"GMR Infrastructure Limited Q1FY21 Investor / Analyst Conference Call Transcript"
Friday, 28 August 2020

Moderator: Ladies and Gentlemen, Good day and welcome to the GMR Infrastructure Limited Q1 FY21 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: Good evening to all. I welcome you to the first quarter call for FY'21. I hope everybody on the call is safe, their families are safe in these very troubled times.

To start with, I would like to share one of the key developments pertaining to the "Strategic Group Restructuring", which we are undertaking to unlock value. Yesterday, the board has given its approval for the Scheme of Arrangement, which will involve vertical split or demerger of the non-airport businesses, which includes our Energy business, EPC business, Urban Infrastructure business from the airport business, which upon regulatory approvals will create two listed entities with mirror shareholding. Post the restructuring, GIL will have the airport business while GPUIL will have the non-airport businesses.

The key objective behind this demerger is to create India's only pure play listed airports company, which will not only attract a different class of investors, but more importantly, substantially reduce the cost of capital for the airport businesses. We believe this restructuring is a step in right direction to unlock value of GIL for separate listing of both airport business and non-airport business and simplify the corporate holding structure. It will facilitate better understanding of the airport business, independent of other business verticals within the group and also pave way for focus growth and sustain value creation for all stakeholders over a timeframe.

Coming to the businesses front, GMR businesses have been adversely impacted by the lockdown measures of the government due to the COVID situation, but now are seeing gradual signs of recovery.

To start with, our airports have witnessed significant increase in traffic post their opening on May 25, 2020. Commercial scheduled international flights however continue to be suspended till August 31, 2020. But foreign carriers have started operating to and from India under the air bubbles arrangement. Currently, India has air bubbles arrangement with US, UK, Canada, Germany, France, UAE and Kuwait.

To give some perspective on airports performance, let me talk about how Delhi airport is performing. Delhi airports daily average packs which was recorded at 12% of pre-COVID levels in the first week of reopening has improved to 23%, in the 13th week, whereas daily average ATMs which were at 23% at the first week, improved to 32% in the 13th week. Cargo domestic daily average tonnage, which was at around 17% of pre-COVID levels for the first week has improved to 47% during the 13th week. Cargo international daily average tonnage which was at 47% of pre-COVID levels for the first week has improved to 71% during the 13th week. So clearly, the operating metrics have continued to improve over many quarters.

In the Hyderabad airport too, we are witnessing also similar kind of recovery. For instance, the domestic daily average packs which was at 8% of pre-COVID levels in the first week of reopening has improved to 31% in the 13th week. Domestic daily average ATM is now at 38% of pre-COVID levels from 12% in the first week. Cargo domestic daily average tonnage has improved from 8% of pre-COVID levels in the first week to 60% in the 13th week, whereas international daily average tonnage improved to 71% in the 13th week from 65% in the first week.

Key point to note over here is that the recovery in traffic is achieved even with limited opening of capacity by the government. As you are aware, the government had allowed 33% capacity for the airlines till June 25th, post which now it has increased to 45%.

Going forward, we anticipate improved recovery in traffic due to the following reasons: First, innovations around technology for testing and safety, which really facilitate the travel and boost traveler confidence have been evolving very rapidly.

In addition to that, people although they had a perception that when they fly they breathe into the same air-conditioners, now they are coming to knowledge that at least the cabin air is constantly changed with fresh air from outside. The air comes through the engines. The fresh air is mixed 50:50 with the air inside and is spun back right with the right temperature into the cabin. The old air is released outside. The new air which has changed every two to three minutes, flows from ceiling to floor and not horizontal through the cabin. Moreover, the air in the cabin goes through HEPA filters which have the capability to catch 99.99% of viruses, bacteria, fungi, dust, germs. According to experts, air exchange program in flights is superior than the hospitals, offices and the odds of catching COVID-19 in a flight is minimal.

