“GMR Infrastructure Limited Investor / Analyst Conference Call to Discuss Equity Capital Raise”
Wednesday, 27 March 2019

Moderator: Ladies and Gentlemen, Good day and welcome to the GMR Infrastructure Limited Conference Call to Discuss Equity Capital Raise. As a reminder, all participants' 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, please signal an operator by entering '*' then '0' on your touchtone telephone. Please note that this conference is being recorded. We have with us today, Mr. Saurabh Chawla – Executive Director, Finance and Strategy and Mr. Sushil Modi – Group CFO, Strategic Finance. 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 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. Saurabh Chawla for the opening remarks. Thank you and over to you Sir.

Saurabh Chawla: Thank you, and welcome to the GMR Special Call on a Particular Equity Raise that we have announced early this morning. We would like to share with you that we have been able to create a very compelling platform in the airport development and management space, entering into a binding agreement with Tatas, GIC Singapore and SSG Capital, Singapore whereby they bring in about Rs.8,000-odd crores to bind to the platform play of GMR Airports. This transaction is based on a post-money equity value of about Rs.22,500 crores. I just want to qualify that this includes the earn-outs that amount to about Rs.4,500 crores and we will talk about this in greater detail later in the call. Base equity value of about Rs.18,000 crores with the earn-outs of about Rs.4,500 crores which will emanate to us as we achieve certain milestones going forward.

What is most important is the fact that this Rs.8,000-odd crores will help us to deleverage aggressively the GIL corporate balance sheet and will allow us the ability to capture the growth that this particular business offers both in the domestic and in the international markets.

I will now leave it for Q&A session to go through all the contours of the transaction and I would only request that each analyst asks one question so that others also get a chance to ask questions on the call. Thank you so much.

Moderator: Thank you very much, sir. Ladies and gentlemen, we will now begin the question-and-answer session. The first question is from the line of Ashish Shah from IDFC Securities. Please go ahead.

Ashish Shah: Can you spell out the conditions attach to the earn-outs, so what is it that will give us the visibility for the Rs.22,500 crores valuation to be achieved?

Sushil Modi: Some of these announcements are linked to more operating parameters in terms of the timing and the scale at which it gets achieved. So if I may give you a few examples, it is like duty-free business, how fast the duty-free business revenue kind of shapes up and at what rate. So, that is like one example. On a similar footing, another is the commercial real estate, in particular in Delhi. So can the monetization be as fast as what we all are contemplating. The good thing to note for all of you is that effectively as I speak the example, the significant portion of this example effectively has already been achieved because the monetization of Delhi Aerocity land that we announced last week, that has a significant element of it in terms of having already translated into reality. So, those are the kind of milestones that we have agreed. On achievement of which, the Rs.4,500-odd crores accrues to us which leads our shareholding from ~54% to get increased to ~62%-odd.

Ashish Shah: Sir, obviously, there will be several conditions attached to it, but what in your mind is a probability that these conditions will be achieved and we will get this additional Rs.4,500 crores, I mean, is it like in your own mind as management are you like 80% sure or 100% sure that these conditions can be achieved in a realistic manner?

Sushil Modi: So, if you really ask us, I would say, we are more than 100% sure. So leave aside the 80% and 90% because we carry the confidence in our business plan which we have discussed with the investors and we have promised and we have agreed on certain yardstick and the benchmark which we know that we can definitely achieve and we will demonstrate that.

Saurabh Chawla: Ashish, just to add, we have a five-year availability of time to achieve these earn-outs. So it is not that if I do not do it in next six months, then these earn-outs are not available. So there is sufficient time that is available and like Sushil said that in one particular case of real estate monetization in Delhi, we are more or less there. So we are quite confident that over the next five years or actually much before the expiry of five years we should be able to achieve these earn-outs and take our shareholding up to 62%-odd.

Ashish Shah: Just a continuation on this, the increase in stake will not necessarily happen at the end of five years, it can happen as and when the conditions are achieved. So one will not have to wait for five years to see if the stake increases, it can happen in some progressive steps over the next five years?

Sushil Modi: Some of the elements of these earn-outs will definitely take it to the five-odd years. So to that extent some part of it may happen earlier, but some portion of it will take it to the five years for sure.

