"GMR Infrastructure Limited Q1FY20 Investor / Analyst Conference Call Transcript"
Friday, 16th August 2019

Moderator: Ladies and Gentlemen, Good day and welcome to the GMR Infrastructure Limited Q1 FY20 Earnings Conference Call. 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 & Strategy and CFOs of GMRs 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 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. Good afternoon to all. I welcome you all to the first quarter results of fiscal year 2020. As you are aware that government has recently announced over INR 100 trillion of investment in infra space by 2024 to make India US $5 trillion economy. It is a very exciting time for us as we are a very uniquely positioned company in that particular space. The government is also taking certain proactive steps to support the growth of the domestic air travel by privatizing an additional 20 to 25 airports. This is encouraging from GMR perspective as we are amongst one of the largest infrastructure players in the country, particularly in the airport sector.

During the quarter, we have focused on completion of various initiatives which we had undertaken in the previous quarters towards our objective of deleveraging our balance sheet and focusing on the airport sector. I will brief you on the progress made during this quarter. With regards to the proposed transaction for a stake sale at GMR airports for INR 8000 crores, we have now executed definitive agreements with our investors and are awaiting regulatory approvals. We expect the regulatory approvals to be in place by end August, early September post which we expect the closing to happen within this quarter itself.

During the quarter, we completed the implementation of the resolution plan of our stressed energy assets which have significantly de-risked our balance sheet. It is very important to mention that we have achieved the resolution of two power projects bilaterally with a consortium of lenders and have received approvals from 100% of lenders. We have now successfully completed the implementation of the resolution plan of the Rajahmundry power project (GREL). Now, GREL has a residual sustainable debt of about INR 1130 crores against the total debt of about INR 2350 crores earlier. This debt is now repayable in 20 years. Consequently, the corporate guarantee expanded by the holding company, GMR Infra, has also reduced down to about INR 1130 crores. We have also divested our entire stake of 47.62% in Chhattisgarh power project to Adani Power. The shares have already been transferred and the plant has been handed over to Adani Power Limited. The Chhattisgarh power project had a total debt of about INR 5926 crores and a negative contribution of about INR 516 crores in the consolidated P&L of GMR Infra for fiscal year 2019. During the quarter, no loss of this power project has been taken into the P&L.

On the operating side, if we look at our consolidated financials, we have recorded gross revenues of about INR 1992 crores during the quarter as against INR 1738 crores during the corresponding quarter last year. EBTIDA margin has increased to 40% to about INR 599 crores during the quarter as compared to 33% at INR 436 crores during the previous quarter, a healthy growth.

Net loss before tax is at about INR 279 crores during the quarter as against a net loss before tax of about INR 290 crores during the corresponding quarter last year. Net loss after tax from continuing operations widened to about INR 335 crores during the quarter as against INR 238 crores during the corresponding quarter last year mainly due to tax implications. We are now on a path to profitability as the equity fund raise of about INR 8000 crores will be primarily used to repay the debt resulting in savings on interest expenses.

On asset basis, I will talk about the Delhi airport first. At the Delhi airport, the traffic declined by 10% year-on-year to about 15.7 million passengers in Q1 FY20 from 17.6 million in Q1 FY19 on discontinuation of services by Jet Airways. However, in the current quarter, the gap is getting filled by other airlines indicating a healthy underlying demand. Non-aero revenues grew by 9% Y-o-Y to about INR 552 crores in Q1 fiscal year 2020 from 507 crores in Q1 FY2019. Delhi airport started receiving the lease rent from Bharti Realty pertaining to recent land monetization of about 5 million square feet whereby the developers agreed to pay one time amount of about INR 1837 crores and annual lease rentals of about Rs 363.5 crores till 2036. During Q1FY20, about INR 90 crores of lease rent has been booked in revenue from this deal. As a result, CPD rentals grew by about 2.9x to INR 139 crores in Q1 FY20 from INR 48 crores in Q1 FY19. PAT at Delhi airport grew to ~INR 13 crores in Q1 FY20 against the net loss of ~INR 128 crores in Q1FY19.