Secondly, evolving technologies with respect to rapid testing of COVID-19 will smoothen travel experience even further. For instance, India and Israel are conducting trials on a rapid testing gun, which has the potential to detect COVID-19 in 30-seconds. This technology has already been applied for an FDA approval by the University in Israel and currently it is being tested at the Ram Manohar Lohia Hospital in Delhi. US has recently authorized a 15-minute COVID test from Abbott Laboratories, which is actually priced at $5. UK Government has backed a study which is called a finger prick test. It has passed its first major trial which provides results within 20-minutes with 98% accuracy.

Additionally, state governments of India continue to relax travel restrictions, for example, on August 25th State of Karnataka scrapped all travel related restrictions, including the one for quarantine post travel. Also, Maharashtra is looking to double the per day limit and allowed domestic flights travel and departure from the state.

Additionally, on the international travel, the establishment of air bubbles between US, France, Germany and UK with India will facilitate travel to return although the progress will be slower than that of the domestic market.

For GMR, ~75% of our passenger traffic is domestic. We expect that by the end of this fiscal year, our traffic should start growing at the same click and we should achieve the same run rate as it was in the February of 2020 which is a pre-COVID levels.

Coming to the "Other Businesses", the Energy business is also seeing positive traction. PLF of Warora and Kamalanga, which was at 49% and 52% respectively, during April 2020, has improved to 83% and 89% in August 2020.

On the Highways business also the Hyderabad-Vijayawada and Ambala-Chandigarh Expressways have also reached 84% and 78% traffic as compared to pre-COVID levels in August 2020.

As communicated in our last conference call, GMR Infrastructure as a group is continuously adapting to the situation and are focused on falling measures to mitigate the challenges emanating from the COVID conditions.

Cash conservation through rescheduling of our CAPEX plans is one of the key areas. Maintaining high levels of liquidity is key to survival. Consolidation of infrastructures to adapt to the nature of traffic and reduce operating costs, for example, all the traffic right now in Delhi airport from terminal-1, terminal-2, they have all now been combined at terminal-3. So those terminals are shut whereas terminal-3 is in full operation.

Reviewed all budgets which have resulted in significant reduction of operating expenses which would be visible from third quarter onwards.

Ensuring maximum security and safety for our customers to restore their confidence such as adapting to effective hygiene standards at our facilities and assets is paramount in our purpose.

Lastly, on the deleverage front, in addition to the reduction in corporate debt at GIL, the promoters are also taking steps now to reduce the pledge against shares, which will further unlock value in the listed shares.

The presentation for all the financial numbers are already available with you. We are available to respond to your questions on the call and offline post the call.

Now, I would like to open the forum where my colleagues from the corporate and the businesses can answer your questions. Thank you so much.

Moderator: Thank you. Ladies and gentlemen, we will now begin with the question-and-answer session. The first question is from the line of Gautam Prasad from Deutsche Bank. Please go ahead.

Gautam Prasad: I just wanted to understand a couple of things. On the potential capital raise that have been discussed, what is the timeline that could potentially come through at? And what is the quantum that might be raised in the initial step? And in terms of timeline, how should we see that with respect to the demerger?

Saurabh Chawla: We are going for an enabling resolution, I mean, as you are aware, every year the enabling resolutions do expire and the enabling resolutions sought last year was for about 2,500 crores which is I think expiring in mid-September. In the current ATM we are taking another resolution for that. At this stage, we do not have any visibility on the capital raise. As and when the board of directors so decide, of course we will communicate to the markets.

Moderator: Thank you. The next question is from the line of Abhiram Iyer from Deutsche CIB Center. Please go ahead.

Abhiram Iyer: My question was pertaining to the land sale by the Delhi airport to the Bharti Realty. Could you let us know what the status of this is now since they are coming into September?

Saurabh Chawla: Well, I mean, the status is both the parties are fully committed to the transaction. There is no indication either from Bharti or from anybody else not to go ahead with that project. Obviously, in a COVID condition, things go on a slower plane, whether it is approvals or development side of it. So as things start to open up, we will see traction in that contract, that is about it, there is nothing which should in any way hamper the development going forward.