Saurabh Chawla: To specifically answer your question, yes, it can happen at an earlier date. So once it is achieved, then the conversion happens.

Moderator: Thank you. The next question is from the line of Vipul Shah from Sumangal Investments. Please go ahead.

Vipul Shah: Your earn-out, is in terms of equity or they are in terms of rupees? I am little confused. First, I would request you to clarify that point?

Sushil Modi: It is in terms of equity, you are right. So basically as we achieve, those has been valued in terms of the rupee value to the tune of ballpark Rs.4,500 crores, but the way it gets translated effectively is by way of equity whereby our equity which on closing of the transaction is contemplated to be 53.5% and that will enhance to 61.7%, that is how we will take it as and when we achieve, but if it has to be translated in terms of the money value today, then yes, that equates to around Rs.4,500-odd crores.

Vipul Shah: No-no, hypothetically, valuation of GMR Airports after five years is Rs.40,000 crores, then also your equity will be at 61.7%, I am not getting this right?

Sushil Modi: Vipul, you are right, basically the value of this earn-out has been agreed today and henceforth what equity it translates into has also been agreed today. So this Rs.4,500 crores will translate into so much of equity has already been agreed. So thereby if we achieve this earn-outs, then effectively what happens is our equity holding has the potential to go up from 54%-odd today to 62%-odd at the end of this period.

Vipul Shah: Suppose earn-out has been agreed at X, and equity valuation at that time is 2x, then also your equity will be converted at X, is that the correct understanding?

Sushil Modi: Yes, so basically to give you a better sense, you can just calculate Rs.8,000 crores divide by Rs.22,500 crores, that is how you get this equity corresponding for the investors and if you do Rs.8,000 crores by Rs.18,000 crores, so that gives you for today what will be the holding, and that is how in commensurate the GMR Infrastructure holding goes up on a similar footing.

Vipul Shah: Now, can we expect IPO in the near future sir?

Sushil Modi: I thought you will say that perhaps IPO is not required, but yes, the moot point is perhaps that has also been indicated in our press release. So basically as we see and in fact we had deliberations, Vipul, if you remember earlier, so in the last quarterly results, our board in any case has asked us to evaluate possibilities of restructuring by way of demerger. And while we are working still on it, but basis the various feedbacks that we have got and as well as even the feedback from our marquee investors including Tata, GIC and SSG, in their mind and their suggestion also perhaps the demerger is the right framework for the GMR Infrastructure. So we are on it. In all probability, subject to obviously the board approval because once the work of evaluation is done, we will go back to the board who in principle has already evaluated and seems to be seeing merit in the proposition of the demerger, but obviously they want to have a full blown out evaluation and we will put it up soon to them and hopefully everybody will synchronize and we would have the blessing of the board for the demerger and as and when we get the blessing then we commence our journey of demerging the business whereby the airport business will become separate. And effectively once we see that it becomes separate, thereby meaning in any case the airport business gets listed in effect. So, that is the framework and the plan with which we are working but this plan at this point is subject to the approval of the board and which we would be going soon in terms of seeking their views on this demerger proposition.

Vipul Shah: Lastly, after this transaction, what will be the consolidated debt of GMR Infrastructure Limited?

Sushil Modi: So, as you know, our consolidated debt as on December, the last quarter was Rs.20,000-odd crores. So effectively straight forward, Rs.8,000 crores investment amount as and when it comes in, then to that extent the consolidated debt goes down to somewhere around Rs.12,000 crores on a plain vanilla basis. We intend to provide exit to our current set of investors who are holding 5.8% in the GMR Airports, so to that extent and this is something that we have not yet initiated, but obviously as part of this transaction, we intend to initiate that and give them the exit because they are also sitting and partnering with us for last 10-odd years, they came in 2010. So if time is ripe, they would also be looking for exit from their fund life standpoint. So to that extent, yes, plus and minus, maybe Rs.12,000-13,000 crores would be the consolidated debt after this transaction.

Vipul Shah: What will be the upfront payment you will receive from the recent Bharti Realty deal?

