"GMR Infrastructure Limited FY18 Investor / Analyst Conference Call Transcript"
Friday, 01 June 2018

Moderator: Ladies and Gentlemen, Good day and Welcome to the GMR Infrastructure Limited FY18 Earnings Conference Call. Please note that this conference is being recorded.

We have with us today Mr. Madhu Terdal – Group CFO and CFOs of GMR business verticals.

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 audio transcribing of this call without prior permission of the management is strictly prohibited. I would now like to hand over the conference over to Mr. Madhu Terdal for opening remarks. Thank you and over to you, sir.

Madhu Terdal: Ladies and Gentlemen, Good morning. As we close the financial year 2018, it is time to reflect back how we started the year, what we achieved and what we missed. We started the year with a sense of optimism in the policies of the government, in the overall macro-economic conditions. And we embarked the New Year with a firm resolution to reduce our debt. I am very happy to inform that GMR has achieved this objective of reducing our debt substantially as our numbers tell and our ratios will reflect.

Macroeconomic conditions in the power sector continue to provide challenges and the much-needed relief did not come in time. But however, at operational level, I think the performance matrix have improved very substantially.

We faced a new challenge with more stringent regulation from the Reserve Bank of India and banks in general. Despite all this your company has met the expectation setup for itself by and large and has been fairly successful in weathering the stock.

In the New Year India is set to become the third largest aviation market by 2025. The traffic is estimated to go up 421 million by 2020.

During the year our airport business witnessed significant improvements. Delhi International Airport's tariff order was implemented with effect from 7th July, 2017, and as a result of that while there was a dip in the aero revenues, the subsequent developments of TDSAT and recent consultation paper issued by AERA regarding Base Airport Charges has brought positive changes in the outlook of the airport sector for Delhi Airport.

TDSAT, the appellate tribunal has passed the order advising AERA to provide a return on the refundable security deposit, a much sought and discussed issue where Delhi Airport was getting zero returns all these days. Now there is a very clear indication and direction from the tribunal to award the appropriate returns on the security deposits. I think this is likely to introduce a significant change in our overall tariff collections.

It has been now further strengthened with the consultation paper issued by AERA recently where the Base Airport Charges have been proposed and this is likely to give much needed visibility of the sustainable revenue and the cash flows in Delhi Airport order.

When I look at the financial performance of our airport business, to begin with Hyderabad Airport, the traffic grew at a phenomenal CAGR of 20% during 2014 and 2018. During the last year the airport traffic grew up by 20% from 15.24 million to 18.3 million, and in the last quarter i.e. quarter four, it witnessed a 25% growth in the traffic. Revenue of Hyderabad airport registered a growth of 13% from Rs. 1,105 crores to Rs. 1,252 crores. The non-aero revenue grew up by 12% and the aero revenues grew up by 14%. And EBITDA showed a very healthy 74% margin at Rs. 883 crores. And the profit for the year as well increased a significant 39% from Rs. 434 crores to Rs. 603 crores.

Significant developments have started occurring in the real-estate scene in GMR Hyderabad Airport. GMR Hyderabad Airport City has signed an MoU with ESR of Singapore to develop a first ever logistics park over an area of 120 acres of land. Through the 100% subsidiary of GMR Hyderabad Aviation SEZ Limited, we have also signed an agreement with Safran Electrical Power (SEP) of France, which is manufacturer of aeronautical electrical system to lease out 3.2 acres of land. I want to emphasize here, this is only the beginning and more MoUs are on the anvil.

As far as Delhi Airport is concerned, the traffic grew by 14% from 57.7 million passengers to 65.7 million passengers. You will notice here that our overall capacity is 66 million, so the sweating of Delhi Airport has started, the profitability parameters will now start unfolding in the coming days and months. And in the last quarter again the traffic grew by 15%.

While as I mentioned the aero revenue declined on account of the tariff order, but the non-aero revenue of Delhi Airport showed significant growth and increased 18% from a level of Rs. 1,528 crores to Rs. 1,799 crores.

The real-estate scene in Delhi Airport is also likely to witness more significant changes in the coming year. We have already awarded the developmental rights of 23 acres to Bharti Realty.