DIAL airport generated a cash profit of ~ INR 186 crores in Q1 FY20 versus cash loss of INR 30 crores in the previous year during the same period. Delhi duty free services opened its new duty free shops following renovation at its arrival and departure location at Delhi International Airport Terminal 3 recently. Delhi airport has also been awarded with a CAP 2.0, climate oriented company award by CII-ITC centre of excellence for sustainable development. DIAL is the only Indian airport to commission Airside driving simulators and operationalized dedicated trans-equipment excellent centre. DIAL has also undertaken on the expansion plan to handle capacity of up to 100 million passengers by 2022. Post completion, DIAL would be the only airport in India to have 4 runways and dual elevated Eastern Cross Taxiways. L&T has been entrusted with the entire EPC works.

Coming to Hyderabad airport, the traffic grew by about 8% year-on-year to 5.5 million passengers from about 5.2 million passengers in Q1FY19 and this is despite Jet Airways discontinuing its operations. Non-aero revenues grew by 20% year-on-year to INR 148 crores in Q1 FY20 from INR 124 crores in Q1 FY19. Profit after tax of INR 183 crores was achieved in Q1 FY20 versus 185 crores in FY19. This is primarily due to additional expenses incurred on operationalization of two interim terminals which led to 27% increase Y-o-Y in operating expenses resulting in a flat PAT. It generated a cash profit about 215 crores versus 214 crores basically a flat performance as far as the cash profit is concerned year-on-year. The agreement to lease has also been signed in Hyderabad. Amazon has signed up 261,000 square feet of a warehouse and SAFRAN in aircraft engines for about 165,000 square feet facility in the SEZ location for manufacture of aircraft engine components. Hyderabad Airport is the first airport in the country to start trials for the face recognition based end-to-end passenger processing systems. It has also won the Best Regional Airport award by Skytrax for 2019. New destinations have been added in Hyderabad. Cities like Gwalior, Belgaum, Kishangarh, others have all contributed to the growth of traffic and will continue to grow as we go forward. Even flight frequencies have been added to Jeddah, Mumbai, Chennai, Belgaum, Rajahmundry and Tirupati.

The expansion work for airport is progressing as per schedule and is likely to be completed by March 2022. Post completion, Hyderabad Airport will have the capacity to handle about 34 million passengers per annum compared to 12 million passengers today. Currently, it is handling in excess of 21 million passengers.

Cebu Airport in Philippines is doing exceptionally well. The traffic in Cebu in Philippines grew by about 13% year-on-year to about 3.06 million passengers in Q1FY20 from 2.7 in Q1FY19. New terminal has been commissioned in June last year. The revenue has increased by 50% year-on-year to INR 118 crores in Q1FY20 from 79 crores in Q1 FY19. Cash profit has increased by about 8% year-on-year to 47 crores in Q1FY20 from 43 crores in Q1FY19.

Coming to the energy sector, I take this opportunity to brief you on one of the major sector development during the quarter. In order to address the issue of huge outstanding on account of unpaid power bills by Discoms, Minister of State for Power and Non Renewable Energy has set up a Payment Security Mechanism and made it mandatory that power shall be despatched only after Letter of Credit has been opened and electricity shall be supplied only up to the quantity equivalent of value of Letter of Credit. This is a welcome step which will go a long way in alleviating issues in the sector. We hope these measures get implemented with rigour.

Coming to specific assets in the power sector, in Kamalanga power project, there has been a partial shutdown on account of plant maintenance in this quarter, which has resulted in a PLF of about 76.5% during the quarter. Our revenue has increased by 21% year-on-year to about INR 554 crores versus INR 457 crores last year. It generated a cash profit of about INR 44 crores during the quarter as against INR 43 crores in the same quarter last year.

In the Warora power project, due to better coal availability from Coal India Limited, it has resulted in a higher PLF of about 87.5% during the quarter. The revenue increased by about 2% to about INR 473 crores from the same quarter last year. It generated a cash profit of about INR 38 crores in the first quarter against INR 43 crores in Q1FY19.

In our coal business i.e. the Indonesian coal mine, the volumes have grown there. The sales volume has grown by about 35% year-on-year to about 7.5 million tonnes in Q1 FY20 from 5.6 million tonnes in Q1 FY19. Revenue grew by about 7% year-on-year to INR 1898 crores in Q1 FY20 from INR 1772 crores in Q1 FY19. Overall, I would say, it has been a much better quarter and as we go forward, upon the completion of our strategic stake sale in our GMR Airports and the money coming into deleverage our balance sheet, we intend to further give momentum to our performance during the current fiscal year and going forward into the next year as such. At this stage, I will stop and I open the whole platform for any questions that our analysts and investors may have. 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 Mohit Kumar from IDFC Securities.