Abhiram Iyer: Just one more sort of follow up query is like if I compare the CPD revenues from last quarter to this quarter, last quarter, there were somewhere around Rs.3 billion, this quarter it is somewhere around 560 million, so could you let us know why there has been a drastic reduction in this specific revenue because essentially these are rents, right, so these should have been paid irrespective of whether the passenger footfall is there?

GRK Babu: Basically, pertaining to some of the CPD rentals which we have not received the payment. Since we have to pay the revenue share to the Airports Authority of India for every revenue to accrue, since there are some delays in collection especially the Bharti payment, it is taking a little more time. So, we have taken a conservative view. And to conserve the cash especially, we have not recognized the revenues… of course, going forward we will recognize as and when the cash flows improve.

Abhiram Iyer: There are not any delinquent accounts here, essentially there are not any apart from Bharti….?

Saurabh Chawla: There is no delinquency.

Moderator: Thank you. The next question is from the line of Prithvi Raj from Unifi Capital. Please go ahead.

Prithvi Raj: Is there any pressure on the receivables from any of the airlines and also is there any negotiations that is happening on your lease rentals from the DDFS in the airports?

GRK Babu: There is no pressure as far as the airlines are concerned. We have been continuously receiving the payments. Only Air India there was a little delay because earlier we used to collect the payment through IATA which has come to an end by April which they did not renew it. However, now Air India started paying the money per day Rs.50 lakhs. So, there are no issues as far as airlines are concerned which we are collecting all the payments. And coming to your second question DDFS, in case of non-aeronautical revenue, all minimum guarantees, we are collecting the payment. Only in the first two months, we have given the waiver up to June. After that we are getting all the payments.

Prithvi Raj: Second question on your demerger and listing of the businesses, is it possible to give some timeline for this?

Saurabh Chawla: I think we are looking towards filing for demerger with the stock exchange and SEBI by end of September and as per the timelines as communicated to us by advisors, it takes about a month for the regulators to respond, after which we have the ability to then file with NCLT. The process at NCLT usually takes between nine to 12-months given the COVID conditions that we are all going through. So, work is suffering from expeditious delivery perspective, but between 9 to 12 months I think the approvals from NCLT should be forthcoming.

Prithvi Raj: You also mentioned a point that you have rescheduled your CAPEX for conserving cash. So, can you give a new timeline for your Hyderabad Delhi airport expansion and Goa airport construction?

GRK Babu: Delhi airport, we have not deferred the construction program. It is because of the COVID the timelines have been shifted. The original plan was September 2022 for Delhi and we are now targeting to complete by June 2023 though we have taken approval up to September 2023 as far as the Delhi is concerned. Hyderabad, we are supposed to complete by March 2022. We are expected to close by September '22 or December '22. Both works are continuously going on.

Because of the COVID it has only slowed down for three to four months. Now it started picking up. Because of that only timelines have been shifted out.

Prithvi Raj: What about Goa phase-I construction?

GRK Babu: Goa phase-I construction is already started. Actually all the clearances have come only in January 2020. By February we have started mobilizing and March again the COVID again stopped. However, in the month of June we have started the work. We have completed the pre-monsoon works to ensure that the entire site is not disturbed because Goa receives very heavy rains. So now the things are going on and the work is completely going on as scheduled. As per the Goa government, COD was originally September 2020. Goa government has already given time up to May 2022 and that is pre-COVID. And because of the COVID, again, they are likely to give time up to six months, which is the government directive also. But we are targeting to complete the Goa project in all fairness by August 2022.

Prithvi Raj: So whatever revenue loss that happened in the last six months, is there any way government would compensate it for you in terms of aero tariff for the next control period, something of that sort, the revenue loss is a complete loss for you?

GRK Babu: Aeronautical revenue is not a loss because it is a pass-through it is only a timing difference. You are correct non-aeronautical revenue loss is a loss. But, we have been asking the government for support, especially Airport Authority of India and Ministry of Civil aviation for at least giving some deferment and also certain waivers. So far nothing has happened. We are still continuing to seek the support from the government.