A point of attention to note here, in the recent real-estate deal in Gurugram just outside of our airport land, a per acre has been sold at Rs. 130 crores and the overall land purchase was 11.7 acres. You can see that with the kind of all regulations cleared airport available land in our airport, you can see this should be a sort of a leading indicator for the potential to be unlocked in our airport segment.

The third airport Cebu is making continuous strides towards growth, its traffic grew by 12% and EBITDA has shown a growth of 26% to Rs. 232 crores and it registered a PAT of Rs. 158 crores for the year, that shows a rise of 24%.

Well, of course airport sector is going to be the bedrock of our growth and profitability, energy sector also showed significant positive performance improvement in the performance indicator. It still continues under stress, but at the ground level in Kamalanga, the long-term fuel tie up of Kamalanga increased to ~85% its capacity. As a result of that, as against last 54% average PLF, this last quarter we have achieved 65% of PLF. And in the last two months Kamalanga is running at around 85% of PLF. Kamalanga also received favorable CERC orders for change in law and coal pass through which facilitated recognition of additional revenue of Rs. 354 crores, including arrears of Rs. 115 crores.

Last year towards our effort of deleveraging, we prepaid Rs. 604 crores to the project lenders and also the lead lender has effected a 0.7% reduction in the interest rate which resulted in almost about Rs. 109 crores of reduction of interest cost in one year alone. And this trend is likely to be more intensified in the coming year. Kamalanga's losses as compared to the last year of Rs. 298 crores, they have come down to only Rs. 78 crores and we hope this year this will be getting wiped off.

Warora plant registered a PLF of 71% and in the last two months it is also working at PLF of 85%. Warora also received favorable CERC orders for change in law and coal pass through, and this has resulted in additional revenue of Rs. 279 crores with arrears of Rs. 65 crores. Warora also witnessed a rate of interest reduction of 0.6%, this has resulted in the interest cost reduction to the extent of Rs. 74 crores for the whole year. And overall Warora registered 35% increase in profit after tax for the year to Rs. 193 crores as against Rs. 143 crores previous year.

As you are aware, we do have two stressed assets under our portfolio, i.e. GMR Chhattisgarh as well as GMR Rajahmundry. I am very happy to inform that the final process of bid is on the anvil in the GMR Chhattisgarh plant. A few bids are expected, and the final document is being released with the deadline of June 11th. With this we hope that the GMR Chhattisgarh plant will reach a final conclusion without any additional stress for GMR.

As far as Rajahmundry plant is concerned, GMR had successfully presented a resolution plan to the lenders. And during the last week's consortium held, the lenders have in-principally accepted our proposal. Of course, this proposal is subjected to the approval of their sanctioning authorities as well as the credit rating agency approval by two credit rating agency to meet the standards of

RP4, but GMR is quite confident of achieving these objectives very soon. With this before the deadline of August 31st, we hope that the entire GMR Rajahmundry issue will be put behind us.

Our Indonesian coal mines which used to show a certain amount of stress last year have become a real bedrock of our profitability. With profits growing by three times as against the profit of Rs. 237 crores last year, this year we ended up the year with Rs. 793 crores. And EBITDA doubled from Rs. 553 crores to Rs. 1,210 crores. With a significant rise in the commodity prices as well as the turnover increase our turnover increased by a whopping 92% from Rs. 2,606 crores to Rs. 5,017 crores. This trend during the last two quarters is continuing to show progress. We are expecting to end this year with much more significant increase, not only in the turnover but in the overall profitability ratios.

So, overall, on a consolidated basis our net profit for the quarter was Rs. 5 crores as against the loss of Rs. 574 crores. From overall yearly perspective we have not been lucky enough to get much better revenues as far as EBITDA and profitability. This was largely due to the reduction in the DIAL revenues and EBITDA. But you can see the last quarter performance should be an indicator for the performance during the coming quarters.

Going forward as we enter, already we have covered the first quarter of the new year, it is better we look at and lay down what investors and analysts can look forward in the coming year as it enfolds and GMR continues to consolidate its growth of businesses.

At a group level we will continue our efforts towards deleveraging. And I am confident that you can witness more reduction of debt in absolute terms as well as in ratios. And this will happen as a combination of divestment, value unlocking as well as increasing operational efficiencies of our energy projects.

