the group. On the simple arbitrage benefit itself, we are replacing 13-13.5% Indian rupee debt with 7.5%, so interest rate arbitrate straightaway right from day one itself will be Rs.100-120 crores.

Prem Khurana: So what do we intend to utilize this Rs.120-odd crores that you would get to say because of this lower interest cost?

Madhu Terdal: To relieve our pressure.

Moderator: Thank you. Sir, that was our last question. Would you like to add any closing comments?

Madhu Terdal: So Gentlemen, thank you very much for your kind attention and this call. We believe that this is an unprecedented debt raising not only in Indian markets even perhaps in the global markets as well. At a time when Indian infrastructure is going through a difficult period of time, GMR has managed to get this kind of quality investment from a very-very quality investor of a long-term nature. So it shows the kind of trust and confidence reposed in this investor and you will see that a very healthy balance sheet will emerge out of the variety of actions what GMR Group is taking.

Moderator: Thank you very much, members of the management. On behalf of GMR Infrastructure Limited, that concludes this conference. Thank you for joining us and you may now disconnect your lines.