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

Vipul Shah: My question pertains to this recent second tranche of transaction with ADP. So in second tranche, we have received 45.7 billion including 10 billion in primary the GIL level. So originally we were to receive 55 billion, so we have received 10 billion less, is that understanding correct and this has been replaced by earnout of 10.6 billion?

Saurabh Chawla: Yes, your understanding is correct. The 10.6 billion has been deferred and it has been linked to the earnouts. Those earnouts are linked to the EBITDA of fiscal year ’22, ‘23 and ‘24. So it is a staggered earnout. And those monies will be received at that particular point of time.

Vipul Shah: So in effect, it is a reduction in the valuation only no, if we do not need those EBITDA targets?

Saurabh Chawla: Those EBITDA targets are very reasonable if the airports are functioning the way they are functioning even today, those targets will be achieved. The whole fundamental premise was that the airport should be open. And I think that was a commercial decision taken and we believe that the airport should be open when the second tranche of ADP transaction gets done. And that is why we have agreed to a little deferred payment over there. So the quantum of EBITDA is not an issue from achievement perspective.

Vipul Shah: So, this money you must have received after 30th June, right, sir?

Saurabh Chawla: Yes, this money we received on 7th of July.

Vipul Shah: So what was the end use of this fund? So may I ask what is the net debt as on today?

Amit: If you look at the consolidated debt position as of 30th June, the net debt is Rs.26,300 crores.

Saurabh Chawla: The fund is primarily to reduce debt only.

Vipul Shah: Should we assume that entire proceed has gone towards debt reduction only?

Saurabh Chawla: Predominantly, yes.

Vipul Shah: And my second question pertains to this CPD rentals from Bharti. In reply to one earlier question, you said that they have not paid, that is why you have not recognized that income, so in this quarter they should be coming, means, we have not written off anything that I want to understand?

Management: Nothing has been written off.. The point here is that as you know that every rupee you accrue, you have to pay the Airport Authority of India cash. It is only cash flow matching to ensure that the cash flow is preserved, we have not recognized.

Vipul Shah: So in subsequent quarters, you may see a disproportionate increase in CPD rentals when this payment from Bharti comes?

Management: Yes.

Moderator: Thank you. The next question is from the line of Sumit Kishore from JP Morgan. Please go ahead.

Sumit Kishore: This net debt of Rs.263 billion, the 26% of that debt which is corporate debt, how would that we split in a vertical demerger and at the balance sheet level?

Saurabh Chawla: So, from a principle perspective, it is end use of the debt which determines the allocation, that is the principle that is used. If it is for general corporate purposes, then that allocation is based on the net assets of both the entities. So, it is divided in that proportion. That is the principle that is applied.

Sumit Kishore: My understanding was that bulk of this debt was related to energy business.

Saurabh Chawla: Predominantly but still it has to be allocated and the allocation will have to be based on these two principles. A very small portion of it will come to the airport space.

Sumit Kishore: My understanding is probably a bit rusty here but energy is making losses and highways probably is also not really making a lot of money. So, the entity ex of airports which will get listed, if it is saddled with this corporate debt, then I mean, it will be a loss-making entity to begin with and with the high leverage, is that correct understanding?

Saurabh Chawla: No, your understanding is incorrect. As I said earlier, predominantly it is towards the energy and highway businesses. I am not giving you the levels right now of what will get allocated over there to here because that is still work-in progress. When we file, you will have the pro forma balance sheet of both the airport business and also the non-airport business. So that is what I am saying. I am not giving you the exact numbers I have given you the principle. I have also indicated to you the level that predominantly it will go towards the energy and small part of it will also come to the airport.

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

Mohit Kumar: We also have Kuwait investment authority, FCCB, lying in our balance sheet. So, how this will be treated and where it is listed eventually?

Saurabh Chawla: So, our preference would be is that they use this opportunity to convert that FCCB into equity. The share prices also run up quite well during their investment period as such, but we will have a discussion with them. Right now, we have just made the announcement and we will be discussing with them as to how they would like it to be treated.

Mohit Kumar: What is the timeline, when we will get to know completely how the debt will shift to which balance sheet over next?