Sushil Modi: It is there in the release, Vipul, around Rs.1800-odd crores is the upfront proceeds that we are going to get and the rentals on an annual basis around Rs.363-odd crores year-on-year.

Moderator: Thank you. The next question is from the line of Samir Palod from AUM Advisors. Please go ahead.

Samir Palod: The demerger timeline is likely to be before the five years period. So who effectively gets the earn-out share if the airport company is demerged?

Sushil Modi: Who owns the GMR Airports today? It is GMR Infrastructure, right. So the vertical of GMR Infrastructure which will potentially hold if the demerger indeed fructifies and if indeed the board approves it, then the GMR Infrastructure part of the demerger exercise, this equity of airport will be held by the GMR Infrastructure on the airport side and they are the one who will get the incremental equity out of this earn-out being achieved.

Moderator: Thank you. The next question is from the line of Nishant Chandra from Temasek. Please go ahead.

Nishant Chandra: Hi, Sushil. A couple of questions. On the corporate debt at GIL that is disclosed in the presentation, which is Rs.6,400 crores, what are the line items that includes – does it include let us say payables to certain operating creditors as well or it does not?

Sushil Modi: Debt means basically the financial creditors. So they are financial lenders who are sitting at the more like standalone company as a holding company. So, those are all financial loans.

Nishant Chandra: What would be the non-financial creditors outstanding at GIL as of December '18?

Sushil Modi: As you know the GMR Infrastructure effectively is the holding company. So thereby our substantial part of the business is being carried out in various subsidiaries call it airports, call it energy, call it highways. So to that extent operating creditors are very limited, but yes, from a standpoint of only the one piece of the business that we do at the GMR Infrastructure standalone that is EPC business of the DFCC corridor. So yes, in relation to that, some bit of operational creditors will be there, but that is not anything significant.

Nishant Chandra: The other one is with respect to approval from lenders at GIL. What is the timeline process – do you have some sort of a soft indication from them on the go-ahead for this transaction?

Sushil Modi: We are going to engage with the lenders wherever it is required but simply from the standpoint of this transaction perhaps we do not need any significant approvals from the lender standpoint. We will definitely need some of the regulatory approvals like competition commission and stuff, but not necessarily from the lenders standpoint. But wherever it is required…

Nishant Chandra: Because the lenders are being repaid as part of this transaction. So effectively the lenders will cease to exist, if the money comes in as part of the secondary. Is my understanding correct?

Sushil Modi: That is right, you gave the answer to the question that you had.

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

Ashish Shah: Sir, just on this demerger part, I am still little confused because our press release said that GIL proposes to demerge the energy, highways and urban infrastructure and transportation businesses, leading to separation of its airports business. Maybe I am getting the impression that GMR Airports would continue to be a part of GMR Infrastructure and the other businesses are getting demerged. Is that the understanding or GMR Airports will be demerged and will be listed separately, so we will have a separate listed company called GMR Airports, can you just clarify sir?

Sushil Modi: What you said first is exactly right, the businesses other than airports which is our GMR Infrastructure holding in energy, or in highways or in SEZ business. What I am saying is based on the preliminary analysis that we have done with some of the stalwarts advisors in this field. The preliminary thinking is to perhaps better off demerging the holding into the energy, the highways, the SEZ business into another company and thereby effectively what we call in our financial world, mirror demerger or a vertical demerger whereby the GIL of today becomes. GIL-1 and GIL-2, the GIL-1 would be the existing GIL, which will continue to hold the GMR Airports, and the GIL-2 becomes a new company which will hold the equity of all the other businesses and gets listed.

Ashish Shah: So effectively you will have a structure where one piece of the current GIL will own the airports business, so GIL will be a subsidiary of the eventually surviving entity of GMR if that is how we can put it, right?

Sushil Modi: Yes, that is right.

Ashish Shah: Then it makes sense that you are saying that incremental earn-outs in terms of equity will accrue to that entity which is listed and holds the airports vertical?

Sushil Modi: Sure.

Ashish Shah: Secondly, obviously with the Airports business needing expansion, so in future, will the new investors who are coming in, will they participate by bringing in more equity or then it will continue to function as a listed entity where you raise money from the market if needed for the airports business or there is any agreement for the new investors to participate for any future growth opportunities?