As far as airport sector is concerned, all the outstanding issues with our private equity investors are likely to get resolved and GMR's effort towards value unlocking in the airport businesses will enter a conclusive phase. The beginning of the second CAPEX cycle in both Delhi and Hyderabad airports will be in full proportion and the construction in Goa will also achieve a significant progress. The blue print for the full blown real-estate monetization and value unlocking in both Delhi and Hyderabad airport will be unveiled and most of the regulatory issues would be completely resolved.

As far as the energy sector is concerned, most of the regulatory receivables amount to Rs. 1,100 crores are expected to be received. And this is likely to make both our operating projects to enter into a net profit zone and GMR is also likely to initiate significant corporate actions in unlocking the value.

As far as the urban infra segment is concerned, the Kakinada Special Economic Zone, the company has a healthy pipeline of potential clients with which discussions are ongoing. And I can tell you there will be a significant development in monetization of close to around 3,300 acres during the coming years.

This is as far as the operational performance and the financial performance what we can witness in the coming years. Organizationally also last year a significant readjustment of portfolios happened at the Promoters' level as a part of our regular change of the portfolios. Mr. GBS Raju from Energy sector has moved on to take over as the Chairman of the Airports; and Mr. Srinivas Bommidala has moved from the Airport sector to head the Energy business.

With a view to signify the focus on real-estate development, the real-estate has been brought under the Finance and Strategy wing headed by Mr. Kiran Kumar Grandhi, and a minor adjustment have happened in the portfolios of the other Business Chairmen involved.

And this year the second level of organizational changes and succession planning is going to be implemented in line of the new leadership strategy. GMR has entered into a recruitment drive with the addition of around 76 management trainees, aptly code named as Aarambh. About 40 senior level positions are being closed with the significant second rung leadership taking over key position at every part of the segment right from to Airport to Finance to the Energy segment.

A new program called Navyata has been launched to usher in a digital transformation. And with the recruitment of three senior level technical people, GMR is entering into a high speed digitalization mode. A new division to usher in the cyber security for the entire organization has also been planned. And this year we will be able to provide, as we close we will be able to unveil the entire cyber security platforms that is being getting prepared for this.

All in all, I can only say that 2018 to 2019 will be a year of significant organizational changes, financial robustness and we will be setting into a platform for the new era of growth.

Moderator: Thank you very much. Ladies and Gentlemen, we will now begin with the question-and-answer session. We have the first question from the line of Sachin Kasera from Lucky Investment. Please go ahead.

Sachin Kasera: Sir, two, three questions from my side. One, if you can give some more clarity on roadmap on the monetization of your airport business that would be very helpful.

Sidharath Kapur: Well, as Madhu has also mentioned in his opening remarks that this financial year we are definitely going to see some value unlocking at the airport level. This will of course follow the process of settlements with the PE investors and of course the arbitration process has reached a fairly conclusive stage, the awards are expected by July. But there is also a possibility that there could be a settlement with the PE investors before that. And post that this will set the stage very, very clearly and firmly for a king of value unlocking at the airport level. So, at this point of time I think this is what we can mention as a forward-looking statement.

Sachin Kasera: Sure. Secondly, you mentioned that the monetization of land at Hyderabad has picked up pace, there was a mention of some couple of deals that happened. So could you give us some sort of an indication as to what type of realizations we are able to get in the Hyderabad Airport and what is the sort of roadmap we see for the next two years in terms of the monetization of land at Hyderabad as well as Delhi?

Rajesh Arora: So, we have done few of the current deals which are in the range of Rs 2 crores/acres. But in the recent past we are seeing further uptick in the land demand. So the deal which CFO just mentioned about we having signed MoU for 120 acre, that is in excess of Rs. 1.6 crores per acre. So, those are the current deals, but we are seeing further uptick in the land value.

Sachin Kasera: And what is the type of monetization we could see, could we look at 100 acres - 200 acres in next two years in Hyderabad further?

Rajesh Arora: So, as we said, 120 acres of logistics park is something which we have already signed an MoU with one of the investors. And there are other plans which are on anvil. So we should see a good level of land monetization happening in the next 12 to 18 months.