Saurabh Chawla: So that is what I had indicated that we are expecting to file in the third or the fourth week of September. And in that filing itself, I think most of the stuff should be visible. Like as previous analyst had spoken, that most of the debt was actually taken for the energy and the highway businesses.

Mohit Kumar: On the CPD rentals of Bharti Realty, the notes to account you mentioned that there is something linked to concept master plan approval which we are still awaiting. So where this concept master plan approval and is it necessary for us to recognize the revenue in case you do not get it, is there a risk attached to it?

GRK Babu: This is a concept master plan is basically the entire airport CPD land to land parcels we have submitted where the Bharti and other assets are coming up. So, that is a requirement. Basing on the concept master plan, it is about 120 acres or 110 acres, then subsequent individual plans will be coming up. So, in the concept master plan, they are certainly discussing because there are certainly areas which AAI is also there next to the land parcels, so, some discussions are taking place, number one. Number two, because of the change of so many officials in the AAI, it is taking more time. Otherwise we do not find any hiccups in approving the concept plans.

Mohit Kumar: Do you expect this concept master plan approval by September?

Saurabh Chawla: No, we cannot give you guidance on when it will be, it is a government body. So it should have happened now.

Mohit Kumar: There is no risk attached to this notice?

Saurabh Chawla: No risk.

Mohit Kumar: So lastly on the consultation paper for Delhi airport is what is the timeline we are looking at the finalization of the Delhi tariff order? And is there any dialogue with the regulators on the reduction of the passengers given that consultation paper I think has a higher number?

GRK Babu: As you know that we have actually filed a tariff for Hyderabad in the last quarter. I think there is a paper out for DIAL which is out and which is under discussion. So I think we have to also take into account the change in the traffic scenario for the current year and moving ahead also which will need to get updated and reflected in the tariff order. So the process is ongoing.

GRK Babu: We have already filed our replies to the regulator, because you rightly pointed out in the consultation paper for the Delhi, they are not to consider the impact of the COVID and the traffic and the ATMs and non-aero. They have also asked us to specify. So we have filed our replies with the revised traffic and ATM numbers.

Mohit Kumar: When do you expect the tariff order to be in place?

GRK Babu: We are expecting that maybe by October end the entire final tariff order should be out. So the regulator is discussing because of the COVID impact. They are also discussing to see there will not be overburden on the passengers airlines as well as the airports are not put to heavy loss. So they are working out, they are thinking in a different methodology. Even though the airports, the regulated revenue is assured, but how to consider this current situation scenario they are working out. But we have provided our information what is the expected traffic for the next four years and the ATMs and non-aero revenues.

Moderator: Thank you. The next question is from the line of Gautam Prasad from Deutsche Bank. Please go ahead.

Gautam Prasad: For the demerger, would it be correct to understand the same formula that you suggested for the debt will also be used for the split of the other liabilities, I mean, for the liabilities that are attached to a particular business, they will go there, and general liabilities will be split on a portion of the net assets?

Saurabh Chawla: There are very minimal general liabilities at the GIL holdco because truly it is not an operating company, it is more like a holdco, it only has an EPC business, and, of course EPC business will go into the non-airport vertical, right. So, there is not much there of any significance.

Gautam Prasad: And what about the contingent liabilities of GIL corporate level, how would they be split?

Saurabh Chawla: They will also move along with the businesses that it houses, right. That is how it will move.

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

Aditya Mongia: The first question that I had was related to the consultation paper for Delhi. There is a mention over there the regulator suggests that other income for the airport would be considered as aero incrementally. Just wanted to hear your thoughts from the regulator side whether one should be assuming other income to be considered as aero increment piece in that aspect?

GRK Babu: This we have already contested before the regulator saying thing. Regulator keep changing their stand on other income. If you look at it the first control period regulator has clearly excluded the dividend income, treasury income and interest income from other income for the purpose of cross subsidization. In the second control period, they say that they will cross subsidize it excluding the dividend. In third control period, again, they are taking a stand saying that entire other income will be cross-subsidized. So, we have already contested it. This matter will be taken up. Of course, in case if the regulator is not going to listen, then we are going to appeal on that. Our contesting is very simple. Any revenue which is pertaining to the other income, especially other income is we are getting on to the dividends and treasury income and some other late charges and late interest charges, etc., which are the post revenue generation, they are not part of the actual operations. So, that is our contention and we are going to fight it out.