Mohit Kumar: Sir, on the very first slide of the presentation, where you are talking about strategic investment and the proposed restructuring, is it possible to give us a sense of timeline for the money to come in for the strategic investment and about the proposed restructuring? What is the kind of timeline you are looking at? When are we supposed to apply to the NCLT for the approval of vertical demerger?

Saurabh Chawla: So primarily, I think I did put into my opening remarks, we are awaiting the regulatory approvals on the transaction. We hope that by end of August, early September, we would have all the regulatory approvals in place for a closing of the transaction to happen. We continue to be positive on the closing happening within this quarter 2 itself and the money is coming in within this quarter 2 itself but again, I will just qualify this that as it is regulatory approvals, we don't have full control on that but this is what our general expectation and guidance is. With respect to the vertical demerger, we expect that will go forward in the third quarter after this transaction has closed. I would again qualify this as that this is still subject to the approval of the committee of Board of Directors. They are evaluating all the points related to this vertical demerger, so after the transaction of strategic sale of equity is closed, we will be working and closing our deliberations with our Board of Directors and subject to their approval, we would be filing for a vertical demerger in the third quarter. That is a broad sense of the timelines.

Mohit Kumar: My second question is on the status of tariff for the Delhi, has the consultation paper been published by the AERA? Or when we are expecting otherwise?

GRK Babu: As far as the DIAL is concerned, the consultation bill is not yet out. We are expecting only by 30th September because they have appointed some consultants for study and that is likely to be completed by end of this month.

Mohit Kumar: And sir, what is the status of Nagpur and Bhogapuram Airport agreements? Is there any update which you can share?

GRK Babu: There is no further update, as we explained last time, we were the highest bidder. So far, we have not yet received any communication from the government.

Mohit Kumar: My last question is, how is the traffic panning out in last 45 days? Has it improved from Q1 in terms of growth?

GRK Babu: Traffic is coming back nearly. Compared to the April and May and June, July is much better and we are almost on par with the corresponding month of the last year.

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

Vipul Shah: Can you give me the aero revenues for Delhi and Hyderabad Airport for Q1FY20 and Q4FY19?

Amit Jain: If you look at aero revenue for Q1FY20, for Delhi Airport it is about INR 237 crores and non-aero is about INR 552 crores.

Vipul Shah: For Q1 FY20, right?

Amit Jain: Yes, Q1 FY20.

Vipul Shah: And what was the same figure for Q4FY19?

Amit Jain: Quarter 4 was about INR 273 crores. There is a small dip in the aero revenues in Delhi because if you remember, there was implementation of base airport charge and there is a slight dip in the traffic numbers because of Jet Airways issue, which just now Mr. Babu mentioned that we are catching up with that, so that is the aero. On the non-aero, we are growing in line. The non-aero in Q4FY19 was about INR 526 odd crores.

Vipul Shah: So that earlier controlled period tariff revision has not been implemented still?

GRK Babu: The tariff has been implemented. That is called base airport charges. It is fully implemented in the fourth quarter of FY19. In the first quarter of FY20 also, the base airport charges is applicable but because of the traffic fall, the aero revenues have come down slightly as in INR 273 crores in Q4FY19 versus we have earned INR 236 crores in Q1FY20. However, from July onwards since the traffic is back, we are expecting that we will be able to achieve the same aero revenue. As far as non-aero is concerned, there is an increase despite the fact that there is a little fall in the traffic. Still our non-aero revenue has grown from INR 526 crores in Q4 FY19 to 552 crores in Q1 FY20.

Vipul Shah: And sir, what will be the lease rental income from Bharti Realty per quarter?

Saurabh Chawla: It is INR 363.5 crores for the full year, per annum for the entire 4.9 million square foot.

Vipul Shah: And this will be for how many year, sir?

Saurabh Chawla: Till 2066.

Amit Jain: Just to add, this number of INR 363.5 crores will be there till 2036, post that there will be increase of 50% on this till 2066.

Moderator: Thank you. Our next question is from the line of Ashish Shah from Centrum Broking. Please go ahead.

Ashish Shah: Sir, could you help me with the debt numbers for Kamalanga and Warora? What is the gross debt, maybe outstanding at this point?

Amit Jain: If you look at the Warora, Warora as of June, is close to about 3000 crores and for Kamalanga, it is about 4000 crores.

