"Conference Call Transcript - Discussion on the Award of Mopa Airport in North Goa"

August 29, 2016

Moderator: Good day ladies and gentlemen and welcome to the GMR Infrastructure Limited's conference call to discuss the award of Mopa Airport in North Goa. As a remainder, 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 touchtone phone. Please note that this conference is being recorded. Before we begin I would like to state that some of the statements made in today's discussion maybe forward looking in nature and may involve risks 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. Amit Jain – Head (Investor Relations), GMR Group. Thank you and over to you Mr. Jain.

Amit Jain: My dear investors and analyst friends, we at GMR are very happy and excited as GMR have emerged as a winning bidder of Mopa Airport at North Goa through a competitively contested bidding process. To share the details of the project and address your queries we have our Corporate Chairman Mr. Kiran Kumar Gandhi, our Group CFO Mr. Madhu Terdal, President (Finance and Business Development), Airport Business – Mr. Sidharath Kapur. Now I hand over to Mr. Sidharath Kapur to share key details of the project and subsequently we will open the floor for Q&A. At the outset I would like to request all of you to keep your questions limited to Mopa airport, for any further queries, please get in touch with us.. Over to you Sidharath sir.

Sidharath Kapur: Thank you Amit and good afternoon to everybody on this call. We are absolutely delighted to have won this bid for the Mopa Airport in Goa. It is after almost a decade that an airport is coming up for privatization in India, 2006 the Delhi and Mumbai airports came for privatization and Delhi was won by the GMR Group and it is after almost a decade we are seeing activity on airport privatization in India and we are absolutely delighted to have emerged as the winning bidders in this opportunity. Let me very quickly give you some key highlights of this project and then we can take up question and answer.

The project is to develop finance and operate the Greenfield airport in Goa, in the location called Mopa. The granting authority is the Government of Goa. The concession period is 60 years which is split into two segments; the first segment of 40 years is available unrestricted, after that there is another segment of 20 years which is to be bid out by the Government of Goa again, though the existing bidder which is GMR Group in this case would have a 10% ROFR on the bid out of the next 20-year portion of the concession. We expect the letter of award to come-in in the next few weeks although the timeline mentioned in the RFP is 60 days but we are expecting the government to move faster. They have already announced that they want to lay the foundation stone early sometime in October. The timelines are 60 days from emerging as the winning bidder, a LOA is to be issued. Then after that within 45 days the concession agreement would be signed and then after that we have to submit the master plan within 60 days. Financial close has to be completed within 6 months from the timing of concession and the construction period is stipulated as 3 years from the financial closure. We have offered a revenue share of 36.99% which is the winning bid. The second highest came from Airport Authority of India who are also the existing incumbent airport operators for the Dabolim airport and third highest was Essel which is the new entrant in this bidding for airport they had a consortium with Incheon. This is a regulated airport by AERA. There is a clear stipulation of hybrid till 30% cross subsidy. The revenues from real estate are very clearly excluded from the cross subsidy. There is 2032 acres available for city side development for real estate for a period of 60 years and in this 232 acres it is unrestricted land use except of course residential and industrial is not allowed very specifically. We have to build for a minimum capacity of 4.4 million passengers in phase I and level of service is level C service and we have to maintain a ASQ rating of 4.2 throughout the concession period. So very quickly I think those are key highlights of this project and I would now hand this over for any question and answers.

Moderator: Thank you very much. We will now begin with the question and answer session. The first question is from the line of Ashish Shah from IDFC Securities. Please go ahead.

Ashish Shah: The first question is that you said the minimum capacity required is 4.4 million but what is the initial capacity you are planning; what would be the project cost and the funding structure for the same?

Sidharath Kapur: So as I mentioned minimum stipulated capacity is 4.4. We have done an assessment of the traffic especially considering the existing airport which is the Naval enclave and is constrained on the air side and naturally cannot grow beyond 5-5.5 million. Considering all this our estimate is that we would want to build for a minimum of 7.7 million to start with. The total CAPEX over the entire project concession period is expected at 3000 crores. Our estimate is slightly less than 3000 crores though the government of Goa’s estimate was 3000 crores. We expect that it should be in the range of about 2500-2800 crores over the entire project period in different phases. The first phase we expect the CAPEX to be about 1500-1800 crores.