Aditya Mongia: You may not be obviously generating, so, do you think that there would be a decision coming let us say by the time the next control period order comes in on this one?

Saurabh Chawla: In the consultation paper, anyhow we have not given estimates of other income, so, they have not considered any cross-subsidy. So, if they are still taking the same stand that entire other income will be cross-subsidized in the both control period, then immediately we are going to appeal before the TDSAT and that will be finalized before the next control period.

Aditya Mongia: Second question which I had was just to have some more clarity on the components of non-aero which you are receiving even now which are not linked to passenger clause for Delhi and Hyderabad, if you could give some clarity on that part it will be useful for us to be clear?

GRK Babu: As far as the non-aero is concerned in case of the Delhi or Hyderabad, which are not linked to passengers are basically the rentals which are pertaining to the offices and the cargo land rentals, then in-flight kitchen land rentals as well as the fuel from land rentals and the sheds and everything which we are giving. All those things are continuously built and we are collecting the payment in both airports. Passenger related revenue, of course, it is linked to the revenue generation. As I explained, the first three months we have given a waiver of MMG. And as a result if there is no revenue, no revenue share, but July onwards, we have started imposing the MMGs in a revised format and we are collecting the same.

Aditya Mongia: This was on the change in net debt for the quarter. Now, it appears as if the quantum of net debt has increased by about Rs.2,000 crores if I am not wrong whereas if I see the loss in the P&L, it is not of that quantum. So, I just thought I will check with you on how to kind of read through the QoQ movement in net debt?

Amit Jain: Your observation is right, the net debt has increased by close to about Rs.1,800 crores. This increase is mainly because of utilization of cash primarily we had in Delhi and Hyderabad airport. As you know, the CAPEX plan is underway. So it is the reduction in cash and increase in net debt are same. So the money has gone for the CAPEX for Delhi as well as for Hyderabad airport. If you look at the gross debt of March end and June end, they are same.

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

Parvez Akhtar: My question is that once this demerger happens, what are our thought process towards future growth opportunities in the airport segment and if there are any in the non-airport segment as well?

Saurabh Chawla: So the airport, of course, we have lots of opportunities coming our way, I mean, the government recently announced even further privatizations of about six more airports in India. This is in addition to we already have Greenfield development happening in Mopa and another soon to start at Bhogapuram which is Vizag. So, there is no dearth of opportunities. Recently, we were also awarded for Manila. And Southeast Asia, Asia continues to be our focus internationally. India, of course, is the prime driver. So, there is enough in our plate to grow the business over here. Having said that, we still want to be very cautious, we do not want to make some of the mistakes we made in our energy business many years back. So, we will be cautious on how we bid, we will be very cautious in having the right partners in our international business who have the domain expertise to control and manage the environment in their own home ground. So airport has no dearth of opportunities. Coming to the non-airport side, that is also something which is on our cards. We see a lot of action within the government for reforms specially in the energy sector. Ashis Basu, can you just give insight into how the government is thinking and how we are thinking in that space?

Ashis Basu: Very broadly, as you would have noticed that government is now looking at privatizing, improve efficiency operations, and much needed capital in the distribution space. Electricity amendment bill is under circulation, proposes widespread reforms, including direct benefit transfer. Power sector, as you would know, is plagued by cross-subsidies being given by discoms free power being given, which is pulling down discoms which ultimately buy power, collect from consumers, so discoms have to be healthy. So the electricity amendment bill talks of direct subsidy from the government to the consumers that will unshackle discoms from losses.