Sushil Modi: Good to hear that you yourself stated good number of the levers in the enablers that gets in-built into the business to cater to the growth that this airport infrastructure space offers to GMR Infrastructure. The multiple levers are there. First and foremost in any case our existing operating airports both Delhi and Hyderabad in India and Cebu in Philippines, they are doing phenomenal. So much so that in fact Delhi and Hyderabad has started giving dividend, Hyderabad perhaps would continue giving dividend year-on-year, Delhi because of the expansion CAPEX will have some pause maybe for another three-odd years in terms of the dividend giving but that also depending upon some of these commercial real estate monetization is what we have just achieved may change. So net-net the dividend proceeds will be reasonably substantial to cater to some of these growth and then on the top knowing the characteristics of the investors, the names that we are talking, obviously, all the options will be open, but the way we contemplate perhaps is the first and foremost is the internal accrual, the dividend proceeds that will come, the second perhaps is one need to look at is one can lean upon in terms of can we divest some sort of minority at some of these airports, Delhi and Hyderabad. To our mind perhaps it is not voluntary, it is more enabler. It will all depend upon if there is some size of the investment which is so big which needs that kind of equity commitment in one shot, that one needs to go for some of these strategies. So, these are going to evolve, Ashish, as we go along. But the levers are plenty to play, leave aside what you said in terms of the listed entity raising any further money in terms of the equity post de-merger.

Moderator: Thank you. The next question is from the line of Rohit Natarajan from Antique Finance. Please go ahead.

Rohit Natarajan: I have this corporate debt exposure which is not attributed to airports and energy segment. What exactly is that quantum looking like?

Sushil Modi: As you can see from our last quarter financials, the corporate debt is in the range of around Rs.6,500-odd crores which is basically sitting at the GMR Infrastructure or some of its subsidiaries, holding companies in-turn. So against that is what we are getting Rs.7,000-odd crores of secondary proceeds. So that is where this is going to get substantially paid out.

Rohit Natarajan: If I understand it correctly, is it is close to Rs.4,000 crores that is not attributable to both the airports and roads that exact amount I was just looking into that number break up within the corporate debt?

Sushil Modi: That is fair. In the standalone GMR Infrastructure as a holding company the debt is somewhere around Rs.4,000-odd crores, that is right. Another Rs.2,500-odd crores is sitting into some of the subsidiaries which in itself is a holding company for some of the other businesses. So those all combined is what we call where the commensurate cash flows are not there which we call that as a corporate debt and that identified number as represented in our quarterly results is around Rs.6,500-odd crores.

Moderator: Thank you. The next question is from the line of Manjeet Buaria from Solidarity Investments. Please go ahead.

Manjeet Buaria: I just wanted to understand after this transaction, is there any corporate guarantee which the GMR Infrastructure would have given any of its subsidiaries for which it could be liable in the future which is not on balance sheet right now?

Sushil Modi: Corporate guarantee, obviously the business is infrastructure, so many projects are there. Some of the projects might have a corresponding guarantee from GMR Infrastructure and that will be there in the balance sheet as a contingent liability on a standalone basis. On a consolidated basis, in any case, so long those assets and liabilities are consolidated, those would not be appearing in contingent liability. So what is more important is basically so long those projects are standing on their own feet and having a recurring cash flow, to that extent these guarantees are more optical in nature from a financial standpoint, from lenders comfort standpoint, but in substance that does not have any significant implications. But in any case, you know that we only have one project which was Rajahmundry where the commensurate cash flows were not there at a project level and the guarantees were given. But else all other projects in any case have the commensurate cash flows sitting there.

Manjeet Buaria: So, what you are saying is one project is where there could be some recourse to parent going ahead, rest all being serviced or independent in that sense. Sir, if you could just give the quantum of what is at risk over there because of Rajahmundry?

Sushil Modi: First, we do not call it as a risk because if you recall earlier also we have stated in our earlier conversations during the earlier calls that project is under resolution plan which has already been agreed upon whereby the effective outgo from the GMR Infrastructure standpoint will be somewhere around Rs.400-odd crores, the balance that gets 20-year restructuring and which is in sync with the gas supply that is being expected by the expert in the industry and thereby the balance debt will be on its own feet. So basically, in that sense if you are asking for exposure, yes, perhaps Rs.400-odd crores which at the outset in order to effectuate the resolution plan that we have to be out.