Ashish Shah: And sir, how much is due for repayment this year in both of these plants?

Ashis Basu: For Kamalanga, there is no repayment due and for Warora 180 crores.

Ashish Shah: So Kamalanga would have something in 21, in terms of repayment?

Ashis Basu: Yes.

Ashish Shah: Sir, any quantum, if at all?

Ashis Basu: We will answer offline on that so we get that data for you.

Ashish Shah: Sir, secondly, on the progress in the Kakinada SEZ, so do we have something inside, as there have been any progress in the last quarter or so in terms of any monetization of the land?

Management: Good afternoon, everybody. So far, as Kakinada project is concerned, we have signed the MOU with Haldia Petrochemicals, whereby Haldia will set up a refinery cum petrochemical cracker project. Currently, the government and the Haldia are working on the pre-project activities.

Haldia has already obtained the environmental TOR also and they are expecting to achieve the financial closure by April 2020.

Ashish Shah: Sir, how much land is here in the MOU? How many acres?

Management: They are requiring 2500 acres.

Ashish Shah: 2500 acres and sir, how much is the value of this monetization?

Management: See, we are yet to reach the consideration for the land monetization, the consideration value. Currently, discussions are progressing.

Ashish Shah: Sir, on the Goa and the Nagpur airports, could you update what is the status of construction at Goa because we get some sense that probably the construction is halted at this time due to certain local issues there, so could you just help us understand the status?

GRK Babu: When it comes to the Goa, the construction is stopped because of the Supreme Court order. This is the final appeal which has been made against the NGT order by the NGOs of Goa and the matter has already been heard. We are awaiting for the final word. We are expecting that we should be able to start the construction by September. That is the development as far as Goa is concerned.

Ashish Shah: Sorry to interrupt sir, but that is subject to the Supreme Court permitting the construction to complete?

GRK Babu: Yes, because we have submitted the Ministry of the Environment and Forests and they have submitted the entire final report to the Supreme Court as well as the Government of Goa, so we do not foresee any more further hurdles from the Supreme Court side.

Ashish Shah: Sir, on the Nagpur Airport?

Saurabh Chawla: Nagpur side, as far as we have already received formal Letter of Award (LOA) in the month of March. We are just in the process of creating a company, so we are hoping that we will be able to sign the agreement by the end of this month.

Ashish Shah: Sir, broadly could you define what is the scope there in terms of, what is the initial CAPEX and how much the capacity expansion will happen?

GRK Babu: The Nagpur Airport currently is operating around 3 million PAX. We are expected to build 12 million capacity, no runway is required. We have to build a new terminal along with the apron and access route. As of today, we are expecting the total project cost will be around INR 20 billion. It is a brownfield airport, so we will be taking over the entire operating airport and the day 1, it will be the profits, so we are expecting good amount of the money will be utilized in the internal accruals for the purpose of expansion.

Ashish Shah: But yet, the expansion will have to go through the environment ministry clearances, right? Or that is already done?

GRK Babu: So that is the government responsibility because we are not going ahead. It is not a new greenfield airport; it is a brownfield airport. Runways, we are not going to build anything yet. It is only the new terminal along with the apron we are going to build it. So we do not find any difficulty as far as the environment clearance is concerned because it is a running airport.

Ashish Shah: Sir, lastly from my side, since we are evaluating or considering the demerger or a vertical demerger, so what happens to the FCCB, which is there in the GMR parent? So how does that get split or repaid**,** converted? What happens to that?

Saurabh Chawla: Those aspects have still yet to be decided. It is under evaluation and there will be an allocation of that FCCB between the airport vertical and non-airport vertical I think we should wait for that evaluation to complete and once we file with the NCLT, everything will be in public space.

Moderator: Thank you. We have the next question from the line of Aditya Chandrasekhar from Edelweiss. Please go ahead.

Aditya Chandrasekhar: What are the receivables currently in Kamalanga and the Warora plant?

Ashis Basu: The total receivable including the regulatory is close to 895 crores in Kamalanga and in Warora, it is 442 including….

Aditya Chandrasekhar: Sorry sir, how much?

Amit Jain: If you see for both the plants, Warora and Kamalanga put together, the receivables are close to 1300 crores.

Aditya Chandrasekhar: 895 in Kamalanga and 443 is it, in Warora?

Amit Jain: Yes, so both 1300 crores. Warora is 442 crores and Kamalanga is 895 crores.