Government has already come out with the policy of privatizing union territory discoms to start with. I think it will come up shortly during this calendar year and they are looking at privatizing further. Down the line there are plans to break the discoms itself into wire ownership and retail. Odisha has already started privatizing if you are aware, Tatas have taken up a discom. So we see a lot of opportunities coming up in the private distribution space which can be value lucrative if picked up correctly. Again, as Saurabh said, we are not out there to win bids, but we will make choices which will be value-accretive for the business. We see space there. In talking hypothetically about opportunities, there would be stressed assets in the renewable sector also, there would be opportunities. So we would be very picky, but there would be plenty of opportunities as well in this space.

Saurabh Chawla: This all will be done in a demerged entity. So we do not want to combine an airport play with an energy play. They will be distinct, they will run their own businesses, have their own balance sheet. So that is how we want to derisk the whole structure and have a pure play, with each business harnessing their opportunities, given their own capital structure and costs of capital.

Parvez Akhtar: And a related question, in our estimate, when will the process for the Manila airport get completed from the government side?

Ashish Jain: This has been a fairly long process. We had submitted our bid in 2018. And there was another consortium which was actually in the status of the original proponent status. And it is only after the COVID situation began, that those talks fell through with the consortium. And after that the government has appointed us as the original proponent status. So I think we have begun the initial discussions with the government and engagement is on. So I do not think we can preclude how much time it will take given the history of what that transaction has been in the past. So I think let us give it some more time and we will come back to you with specific as it evolves.

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

Ashish Shah: My first question is on the FCCB side. You did talk about the possibility of converting the FCCB. So, just to recall the terms of the FCCB, so the conversion price was Rs.18 correct?

Saurabh Chawla: Correct.

Ashish Shah: What are the other terms associated with it as in any timeframe after which it can get converted, are all the other conditions in place for the FCCB conversion?

Amit Jain: When this FCCB was taken in December 2015, broadly there were three covenants; one was within 18-months, at that time 2015, if the price is 18, they had the option of conversion. The second was anytime after three years at a particular price, we have the option of converting it. And the third covenant is that 10-years from that time, we can repay without any repayment penalty. So, since the three years have passed, and if the price is above a particular threshold level, we have the option of getting it converted.

Ashish Shah: So the current price is above that threshold price, right, so theoretically, along with discussions with them, the option is now with you, right?

Amit Jain: Like what Saurabh has indicated, we are evaluating it, and at the right time, we will take a call accordingly.

Ashish Shah: Secondly, on the demerger process, obviously the share ratio does indicate sense on the valuation, but what is the valuation that we would have got from the independent valuers for arriving at this ratio and what is the kind of valuation that would have been assigned to these businesses, if you can indicate that sir?

Saurabh Chawla: Suresh, you want to take this? Although there is no ratio here, it is a mirror demerger, but Suresh?

Suresh Bagrodia: It is a mirror demerger. I do not think we actually are getting into valuation and any kind of ratios into it now and it is too premature. Actually, when we file the scheme, probably you will have a better view of the entire thing.

Saurabh Chawla: It is a mirror demerger. So there is no valuation per se. Although still has to be done, but it would not matter.

Moderator: Thank you. The next question is from the line of Abhiram Iyer from Deutsche CIV Private Limited. Please go ahead.

Abhiram Iyer: The question I had was with respect to the Delhi airport. It seems that there was a loan of around 400 crores that was given out this quarter. Could you let me know to which entity was that given out to? And just following from that, basically, what I wanted to understand was, how are related party loans and receivables going to be treated after demerger -- are they going to be extinguished completely?

Saurabh Chawla: So let me answer the second point first. There will be two listed entities and obviously if they transact with each other, they will have to be at arm's length, right. In any case, let me also clarify that even within the group today, if there is any transaction between two legal entities, it has to be dealt at arm's length and it has to be approved by the independent directors. And third is in the airport play… and before GRK answers that question, we now have ADP. So, in addition to the independent directors, of course, ADP will also be taking part in those decision-making being related party transaction.

Abhiram Iyer: I am just getting this from the non-current loans in the cash flow item that has been published for Delhi. This is from the cash flow statement. That is why I asked specifically. So, if I look at non-current loans it increased from Rs.8 crores in March to Rs.409 crores in June. So, just wanted to understand…?