Moderator: Thank you. The next question is from the line of Raghav Mittal from Locus Investments. Please go ahead.

Raghav Mittal: We have agreed on a value of earn-out of close to Rs.2,500 crores and that corresponds to roughly 8% stake. So just wanted to understand how that valuation of the earn-outs arrived at?

Sushil Modi: That is a very difficult question to answer. So that is something both parties sit and understand the timing mismatch, perhaps that is there in the minds of the management as GMR and perhaps in the mind of the investor. While he understands that this growth will be achieved, but the timeline at times being perceived differently. So to that extent we discuss and understand how much does it bring value on the table and henceforth you suitably do the financial analysis and come out and agree for a number. So, that is what I can elaborate on rate.

Moderator: Thank you. The next question is from the line of Subramaniam Yadav from Subhkam Ventures. Please go ahead.

Subramaniam Yadav: Sir, just wanted to understand the debt part. Apart from the corporate debt of Rs.6,500 crores, we also have Rs.2,000 crores of FCCB right?

Sushil Modi: That is right.

Subramaniam Yadav: What is the timeline for that converting into equity or repayment?

Sushil Modi: The FCCB by characteristic is a convertible bond which obviously the bond holder can convert the day he wants after initial period of lock-in and those lock-in periods is already expired. So if the investor wants he can. If he does not want but if the company wants then so long the price on the bourses is in excess of 130% of the conversion price, we can for a certain duration the company can also force the conversion. So yes, depending upon how some of these things play out, these can get converted.

Moderator: Thank you. The next question is from the line of Nirav Shah from GeeCee Investments. Please go ahead.

Nirav Shah: Sir, just if you can share the terms for buying out the existing investors stake of 5.8%?

Sushil Modi: We have not started discussing this. What we have agreed with our potential investors is that this is something which we will be doing and what we know is that our existing partners are sitting with us since 2010 and it is like a decade, so they would also be considering their fund life, they would be looking for an exit and hence we are very confident that as we commence discussion with them, they will be welcoming our idea and we will conclude the transaction as part of the overall exercise of this proposed investment.

Nirav Shah: If you can just share how much is they invested or what valuation in which this 5.8% if I can ask for?

Sushil Modi: So, 5.8% investment, if you recall, in October, when we gave the exit to our existing investors partially, so that was invested at Rs.21,000 crores valuation.

Nirav Shah: There is no guaranteed return on the investment?

Sushil Modi: Not at all.

Moderator: Thank you. The next question is from the line of Vivek Ashok, an individual investor. Please go ahead.

Vivek Ashok: I am very sorry, my questions are related to the sale of equity. But I wanted to find out when will the tariff order be finalized for Delhi International Airport Limited?

Sushil Modi: Tariff filing has already happened. So we expect another perhaps in next two to three months the tariff order should be out. Obviously, that is a fair expectation but beyond that we keep our fingers crossed.

Moderator: Thank you. The next question is from the line of Nishant Chandra from Temasek. Please go ahead.

Nishant Chandra: Sushil, Hi. On the contingent liabilities or rather conditions that maybe applicable pertaining to the group's holding at GMR Infrastructure level, are there other subsidiary loans outside of airports which pertain to the holding of GMR in the holdco and hence effectively GIL may have to maintain a particular shareholding in current form as the counter-party or as a credit backstop for some of the projects?

Sushil Modi: In general, perhaps no, but yes, there can be here and there few, which we will analyze as we speak and …

Nishant Chandra: Those parties would be party to the demerger decision from a core perspective or they are not?

Sushil Modi: While I am not a lawyer, but as much my understanding goes on the subject, the contingent liability or the creditor from the NCLT standpoint in terms of a restructuring exercise are only the one who are sitting as a creditor on the balance sheet, not who are there of the balance sheet.

Nishant Chandra: What would be the record date for that?