Ashish Shah: And would this be funded by any monetization of any land or anything or apart from the debt and equity would land monetization also be used here or this is predominantly going to be funded by debt and equity?

Sidharath Kapur: We are yet to approach the banking sector though we had early stage discussions with them on the funding pattern. We are right now envisaging a 70-30 debt to equity. On equity side we expect some deposits to come from concessioners as well as from some real estate monetization. It will take some time for real estate monetization to get ramped up. We have taken a fairly realistic and reasonable view of monetization of this 232 acres of land over the next few years and whatever we plan initially there would be some deposits and rest of it would be funded by equity which we would be in a position to meet out of our existing resources at GMR Airports.

Ashish Shah: Sir the land side again, do we have all the lands which is required for the airport as well for the commercial development of 232 acres?

Sidharath Kapur: Yes, most of the land is already acquired. 95% of the land is acquired. Another 5% is now getting closed in fact they have closed it just a few couple of weeks back, even that 5% land is not a constraint because the 95% which is already acquired would be covering all the essential areas of runway, terminal etc as well as the city side development. So land acquisition is not a problem at all.

Ashish Shah: And all other clearances are in place like environment clearance and site clearance and everything?

Sidharath Kapur: Absolutely.

Moderator: Thank you. The next question is from the line of Atul Tiwari from Citigroup. Please go ahead.

Atul Tiwari: My question is on the treatment of real estate deposit, so is the concession agreement clear on the ROE or the cost of equity that will be attributed to the deposit that will be mobilized from the real estate?

Sidharath Kapur: See as far as real estate deposits are concerned this issue is still opened as far as existing airports are concerned and therefore we cannot take a view which is different to what the regulator is currently taking. If of course there is a positive outcome at appellate level because this issue is pending at the appellate level that will be an upside. So considering that existing regulator situation we have factored or bid and that has been considered in the bid submissions.

Atul Tiwari: So what is the concession because obviously when the bidding would have happened in the pre bid meeting this question would have been asked, right? So has it not been made clear whether the real estate deposit will earn 0% ROE or they will earn 16% ROE or 20% ROE, this has not been made clear at the time of bidding. It has been left for the future probably right?

Sidharath Kapur: This is based upon whatever is the outcome from the regulator but in our model we are considering more of lease rental and very less of deposit and in our bids we were not factoring in any return on the deposit. Therefore, because ultimately this is the issue which is pending in appellate and it is subject to regulatory and legal outcome. So you will have to bid little cautiously considering this issue which is pending in the appellate.

Atul Tiwari: And sir the current airport I think at Dabolim, what is the annual throughput of passengers currently?

Sidharath Kapur: Currently the traffic in Dabolim is about 5.5 million which has been growing exceedingly fast over the past 3 years. We have been seen almost 20% CAGR over the last 3 years; there is a very strong growth momentum because of the tourist potential. In fact, Goa as a tourist destination has now become a year-around destination. We were there just during this bid period and this is actually off season and hotel rooms are not available. There are number of conferences, there is a 4x4 rally going on and Goa as a destination has in fact become one of the hottest destination in India. The existing airport in Dabolim is a constrained airport and despite this constraint, in fact in the last 3 months they have seen a CAGR growth of almost 40% in terms of traffic and the existing airport does not because of its constraint is not able to accommodate the true potential of growth that we expect to come in case it was the completely unconstrained airport system.

Atul Tiwari: And I believe that you mentioned that the capacity of the existing airport is roughly 5.5 million passengers. So it is kind of running at 100% capacity and managing somehow with the growth.

Sidharath Kapur: That is right. Existing airport is really constrained and they have slot restrictions from morning 8:30 to 1 O'clock in the afternoon, no scheduled flights are allowed there. So there are lot of restrictions in the existing airport.