GRK Babu: This is not the loan, it is an advance given for the equipment. It has been grouped under loans and advances. It is the equipment… for taking advance has been given.

Abhiram Iyer: Okay, got it. That is why we see a larger working capital because of advances?

GRK Babu: Loans and advances grouping has been done.

Amit Jain: Just to add on this, which was a question asked earlier, so, when we have said the reduction of cash, in the consolidated balance sheet it is captured out there.

Saurabh Chawla: And this is not a related party, right, GRK?

Radhakrishna Babu G: No.

Saurabh Chawla: It was for pure expansion.

Moderator: Thank you. The next question is from the line of Gagandeep Singh from VSJ Enterprises. Please go ahead.

Gagandeep Singh: What are your thoughts about the opportunity in Indian Railways opening up basically will be coming in of Mr. Lohani, any updates or your thoughts on that space?

Amit Jain: Let me take this till we get Saurabh connected. As far as whatever media you have seen, that is too premature, there is nothing which we are seriously evaluating. As far as the opportunity space is concerned, we keep on looking at whatever is available to us and whatever is happening around the infra environment. That is it. Nothing more, nothing less than that. So it is too premature at this stage.

GRK Babu: Mr. Lohani has been appointed basically to look at the various other businesses to consolidate it especially in the airport sector to take full charges now understanding the various aspects of the GMR businesses.

Ashish Jain: I think the railways is a very important segment for us. We have the DFCCIL project, which is a milestone project for us and we have been working on it for some time, building up strong capability on that, and given our strength in the railways segment with this project, we have been looking at other projects in that area, we have been looking at stations and if you see the projections from even the government, they are looking to open up quite a few opportunities going ahead. So we are actively looking at a wide variety of opportunities in the railways sector also. Having said that, Mr. Lohani joining us in the railways sector, that is an announcement that we have made so far and so I think it is speculation that these two points have been connected, So I think just wanted to clarify that. And also, I think we have not yet reached the stage where we committed to any investments, we shall do so only at the opportune time when we are clear about the projects and the investment requirement, etc., So as of now it is at the exploratory stage only.

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

Aditya Mongia: What I wanted to basically get a sense of is, for the transaction with Groupe ADP, is there a clause that they should be part of a listed entity platform in a certain number of years?

Saurabh Chawla: So I think, ADP is like GMR a strategic player here, and I think they are in the business for the long-term, they are not a financial investor. So their approach of course is similar to ours. We have assets, which are 50-year assets, etc., and we are in this for the long run. So I think they have a similar mindset and approach to looking at it. Having said that, I think we have some understanding with them that we will look over a period of time to see how we can give them a listing opportunity. So I think the main concern is, of course, I think, once we do the demerger, I think to that extent, we would have substantially created an entity which is an airport focused entity and not a diversified entity. And moving ahead from there, there will be option for us as we go ahead in terms of if they are interested in getting onto the listed vehicle or not, then we can explore options. I would say various options that can be explored by both the parties moving ahead as we go ahead. So the first step that we have already triggered is of course the demerger process that we have initiated.

Aditya Mongia: I just want to get it clarified. I think the team made a remark that Rs.1,000 crores of payouts that have gotten deferred basically were paid in the second tranche of it. The EBITDA level decided for the entire Rs.1,000 crores to come in as a milestone number is quite achievable. Should I interpret as this is a fairly high probability that the entire Rs.1,000 crores will be paid to us over time?

Saurabh Chawla: I think this is related to EBITDA performance in FY'23 and '24. And we believe the EBITDA level that we have agreed are fairly achievable. So you have to draw your conclusions from that in terms of how much probability you would like to assign to that, but we believe that they are very achievable targets that we have agreed.

Moderator: Thank you. Ladies and gentlemen, that was the last question. I now hand the conference over to the management for their closing comments.

Amit Jain: I would like to thank all the participants for attending this call. We as GMR management are available for any further questions. Please feel connect with us and we will be more than happy and glad to respond to all your queries. Thank you once again for joining the call. Take care. Bye.

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

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