Sushil Modi: We are yet to even finalize. We are yet evaluating and we are going to present to the board. Once board finally approves that this is the route that you need to adopt which we are reasonably confident because having already discussed to a certain extent, the board seems to be in-principle in agreement that demerger is the way forward as is the thinking of our proposed investor including Tata, GIC and SSG. So in all probability that would be the route, but we are yet to have our final view from the board.

Moderator: Thank you. The next question is from the line of Naveen Jain from Florintree Advisors. Please go ahead.

Naveen Jain: My first question is by what time you would expect the money to come in or the deal to complete?

Sushil Modi: In terms of our expectations, yes, we feel that perhaps next three months would be a reasonable expectation but to some extent we have to keep our fingers crossed because some of the approvals that would be required like Competition Commission and stuff. But generally you know that the industry that we are talking perhaps is a straightforward, so it should come soon.

Naveen Jain: The balance Rs.2,0000 crores debt that remains, can you please share the break-up as to which entity this debt are there?

Sushil Modi: Effectively if you see our existing debt around the airport business, the Rs.20,000 crores of existing debt is being broken into a few pieces, the corporate debt being Rs.6,500-odd crores, another Rs.6,000-odd crores will be at the net debt at the airport business level and then we have another at the energy business around 3500-4000 crores, highways business is another 3000-odd crores. So that is what effectively summarizes to 20,000-odd crores.

Naveen Jain: This Rs.20,000 crores is gross debt?

Sushil Modi: This is the net debt.

Naveen Jain: And cash would be?

Sushil Modi: This excludes the cash sitting at the various projects level. So our airport business actually the gross debt will be somewhere around Rs.9,000 crores and against that the cash will be sitting somewhere around Rs.4,000 crores. So that cash I have separated out. What I have given you is more corporate debt commensurate cash.

Naveen Jain: For various projects which are under execution right now on the airports side, what is the balance equity commitment that is left?

Sushil Modi: Our existing operating airport project does not have any equity requirement anymore. They are on their own feet with as I just said they are already sitting with the significant amount of cash and then on the top they have the recurring cash flows accruing year-on-year and then on the top the monetization of the commercial real estate that is happening from time-to-time and immediate reference is the last week monetization which has given Rs.1800 crores one-time cash. So thereby the equity commitment will be more in the new projects that we have won which includes Goa, Nagpur, Vizag and overseas in terms of Greece. So these are the ones where it will be required. So ballpark if you take it will be somewhere around Rs.1,500-odd crores, all combined will be the total equity with some bit let us call around Rs.150-200 crores odd has already gone into Goa as we speak because the construction is already on.

Naveen Jain: This will be over let us say three, four years period?

Sushil Modi: That is right.

Naveen Jain: How do we plan to fund it out of the internal accruals that dividend had come from DIAL?

Sushil Modi: That will be the first source of cash flows. And beyond that depending upon if we continue to win more projects then we can think of .. I think earlier on the call perhaps you missed our conversation with some of the other colleagues where we can trigger the different enablers that we have including if we need any capital to be raised and GIL being the listed company we can. We can even think of divesting some sort of minority stake in some of the operating airports because keeping 51% with ourselves, so like 64% in Delhi or 74% when it becomes in Hyderabad because 63% currently we own and another 11% we are going to buy. So there are multiple levers and enablers that are there and needless to say even as we have demonstrated in the past where Istanbul airport we have even sold to really capture the India growth story. So to that extent, we will suitably decide appropriately at a right time that whether we should look for some sort of complete divestment of an airport, let us say an overseas Greece or Cebu with the minority divestment of 15% in some of the existing operating airports or we raise let us say an equity at the listed company. So, these all enablers will depend upon what kind of opportunity, the timing, the size that it comes along and that would be the right time to kind of strategize because we are working in a space where it becomes difficult to forecast some of these elements in terms of the size what it will come.

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

Rachit Kamath: Sir, I wanted to know the timing of the cash flows. They will be in just one transaction or they will be over a period of years or over a period of months, this Rs.8,000 crores?

Sushil Modi: This is one transaction. The day we close the transaction in one shot we will get the total investment amount and as we indicated we expect this to be somewhere around three-odd months.

Rachit Kamath: Could you repeat the Rs.20,000 crores debt breakup? I missed it.