GRK Babu: When it comes to DIAL, we are planning to have about 17 acres this financial year and to start with airport hotel which is opposite to Terminal 3. And one downstairs hotel and about 10 acres for the development of the offices. So all are in pipeline and some RFQs were already called for the expression of interest and work is in progress.

Sachin Kasera: Sir, just one on this Delhi monetization. There was a mention by the CFO that almost above Rs. 100 crores deal has happened. Our last deal was something like 65 - 66 NPV basis with Bharti, so when you do this 17 acres do you think we will be closer to what has happened on the different deal which is closer to Rs. 200 crores? Or we will be more like Rs. 65 crores - Rs. 70 crores per acre sort of?

Sidharath Kapur: Maybe what we can mention is that what Madhu had mentioned was that the last transaction which has happened outside the airport which is kind of a benchmark for possibility of deals which may occur within the airport. Now of course it will be very difficult to say, once we go into the market we will get to know if it can happen it will be probably better or even around the same value or even less. But I think the benchmark is very clearly available for everybody to see.

Sachin Kasera: And my next question, last question is on the power plant. You mentioned that we are trying to do certain things by which the problem will be solved. Can you explain a little bit more on that?

Manojkumar Singh: For the gas-based power plant, with regard to the Vemagiri power plant we are trying and right now working on securing the gas part of it. We are working with the local gas providers and we are trying and seeing that we can secure either an APM gas or we can get some deep water gas. So we are working towards that and we hope that the plant can see some operations in the coming days.

Madhu Terdal: Just to add to what Manoj has told, there will be two strategies, one is the short-term strategy and other is the long-term strategy. Long-term strategy will be there when the new gas finds will start producing gas from the year 2021 from both ONGC as well as Reliance clusters. As a short-term strategy we have identified couple of sources where it should help Vemagiri to reach around 25% to 40% PLF levels. I think you will see certain amount of significant progress during the next one quarter. As far as Rajahmundry, the other gas plant, I have always explained to you, we have already submitted a resolution plan and I think when we go on-air next quarter perhaps we should be able to tell something definite on that. But we will reach a conclusive point before August 31 which is the deadline given by the Reserve Bank of India.

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

Ashish Shah: Sir, just a couple of questions. So, in case of Warora and Kamalanga we did mention that we have got some arrears also. So, anything which has come in Q4? Because just by looking at numbers someone gets an impression that there could be some arrears which might have come in Q4, so just clarifying that, sir.

Manojkumar Singh: For Warora and Kamalanga in Q4, primarily in the month of March, we have got in terms of Warora certain CIL as well as this coal pass through orders from CERC. So for the TANGEDCO we have got the coal pass through and for the CIL part of it we have got order for TANGEDCO. And also when we talk about it we have also recognized, I mean given that when we have got an order for the coal pass through for the TANGEDCO, we have also recognized the revenue on account of the coal pass through for the DNH as well as for Maharashtra. And in terms of when we talk about Kamalanga, we have got an order for coal pass through, though we were having coal pass through, a clarity has been come on account of the GRIDCO as well as for Haryana on the proportionate allocation of the coal pass through. At the same time, we have also recognized the coal pass through for Bihar which was factored in FY19. That is the reason there is a positive impact which has come in the Q4.

Ashish Shah: Sir, could you clarify how much is the impact in each Warora and Kamalanga for the year as well as in Q4, please?

Manojkumar Singh: When the order has come, I mean total of Rs. 92 crores of CIL which has been reflected for the Warora plant. And the coal pass through which has been got reflected is Rs. 111 crores. In terms of Kamalanga, the total revenue, additional revenue which has been recognized for the CIL is Rs. 89 crores. And for the coal pass through total we have recognized is Rs. 265 crores.

Ashish Shah: And this is in FY18 as a whole or this is in Q4?

Manojkumar Singh: This is FY18.

Madhu Terdal: All the orders have come in Q4.

Ashish Shah: And in Kamalanga have we started receiving the supplies under the Shakti scheme, I mean has the coal started coming?

Manojkumar Singh: Yes, the coal has been started from March onwards and we started receiving the coal supply under Shakti.

Madhu Terdal: This has already reflected PLF of 85% as well, we can see that.

Moderator: Thank you. We have the next question from the line of Hitesh Kumar from Aksa Capital. Please go ahead.