Atul Tiwari: So all the incremental traffic will flow to the new airport when it is ready in 2023, so that is good to know and sir the last question is this Rs. 1500 crores of CAPEX for phase I how much capacity it will create, 4.4 million passengers?

Sidharath Kapur: No, we want to create slightly higher capacity of about 7.7.

Atul Tiwari: So Rs. 1500 crores is for 7.7 million passengers and then when the…?

Sidharath Kapur: It is not as if that there is direct correlation because you are also spending this money on the Airside, the runway, the parking bays, the taxiways, all that is taking care of any future growth also. It is only the terminals capacity which is going to be 7.7.

Atul Tiwari: Okay and sir what can be the peak capacity, say over 40 years?

Sidharath Kapur: The ultimate capacity of the airport will depend up on the growth which comes in. Target right now is about 30 million over the next 20-25 years but that can change depending on traffic growth and with the one runway you can actually build a parallel second runway which is dependent. So you can take that capacity which is higher than 30 also but right now it is envisaged as 30 million and I just wanted to clarify that it is not that the overflow of traffic will come from existing airport. both the airports of course will compete with each other and ultimately we have made a realistic assessment of traffic which is based up on the existing airport which is constrained, so you will have to factor in the fact that this is not a true two airport system. The existing airport is constrained and there are naval restrictions. The existing airport is going to be completely unrestricted and unconstrained and therefore keeping in mind these two airports which are not equal in nature, there would be a realistic assessment of traffic which is expected to grow much more faster in the new airport as compared to the existing airport and North Goa itself (this airport is in North Goa) and if you know Goa, North Goa has all the lively beaches. It has a lot of active resorts and all the new hotels and resorts are coming up on the North side. So that is also going to be a locational advantage from a airport perspective.

Atul Tiwari: And sir this 232 acres of land it is unrestricted use except for industrial development.

Sidharath Kapur: Industrial and residential.

Atul Tiwari: Okay and it will not be a freehold land of course, it will be a leasehold land till the concession is there.

Sidharath Kapur: Yes, like any concession.

Moderator: Thank you. The next question is from the line of Prem Khurana from Anand Rathi. Please go ahead.

Prem Khurana: What I want to understand was I mean there is still some ambiguity on this return on equity that we have been assured on our equity that we come at**,** right? We have been assured 16% for our operational assets as of now and we been seeking higher ROE. As far as arbitration process or operational assets are concerned therein we are fighting for two things, one is your return on security deposit that you get on real estate and second is your return on equity which is 16% as of now and you have been seeking some higher return on equity, so is it fair to assume that while bidding for this project you would have considered only 16% and not higher equity return?

Sidharath Kapur: I would not like to comment on because this is a matter which is subjudice. I would not like to comment on what ROE from the regulator we had assumed. This issue is pending in appellate and there are upsides which are possible on the ROE.

Prem Khurana: Okay and once our airport was to come into operation what kind of traffic shift are we expecting from the existing project that is there in the Dabolim Airport; how would these airlines be, whether they would be required to shift the entire operation to this airport if they want to this airport or it will be a mix, they will be allowed to have operation in both the airports?

Sidharath Kapur: Both airports would compete against each other but as I said earlier that one is a constrained airport and the other is an unconstrained airport and any airline would have to take a call where they would want to move their operations, whether they want to continue on the existing airport or they want to move to a new airport which is unrestricted. Now that is a call airlines will have to take. Our experience of course shows and this is a normal logical trend also that airlines do not want to operate in two airports in the same location. So that is the call which airlines will have to take. We have of course done a very detailed assessment and our traffic assessment has been done considering two airport system and also considering the possibility of airlines preferring this airport over the existing airport.

Prem Khurana: Okay but given the fact that your existing airport is a depreciated asset, so if I was to kind of determine tariff, given the fact that it is a depreciated asset I mean it will be somewhat lower than your new facility, so if I were to look only for cost benefit analysis it will be beneficial for airlines to kind of operate from existing but then I understand there is constraints in terms of time and all?