Sushil Modi: If you see in our quarterly deck investor relations, that breaks all the numbers by business-by-business.

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

Ashish Shah: On the Rs.7,000 crores proceeds that we will get from selling our stake, will there be any capital gains tax that we will have to pay on that amount?

Sushil Modi: Fortunately, we will have a good gain. So the capital gains tax will come into picture, but unfortunately we have some of our energy business where we have lost our equity value. So to that extent we will have the loss also and henceforth both will offset each other, thereby effectively ensuring that there will not be any tax liability.

Ashish Shah: Keeping the losses in mind, you do not expect any taxation, Rs.7,000 crores will be like a net inflow to us, we would not lose anything on the taxation part?

Sushil Modi: That is right, that is the analysis which we have understood from our tax experts and advisors.

Ashish Shah: Sir, also will GIL be eventually merged with the listed entity GMR because otherwise it leads to this probably again a holding company sort of a structure or you would desire to keep GIL as 52% subsidiary of the listed company on a continuing basis?

Sushil Modi: This is a step-by-step exercise, Ashish. First, we want to achieve restructuring perhaps whether the demerger is the right path or some other things comes out, that is yet to be seen, but hopefully demerger. Once we achieve that, then we will go into the further analysis and evaluation if it warrants that whether there is anything further required. As it stands, perhaps we do not see that kind of requirement but yes, even some of our investors who are coming in, they might have a desire that while they are all long-term wanting to be there for decade, but at the end of the day from a matter of financial prudence or levers, they may like to have this their stake being listed so that they know where things are. So to that extent, yes, some of these levers can be suitably decided at an opportune and an appropriate time.

Ashish Shah: I have the next question on the Energy business. Since it is an airports call, you may choose not to answer but can you just update on the status of the resolution of Chhattisgarh and Rajahmundry because they were expected to be resolved or something ought to be known by 31st March and we are almost there?

Sushil Modi: We are almost there and soon we will hear that as well.

Moderator: Thank you. The next question is from the line of Subramaniam Yadav from Subhkam Ventures. Please go ahead.

Subramaniam Yadav: Can you just guide us on when the deal will be concluded and when the money is likely to come into the company?

Sushil Modi: I think we did mention this, but needless one more time, so it is expected to be closed in three months' time, obviously that is an expectation and as and when it is closed, the total proceeds comes to the GMR Infrastructure and GMR Airports respectively Rs.7,000 crores and Rs.1,000 crores that comes in one shot.

Moderator: Thank you. The next question is from the line of Pinkesh Jain from Way2Health. Please go ahead.

Pinkesh Jain: Sir, in the presentation, it has been mentioned that these earn-outs are contingent upon receipt of certain regulatory clarifications as well. So if you could just clarify on that sir?

Sushil Modi: I think the immediate one that I can say you is let us take about the base airport charges. The continuation of the same on a consistent basis is one of the milestones that we have agreed to be achieved, and as you know that it has already been implemented, we are recovering today the minimum floor the base airport charge in terms of our aero revenue around Delhi Airport. So like that there are a few items that we have agreed in terms of the clarification like in Hyderabad we have few items, few are in Delhi. So as we keep getting these clarifications, some of these earn-outs keep getting achieved.

Pinkesh Jain: So even the revised DIAL tariff is also part of that?

Sushil Modi: You can say tariff because base airport charge also finally is a tariff only. So it basis our tariff filing if the aeronautical revenue, the tariffs goes down below a particular floor, then the floor triggers. And today as we speak the floor has already triggered as you know and henceforth since Dec 2018 we are collecting the base airport charge.

Pinkesh Jain: Sir, you also mentioned in one of your comments that we are also looking to buy this another 11% stake in Hyderabad airport. So has the same been factored in the valuation or is that the upside we are getting?

Sushil Modi: That has already factored.

Pinkesh Jain: Just to clarify one last thing, once this mirror demerger happens, then GIL-1 will be left with airport that of Rs.5,000 crores and plus Rs.2,000 crores of FCCB debt?