Hitesh Kumar: A couple of divestments that we had announced about a year back are still pending, one being the Indonesian mine project and also the second being the Kakinada where we have already signed MoU with HPCL and GAIL. So if you could just update if there are any roadblocks to it and are there any uncertainty around this translating into monetization?

Manojkumar Singh: So let me just give an update on that part of it. For the PTBSL mine we have signed SPA for divestment of 100% stake. Now as a part of the procedural aspect we are awaiting for the Singapore Stock Exchange approval which is expected at any point of time. Once the Singapore Stock Exchange approval happens then the normal procedural aspect which need to be done in Indonesia in terms of calling for AGMs and other thing, that is going to be there. We are expecting that the entire process in a couple of months' time should get over. And post which we will get the receivables or the equity consideration.

Hitesh Kumar: And what about Kakinada where again we have already signed an MoU with HPCL but again no traction there?

Mohan Rao M: In fact, there is substantial progress in HPCL consortium for this unit. In fact the terms of reference upload from environment clearance have come and the water connection and the power connection, all the approvals have come forward and MoUs signed. Only the last phase is that the HPCL consortium are in discussion with the central and state government regarding viability gap funding that is going on. Once that is over I think all the milestones will be crossed for establishing of this unit in Kakinada SEZ.

Hitesh Kumar: What will be the likely proceeds that we would have from this?

Mohan Rao M: It is too early to discuss on that, sir. It is for about 2,500 acres land.

Hitesh Kumar: That I understand. But given that there has only been progress that is done on the project, I believe you would have already entered into an agreement with a likely consideration for it?

Mohan Rao M: Yes, discussions are still going on. We have given some indicative figures, because it is market finalized so discussions are going on. So, this viability gap funding also all the documents will be finalized.

Hitesh Kumar: Sure. My second question is with regards to the Kamalanga project where already Shakti scheme, as you said, you have already started receiving coal supplies. What would be the likely benefit in terms of the cost that you are currently incurring? And post the Shakti scheme what will be the benefit on EBITDA that you can see in the Kamalanga project?

Manojkumar Singh: For the detailed analysis we will come back to you, but only just to let you know about it that by virtue of the Shakti coal the only benefit or cost which we have to provide is the 3 paisa reduction in the tariff on account of the coal which we are getting. So apart from that I do not think there will be any impact which can happen on the EBITDA part of it. But yes, in terms of the realization of the coal which last time we were having only firm linkage of the 500 megawatt, now at least we will be going to have an 80% to 85% of the coal linkage in place which will improve the EBITDA from the operation itself.

Hitesh Kumar: In terms of coal procurement cost that remains the same, is it, what it was earlier?

Manojkumar Singh: That is correct, there is no change in the coal procurement cost, except only to give discount of 3 paisa on the coal with what we procure, and we supply the power.

Moderator: Thank you. We have the next question from the line of Rohit Natrajan from Antique Stock Broking. Please go ahead.

Rohit Natrajan: Sir, I just had a question on the consultation paper that has come up, which says the tariff as per BAC plus 10%, it means that the target revenue for this FY19 should be somewhere around Rs. 1000-odd crores. My question is that is it inclusive of this TDSAT ruling, because I do not see the effect of RSD and high ROE and are we expecting all those rolling to be effective from the third control period onwards?

GRK Babu: Yes, as far as BAC is concerned it talks about only FY19, it does not take into consideration the TDSAT order. The TDSAT order effect will be given only for the third control period.

Rohit Natrajan: And when do you expect that consultation paper to be out because…

GRK Babu: That should be out by December 2018.

Rohit Natrajan: So can we safely assume that the aero revenues could probably move to Rs. 3,000-odd crores from DIAL, gross aero revenues I am talking about?

GRK Babu: Gross aero revenue depends upon our tariff application which we would do around the third quarter and we will not be able to guess right now, but it will be more than BAC.

Moderator: Thank you. We have the next question from the line of Charanjeet Singh from B&K Securities. Please go ahead.

Charanjeet Singh: Sir, actually if you can help us understand what is the corporate level debt right now and based on the asset monetization which we have planned in case there are some delays how we see this corporate level debt going forward by end of FY19?