Sidharath Kapur: We have factored in all that and considered all that in our bid because we understand the Indian regulator system better than anybody else; we understand the Indian market better than anybody else. In terms of traffic I would again reiterate that we have done a very detailed assessment and we expect that the airline would prefer an unconstrained airport over restricted airport. Just to give you an example, today from Chennai there is only one flight a day from Chennai to Goa. There is only one flight a day from Ahmedabad to Goa. Because of restriction in fact there are two flights in the night, there is one flight at 2 O'clock in the night from Bombay, there is another flight at almost 11:30 in the night from Bombay which I mean from a tourist perspective who would want to take that flight but that is the flight available because of traffic restriction. So having said all that I think we feel that the traffic growth in the new airport is going to be extremely robust. There is a latent demand of traffic which has not been met because the exiting tourist traffic growth is growing at a faster pace than the traffic growth at the airport. There is a significant difference in that and that is primarily because of the constraints in the airport system in Goa and we believe that we will unlock that and make available a destination which is one of the most premier tourism destination in India and give that destination a world class airport that it deserves.

Kiran Kumar Grandhi: Just to add to Sidharath, if you some of you have landed in the Goa airport in recent times it is a big pain traveling because of the kind of time it takes whether to check in security queues or check in immigration. So it is not a pleasure travelling. So there is lot of one is the experience, experience of traveling through the present airport versus experience with GMR which we are going to create in the new Goa airport. So the experience that you have seen in Hyderabad and Delhi airport we have created an experience. So with the experience and with the relationship and the experience we are dealing with airlines we are confident that we would like to handle the maximum traffic out of Goa airport.

Moderator: Thank you. The next question is from the line of Rajarshi Maitra from Axis Capital. Please go ahead.

Rajarshi Maitra: My first question is, if you can just tell me that is the existing airport versus our airport that we will build, what is the kind of distance between these two and also the distance vis-à-vis the main hubs from where the passengers will fly out, so if you can just give that comparison?

Sidharath Kapur: The existing airport is about 20 KM from Panjim and the new airport is going to be about 35 KM from Panjim. In terms of traffic flowing in, of course Bombay and Delhi are the main speeder cities from where traffic flows but we believe that there is a huge latent demand of traffic which needs to flow directly. As I was saying earlier from a place like Chennai there is only one flight a day. From a place like Ahmedabad there is only one flight a day and from places like Pune, from places like Lucknow, from places like Chandigarh there is a likely demand of direct flights and in fact this has been corroborated by discussion with airlines who want to start number of direct flights to Goa but are constrained by the availability of slots and to give you an example as I said earlier you have slot restrictions from morning 8:30 to 1 O'clock and this is actually the peak period when tourist want to come. They would want to come in the morning at around 9 O'clock and check in before 12 O'clock but actually they are forced to come in the evening when they go directly to the hotel and they have to pay an extra day for hotels. So we believe that there is a lot of potential for growth of traffic and lot of new airline routes that can be developed for Goa.

Rajarshi Maitra: Thanks. My next question is if you can just mention what is the kind of aero tariff that are charged today at the old airport and versus what will be the aero tariffs per passengers that we will be charging at the initial stages, would you have that comparison?

Sidharath Kapur: Currently there is a landing, parking charge which is charged from airline which goes to Navy because it is a Naval airport. There is a new terminal which has been built by airport authority. They have submitted a proposal to AERA to charge for the new terminal. We are not aware what they proposed to charge. It will be difficult for me to right now say anything on what we would be charging because that will depend up on the final project cost and final OPEX and final non aero numbers. So that can only be taken up for discussions once we actually do a tariff filing.

Rajarshi Maitra: Just wanted to understand whether that could be a deterrent because obviously the old airport which is running at full utilization now, so they can have lower tariff, lower aero charges and still be profitable whereas new airports because initially the passengers will be lesser you will have to charge us slightly higher number. So just wanted to get a sense how much that differential could be? Will it be like 2x or something more or whether it will be like…?