Aditya Chandrasekhar: And sir, my second question is the CAPEX in both Delhi and Hyderabad for the expansion. So is it possible to tell us like how much has been incurred? How much we are expanding, etc., just the status of the expansion basically?

GRK Babu: As far as the Delhi is concerned, the total CAPEX program, I think, we have already explained last time. So we have paid advance to the EPC contractor about 760 crores and we have also incurred about 200 to 250 crores. Around 1100 crores in the total, we have paid so far to the EPC contractor. As Hyderabad is concerned, it is around 1000 crores we have incurred.

Aditya Chandrasekhar: Incurred around 1000 crores?

GRK Babu: Yes.

Moderator: Thank you. The next question is from the line of Aditya Mongia from Kotak Securities. Please go ahead.

Aditya Mongia: Sir, the first question was on the corporate debt, just wanted to get a sense from you as to where do you see this debt level peaking out?

Saurabh Chawla: Well, we are actually in the process of reducing this debt substantially, so the main reason why we are divesting 44% in our airports vertical is to make this debt almost negligible. So hopefully, I think, within this quarter itself, if we achieve our closing, the debt would have peaked out.

Aditya Mongia: Sir, the debt for the is already inside the numbers now?

Saurabh Chawla: Yes, everything is part of that only.

Aditya Mongia: The second thing is, assuming everything goes as per plan and 8000 crores comes in, just wanted to get a sense from you that given the CAPEX requirement in Delhi and Hyderabad, what is the growth capital that you had left with to be bidding for the incremental airport purchase?

Saurabh Chawla: Well, primarily, if you look at, we have entered this partnership with very long-term investors, both financial and strategic guys. Whilst any growth plans, which are there in Delhi, it is primarily with its own expansion to 100 million passengers and that is almost funded with all the capital raise and internal accruals that are already there, including the leasing out of land to Bharti. Same goes with Hyderabad. So for their own expansion for next many years, the capital funding is already in place. Any additional growth, which may be in the greenfield space or maybe even in brownfield space and new airport space, there is enough capacity available because after a point of time, these airports are going to start throwing out dividends and we have the ability then to monetize those dividends and utilize them for bidding of other airports, whether in the country or abroad. Last but not the least, if any capital is required, we can also leverage the balance sheet of this platform because this platform's balance sheet can also get delivered by about 1000 odd cores with the current transaction. So broadly, not only the balance sheet gets strengthened at the corporate level, but the balance sheet is actually also getting strengthened at the airport platform level, so the opportunities and growth, we won't let that go by and we will be looking aggressively in that space. Although for the next few years, our bandwidth is fully committed to expanding the existing airports and building out the new ones, whether in Goa or Nagpur.

Aditya Mongia: The 8,000 crores are hard stop in terms of money that has been coming from these 3 partners of yours, so is there more money coming in incrementally, if you require money for deployment in airport verticals?

Saurabh Chawla: Sorry, Aditya, we are not able to hear you. At this stage, just to answer your first part of the question, which we heard clearly, second part, we did not. Yes, 8000 crores is a hard stop as far as equity investment into the airport vertical. Any further requirement will be met through the leverage at the platform level. These have been evaluated along with our prospective new shareholders, we can lever that up as we go through.

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

Vipul Shah: If I understood correctly, all the proceeds from this 8000 crore airport to vertical sale will go over reducing debt at the corporate level? Have I understood it correctly, sir?

Saurabh Chawla: Yes, you have. Out of that 8000 crores, 7000 crores is at the corporate level, 1000 crores is at the GMR Airports Limited, which is the platform level but net debt comes off in both the cases.

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

Ashok Kumar Jain: I just wanted to know that Bharti Realty that 1837 crore, have you received full payment, sir?

GRK Babu: As far as the Bharti Realty deal 4.9 million square foot is concerned, we are expected to receive the payment of around 1500 crore of the deposit and ADC only by end of October and the lease rentals only in December 2019.

Moderator: Thank you. Ladies and gentlemen, that was the last question. I would now like to hand the floor back to the management for closing comments. Over to you, sir.

Saurabh Chawla: Thank you, everybody for participating in our first quarter financial fiscal year 2020 call. We are available offline to answer any specific questions you may have on the balance sheet of any of our verticals, you can reach out to Amit and we will be glad in providing you with all the information.

Moderator: Thank you members of the management. 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*.