Sushil Modi: The airport debt whatever number is that will definitely be in this 1-GIL. Now whether it is GIL-1 or GIL-2 is another issue. And FCCB basis the income tax law, where the liabilities of the holding company which is undergoing the vertical demerger, the liabilities of that company gets suitably divided between both the entities, the demerging entity as well as the resulting company. So that exercise will be done but if you ask us our assessment as of now, basis whatever work we have done, perhaps the FCCB might get divided equally, so Rs.2,000-odd crores is the total

FCCB quantum, whereas Rs.1,000 crores in the airports side, Rs.1,000 crores goes into the rest of the GIL-2.

Moderator: Thank you. The next question is from the line of Devansh Nigotia from Securities Investment Managers. Please go ahead.

Devansh Nigotia: The gain that will be arising on divesting the stake, so losses of Energy assets would be there in the subsidiary, right, they will not be in the income tax profit of standalone?

Sushil Modi: As per the tax advice that we have received, because at the end of the day GMR Infrastructure is the holding company. So all the projects which are there, those are sitting into subsidiary or a holding company which in turn is being held by the GMR Infrastructure, right. So effectively, losses will be incurred by the GMR Infrastructure because they are the one who has put the equity investment in those projects. Now whether they had put the investment directly or through an intermediate holding company does not have any consequence. The end result effectively is one and the same and this is what is the advice that we have received basis which the loss will accrue to GMR Infrastructure resulting in perhaps offsetting these gains.

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

Parvez Akhtar: Sir, over the next one year, what are the kind of earn-out events which we will encounter, just wanted to get some details on that?

Sushil Modi: Parvez, there is nothing specifics that this has to happen or this will happen in this year. It may happen today as we speak or nothing may happen in one year. So that is why the intent of that what we have indicated that is some part of the earn-out for sure will go for the five years waiting and some has the potential to get consummated early. So that is something which we have to wait and see in terms of the timing when it gets consummated.

Moderator: The next question is from the line of Nikhil Upadhyay from Securities Investment Managers. Please go ahead.

Nikhil Upadhyay: Just two questions: One is basically when we said that our equity investment would be around Rs.1200 to 1300 crores for the follow-up airport project, so this is over a three to four-year period. So this 1000 crores which we have received as a part of equity infusion, currently would it go primarily for the buyout of Malaysia Airports holding stake in Hyderabad or would it be going for the debt repayment at the GAL level?

Sushil Modi: Immediate plan as of now is to make the debt repayment at GMR Airport which is around Rs.2,000 odd crores if you recall that is sitting payable to our existing current partner. So we will pay 1,000 crores this primary proceeds entirely to them. For any of the other opportunities or requirement, we will suitably plan out our capital structure.

Nikhil Upadhyay: Larger part of the equity infusion which we would have to do for the new Greenfield project would primarily be for Bhogapuram and Goa, Nagpur because it is an operating asset would not require too much of equity infusion. Am I right on this understanding?

Sushil Modi: In a way all of it are not requiring any significant equity if you take in standalone isolation one-by-one, but Nagpur also it is not just for taking over and maintaining the airport, the theme of the privatization of the airport was to expand the capacity. So the good thing is it is an operating airport thereby meaning state operating revenues and the EBITDA state comes into the hold, and then we commence the journey of expansion. So to that extent equity requirement or infusion would be there in Nagpur as well. So it is no different. There are just a bit of relativity gap between the various airports because to begin within phase-1 they are more or less identical in terms of the CAPEX outlay.

Nikhil Upadhyay: Last question on Bharti deal of this Rs.350 crores of rental income which we would be getting. That would start coming to us from FY'20 or is it dependent upon some construction being completed or?

Sushil Modi: It is nothing to do with the construction. It will wait for the closing of certain conditions as has been agreed as part of the bidding exercise, but the 1,800 crores significant part of that comes straightforward as we execute the documents which is expected soon.

Moderator: Thank you. As there are no further questions from the participants, I would now like to hand the floor over to the management for closing comments.

Saurabh Chawla: Thank you, everybody. I think there are no more questions, but the team is available offline for you to reach out to if you have any queries left, we will gladly answer them. So we look forward to interacting with you soon on some other developments as we go forward. Have a good evening. Thank you.

Moderator: Thank you very much, sir. Ladies and gentlemen, 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*.