Sidharath Kapur: During our bids we have done a possible scenario assessment and we believe that we would not be uncompetitive as far as the existing airport is concerned, I think that is the best I can state at this point of time because there are number of variable factors which is going into fixation of charges.

Rajarshi Maitra: Okay, one last question. The ROE for the project I mean before the revenue share there is not number as such that is there, I mean even a ballpark number, what should we consider for this project, a regulated ROE number?

Sidharath Kapur: As far as the regulator is concerned, it is giving us 16% ROE.

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

Ashish Shah: Sir there was a thought in the government of restricting or capping the development charges for airport at a particular rate per square meter or square feet something of that order. So is that cap in force now and whether our project cost falls within that cap?

Sidharath Kapur: Firstly, let me clarify that what has been stated by the regulator is certain indicative costs of normative for construction both on air side as well as on terminal. If an airport, any airport which makes a tariff filing it goes to the regulator with a higher number, they will have to justify it, the regulator will appoint a committee and based on the justification they can consider a higher CAPEX also. So there needs to be a proper justification of process through which the cost has been derived. You have to go through a competitive bidding process etc. Ultimately it depends on the design of airport; it depends upon the material you use and also very specifically on the topography and the location of that project. So every airport has got a different cost structure. In our bid we have factored this in and our cost estimates are based up on the fact that we will be in a position to take regulatory approvals on our cost estimates. But ultimately the cost estimates are going to be dependent upon the final designs as well as the final master plan which is approved by the government of Goa. They may ask for better airport so in which case the regulator will have to consider that. Ultimately we will go through a bid process and derive the cost. So there cannot be any dispute as far as the final project cost number and we expect that the regulator will accept it.

Ashish Shah: But that cap as such has been is in force now or …?

Kiran Kumar Grandhi: Let me answer that. I think the regulator has suggested a process on how to regulate the process. So I think what we are saying at this point of time is we have factored the process prescribed by the regulator and we will follow the process and we will ensure that we meet that process. So all the cap that are indicative, I think the whole idea is that they have suggested a process to validate the CAPEX. So we factored all that in estimating our CAPEX.

Ashish Shah: Sure, also could you share, it may be a little early but any guesses on what could be the initial traffic numbers, I mean what could you be expecting like 3-4 years of operation, how do you expect the ramp up to be?

Sidharath Kapur: I think there are multiple factors to consider in assessing the first stage traffic. It is not a very simple process in this case because of one airport being constrained and second airport being unconstrained, it will depend on multiple factors but we expect that the entire traffic for Goa system, see what share I take, what share other airport take is very difficult to assess at this stage, we will get more clarity on it only once we actually opened the airport and make it available for traffic. But our expectation is that our traffic by 2022 is expected to double from now on. This is for the entire Goa system.

Ashish Shah: So we are saying that from the traffic about 5.5 million in Goa by 22 we expect the traffic to double and you will have to see sort of what kind of share you….

Kiran Kumar Grandhi: From that traffic how much we can take, what the existing airport will be able to operate at, all those are I think very difficult to predict at this point of time. You will get more clarity as we move along. So we have our own assessment but I think it will be too early to disclose at this point of time. So we have a more competitive assessment and how we want to compete. So we have all those strategies. So we have all the strategies that how we will capture this traffic of the entire Goa system, we will deploy that and I think we will only be able to disclose the strategies as we go along. It will be too early at this point of time.

Sidharath Kapur: But anyway, what we are saying is that we are building the terminal for 7.7. So I think you can make your own guesses.

Ashish Shah: And the terminal should be operational by 2020?

Sidharath Kapur: Yes, FY2021 should be the first year of operation,that is as per the 3 year period from financial closure.

Moderator: Thank you. The next question is from the line of Dheeresh Pathak from Goldman Sachs. Please go ahead.

Dheeresh Pathak: Just to under better the real estate rentals would also be subject to revenue share of 37% or they will not be subject?