Govindarajulu T: Debt remains at almost Rs. 4,600 crores which was the level in March 2017. And the debt servicing for current year will be approximately around Rs. 600 crores which we are planning through asset monetization; if that gets delayed, we will go for fresh loans or some kind of reschedulement from one or two institutions which we are already discussing with.

Charanjeet Singh: And sir on the road asset side, if you can just help us understand, if I look at we making EBITDA of around Rs. 284 crores annually and there is a huge amount of interest expense to that. So, going forward in FY19 we have planned for monetization of all these road assets also, in case that is also not happening or delaying so what is the outlook in terms of the loss which can occur in FY19 in the road assets?

Mohan Rao M: The main reason for this slight drop in the EBITDA is the provision for major maintenance expenses of some of the assets. And the reason for increase in interest cost is that we have made some borrowings to repay certain loans as a group entity. So these are the main reasons for this drop in the EBITDA and also increase in expenses.

Charanjeet Singh: So sir, how do you see going forward in FY19 what kind of outlook we might have on the EBITDA side and interest cost in the road asset?

Mohan Rao M: Yes, FY19 will be very, very good for the highways project because most of our claims went to arbitration where we have to get from NHAI and other entity. So you are aware that arbitration is very positive in deliberations as our claims are very substantial. So we are expecting positive judgement and will get the claims in the coming financial year. It is very good for the highway projects for the financial year, because of mainly getting the claims.

Charanjeet Singh: And sir you have also highlighted in the call previous regarding the special investment zone sales and there is a viability gap funding which is being asked by the state government. So what amount is that, what do you think like this can happen for this project to then go forward in terms of the asset sale?

Mohan Rao M: This is regarding Kakinada SEZ project, you are asking about HPCL and GAIL?

Charanjeet Singh: Yes.

Mohan Rao M: See, this viability gap funding, they are taking some consultant advise (HPCL and GAIL) and the government is also taking some consultants advise in this. So the discussions are happening on the viability gap funding. So at this point of time we can say what is happening, but how much amount exactly is not yet finalized. So unless they come to finalization we are not aware fully and we are not in a position to mention also. But only what I can say is that viability gap funding discussions are going on at, and once they decide everything will finalized because the team has come to the Kakinada SEZ more than three times with lot of experts and they have studied that, they have finalized, and state government has come forward to support 400KV unit and whatever water sanitation is required for this is being provided and all the written commitments are there. So only viability funding, at that time that is waiting for some time.

Charanjeet Singh: And sir the last question from my side is on the SIPCOT this 800 acres which is to be acquired in Phase 3 and Phase 4, what is the progress on that and are there any environmental clearance issues in the SIPCOT if you can just give us some update on that?

Mohan Rao M: For the development of the industrial park they are looking into our land and they found that it is very, very suitable. So they are giving some offers to take this land to develop that industrial park. Actually, they have come out with notification for approximately 200 acres of land. What we have said that an extent of almost 800 acres may fall within their boundary for which notifications and all will come in due course. So once this notification is out now they are in discussion with the government for issue of the Government Order once they finalize the price, the price is being discussed at those levels internally. So once that is done then Government Order will come out and they will take 200 acres in Phase 1 and balance 400 acres we expect by March they should be able to get in Phase 2. And another 200 acres we expect next year we should be able to monetize.

Moderator: Thank you. We have the next question from the line of Pavitra Sudhindran from Nomura. Please go ahead.

Pavitra Sudhindran: So, Hyderabad airport you mentioned that you have signed a deal for logistics park for 120 acres. Can you tell us how much security deposit you expect to receive from that and also when you expect to receive it? And secondly in terms of tariff for the second control period, can you tell us where we are in terms of that?

Rajesh Arora: So, the Hyderabad deal is going to be all cash up front. And as I mentioned earlier, the value realization is going to be Rs. 1.6 crores per acre. So here we are not getting into this concept of security deposit, it is all the present value of lease rental all cash up front.

Sidharath Kapur: On the DIAL tariff, let me take that. I think this question was raised earlier and I think Babu has responded to it. But let me at the pain of repetition mention that the tariff of course has already been set by the regulator for the second control period and there has been a drop in the tariff. The third control period tariffs will be affected from April 1st, 2019, for which we will be filing our submissions before the regulator in the next couple of months and hopefully we will get the consultation paper out. And subsequent to that the order from the regulators before the start of the third control period which is from April 1st, 2019. Now the TDSAT order has brought in certain positive outcomes, first one is that TDSAT has very clearly mentioned that the refundable security deposits which were raised earlier and used for financing the aeronautical RAB would need to carry some returns. The terms have not been specified by the TDSAT and it has actually referred the matter back to the regulator to fix an appropriate number for return on the security deposit. So that determination will be done as part of the exercise for fixation of tariffs for the third control period. And it is important to note that the return on refundable security deposits will be reclassified from the first control period onwards and would be available as a cumulative number to be adjusted in the total target revenue for the third control period. The TDSAT, has also asked the regulator to do a more scientific exercise on cost of equity which is also expected hopefully to lead to some positive outcome. But that also will be reflected in the tariffs of the third control period. The consultation paper which is out, I think it is very critical from our perspective, it sets a very clear benchmark that the tariffs of Delhi Airport cannot fall below a certain number in line with the provisions of the consultation agreement. So on a long-term basis I think it is principle with this consultation paper and the expected order from the regulators, post this consultation paper. It sets a very clear long-term principle of a certain base aeronautical revenue for Delhi Airport. And that is more critical, especially where there is the variability in aeronautical charges due to over recovery or under recovery.

Pavitra Sudhindran: And can you also talk about for Hyderabad Airport for tariff for the second control periods?

Sidharath Kapur: So, the tariff for the second control period, the regulator has of course come out with a consultation paper. But because there is a high court order staying it, it has not been implemented. Of course, we are expecting that the current tariffs will continue at least for the current financial year. And that of course, the numbers are very clear, the quarterly revenues are very clear and based on that you can make your own assessment of the aeronautical revenue for the remaining part of the year.

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

Ashish Shah: By when do we expect the CAPEX to commence in DIAL as well as in Hyderabad?

GRK Babu: As far as DIAL is concerned, we are planning to start the CAPEX from January 2019. We have started pre-clearances as well as the preconstruction works we have already started, demolitions and all those things. But full work is expected to start from January 2019.

Rajesh Arora: For Hyderabad Airport the work has already started, and we expect to complete our plan of doubling the capacity in next three years' time.

Ashish Shah: Sir, any critical clearances which are remaining for both these airports or all of that is through now?

GRK Babu: No, as far as DIAL is concerned the expected cost of construction has already been submitted to AERA. So AERA has already appointed Kitco as their consultants who have examined our estimate and we are likely to get clearance from them shortly. Basing on the clearance done we will go ahead with the construction.

Ashish Shah: But there is nothing in terms of any environment clearance or anything?

GRK Babu: They are all completed, both for Delhi and Hyderabad.

Ashish Shah: Have we commissioned the new terminal in Cebu is that done already?

Madhu Terdal: New terminal in Cebu is getting commissioned on 7th of June. So it is ready and it is getting inaugurated by the President of Philippines on 7th of June.

Ashish Shah: Sir lastly, when do we expect the monetization of the balance highways, balance road projects?

Mohan Rao M: The balance two highway projects, some of them are in advance stage, I am not in a position to disclose the name, probably we are expecting them to complete in current financial year.

Moderator: Thank you. We have the next question from the line of Sachin Kasera from Lucky Investment. Please go ahead.

Sachin Kasera: Sir, one question on the Cebu airport, if I understand it right it is directly owned by the parent and it is not part of the GMR Airport Holding Company?

Madhu Terdal: That is right.

Sachin Kasera: Since we are looking at monetization of the airport business, is there any plan to restructure and bring that under the GMR airport umbrella?

Sidharath Kapur: As and when the plans for value unlocking of the airport business materializes and we are in a position to make public announcements about it, before that of course there is also expected to be transfer of holding from the parent to the GMR Airports. So that is one of the distant possibilities on the call.

Sachin Kasera: And if that happens that will help the corporate debt of the parent to come down if something like that happens, one of the ways we can reduce the corporate debt?

Sidharath Kapur: Yes, you are right.

Sachin Kasera: Sir, second question was on energy, you mentioned that there has been, we are seeking approval from Singapore for the deal to be closed. It has taken some time, so you mentioned by around next 2 to 2.5 months it should happen. So as of now we have fairly good visibility that they should now happen in next 2 - 2.5 months or it is still not very clear?