Sidharath Kapur: That is also subject to revenue share but I would really like to say that real estate is not a very big value driver in this project, the biggest value driver is the commercial as well as the traffic growth which will come in because as a tourist destination the commercial revenues are expected to be much more robust than an existing business airport or a typical airport in India.

Kiran Kumar Grandhi: The spend per passenger what we have experienced in Airports the spend per passenger in leisure and tourist destination is a bit more when compared to the business destinations.

Dheeresh Pathak: Okay in your internal scenario that you would have built, what is the range of project IRR that you think on a worse case you will get that and a good case you will get so much, so what is that internal IRR range that you thought, that you bid for 37%?

Sidharath Kapur: So I think we are looking at a IRR of more than 20%.

Dheeresh Pathak: At the equity level or the project level?

Sidharath Kapur: Equity level.

Dheeresh Pathak: With 2:1 or what is the debt equity?

Sidharath Kapur: Debt equity is 70:30.

Moderator: Thank you. The next question is from the line of Atul Tiwari from Citigroup. Please go ahead.

Atul Tiwari: A broader group level question, so we have been on a deleveraging drive for quite some time with the message that new projects are off the table, so what happen in this case that you bid for the project at 37% revenue share, why this departure from the earlier stated strategy of not taking any new projects and kind of deleveraging the balance sheet which was happening successfully till very recently?

Kiran Kumar Grandhi: Let me rearticulate that. I have articulated in earlier scenario, in various interactions. So I think our strategy is asset light and asset right and idea is in this case in airport scenario our strategy is to pursue growth. I think in other sectors like energy and highways our strategy is not to add any capacity but what we have said is we will pursue a select growth opportunities in airport sector and that is the reason why we have pursued growth opportunities in airport like Cebu which has self-sustaining cash flows. So if you see in Cebu we have profits from the first year itself. So what we are seeing in this case is that if you look at in Goa which has a very attractive growth rates, attractive revenue potential and we believe this is a self-sustaining model in terms of CAPEX and profitability and we believe the Greenfield opportunity in Goa, we have a strong Greenfield experience in airports so this certainly adds to our portfolio in a positive manner. Whatever we add it should be adding value to the equity of the GMR Airports**.** Other sectors we are not growing. We are only growing in these opportunities, the airport sectors where we find the business case is strong. So we have done our strategies in terms of, as a group, fund raising and everything and if we look at our debt, look at our balance sheet of GMR Airport is very asset like which is not debt on the Airport balance sheet. So that is the way we want to grow going forward.

Moderator: Thank you. The next question is from the line of Parvez Akhtar from Edelweiss. Please go ahead.

Pervez Akhtar: I had one question. Sir we believe IRB is also developing an airport in the Sindhudurg district with an aim to capture some of the North Goa traffic. Now I understand it is some distance from you airport but what is your idea about the competitive positioning of their airport with regards to yours?

Sidharath Kapur: I think there will be plenty of small airports which may come up. So I do not think we have to get too worried about this. Very clearly as a tourist I will ask you this question, would you want to travel to Goa and you want to fly to Sindhudurg and then drive down or you want to go to the airport in Goa and then go to your resort. I leave that answer to you. Ultimately airports are built around the large cities, large concepts and large tourist destinations and backing by the government and ultimately there is no way a small airport in some distance away is going to take any traffic away. We do not believe that is any competition at all.

Management: Just to add I think this airport is promoted and initiated by government of Goa and we are partnering with them in a manner to promote tourism as economic activity. And we believe that the full attention and the momentum will be given to this airport and as per our assessment this is in the right situation to compete in the future.

Moderator: Thank you. Ladies and gentlemen, that was the last question. I now hand the conference over to Mr. Amit Jain – Head (IR) for closing comments.

Amit Jain: I would like to thank each and every one of you for taking out time to join in this con-call. This is a significant milestone achievement for the Group and we all are extremely excited to have one more airport. We will come back to you at the right time, at the appropriate time for further details. In case any basic details you want please get in touch with the IR team, we will be happy to respond to your queries. Thank you.

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

Note: Transcript has been edited to improve readability