Manojkumar Singh: Yes, so PTBSL as I have stated earlier we are expecting the Singapore Stock Exchange approval which can happen at any point of time, that is what I am saying. And after that there will be certain procedural aspect of calling for the AGMs and other thing which is as per the Indonesian law and those are the procedural aspects which we have to look into it. That will take a month's time. So I am expecting all this thing should get over in two to three months' time max.

Sachin Kasera: And CFO was mentioning regarding some change in the existing mine strategy, so if you could just elaborate on that.

Madhu Terdal: I was talking about the other, i.e. Golden Energy Mining where we have got 30% stake. Because as I mentioned the profitability has gone up by almost three times during the last year, so obviously we will try to continue with the operations and get more and more dividends in the current year. So that is what I was referring to.

Sachin Kasera: Even we can expect from the profits of FY18 because recently profitability has been good and dividend has been declared by the company.

Madhu Terdal: Yes, already we are getting dividends.

Manojkumar Singh: So close to $50 million, I can give you the details at the later part of it. But yes, whatever the profitability which comes out of the company, they are endeavoring always 80% of the distributable profit they should declare as a dividend.

Sachin Kasera: So that should be able to service the debt which we have taken for the investment?

Manojkumar Singh: Yes. We are doing that way only.

Sachin Kasera: And lastly sir on Goa airport can you give us an update, by when do you expect it to get operational?

Sidharath Kapur: So, it will take another three years. The work has started the EPC contract has been awarded, it is expected to be ready in three years' time.

Sachin Kasera: And will we parallelly start working on the monetization of the land or it will start only once the airport is commissioned?

Sidharath Kapur: After the construction there is no restriction and we will of course explore opportunities for monetization of land in Goa during the construction stage. That is yes a possibility available.

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

Vipul Shah: Sir, would you repeat your comments on recent tariff order? If I understood you correctly, revision will start from 1st April 2019 and it will be retrospective. Is my understanding correct, sir?

Sidharath Kapur: No, I think let me clarify your question. The third control period will start from 1st April, 2019 for Delhi, but the effect of the TDSAT order will be retrospective and will be adjusted during the total target revenue for the third control period which is going to start from 1st April, 2019.

Vipul Shah: Means whatever revenue which we have lost in these two control periods effectively we will be compensated for that? That is my simple question.

Sidharath Kapur: That is right. The TDSAT order as outcome of it will lead to an upside on the total revenue on a retrospective basis, where it will be accumulated and adjusted in the third control period.

Vipul Shah: Okay. But can you put any number that how much tariff should go in terms of percentage from 1st April 2019 onwards?

Madhu Terdal: It will be very difficult to pick a number at this stage.

Vipul Shah: And my second question is regarding our Kakinada JV, we have 51% equity as per your presentation, so 49% equity belongs to whom?

Mohan Rao M: Now we are having 51%, other 49% is held by local industrial unit – Kakinada Infrastructure Holdings Pvt. Ltd.

Vipul Shah: But who is responsible for operational part of it, we or they?

Mohan Rao M: We have the operational part in the board representation, but for the administration, maintenance and funding, everything we are taking care of, GMR is taking care of.

Moderator: Thank you. Ladies and Gentlemen, that was the last question for today. I would now like to hand the floor over to the management for their closing comments.

Madhu Terdal: So, Ladies and Gentlemen, thank you once again for your time and attention. As I mentioned in my opening remarks, this coming year is likely to set a platform where the GMR Group will move away from a difficult period into a phase of growth. It will consolidate its presence in the energy sector and it will be a robust top performer in the airport segment as well. You will witness a significant deleveraging, there will be a significant unlocking at both the airport as well as energy sector. And the profitability parameters in all the sectors are likely improve very significantly. And there would be also the second level organizational changes that will provide the bedrock for the future growth of this organization. With these remarks, thank you Ladies and Gentlemen. Hope to see you in the next quarter. Over to the operator.

Moderator: Thank you. Ladies and Gentlemen, on behalf of GMR Infrastructure Limited, that concludes this conference. Thank you all for joining us. You may disconnect your lines.

***Note**: Transcript has been edited to improve readability*.