"GMR Infrastructure Limited Q3FY22 Investor / Analyst Conference Call Transcript"
February 10, 2022

Moderator: Ladies and gentlemen, Good day and welcome to GMR Infrastructure Limited Conference Call to Discuss Q3 FY'2022 Results. As a reminder, all participant lines will be in the listen-only mode, and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded.

We have with us today Mr. Saurabh Chawla, Executive Director, Finance & Strategy. 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 afternoon, ladies and gentlemen. Thank you for joining the third quarter Fiscal 2022 Earnings Call. This is the first call of a demerged GMR Infra as a pure airport entity in the Indian capital markets. Hope all of you are doing safe and doing well.

To begin with, I would like to make some comments as far as economic recovery is concerned. As you are aware, economic recovery broadened in Q3 FY'22 and the business activities picked up pace post the effect of the second COVID wave. Substantial vaccination of the population coupled with the easing of COVID-related restrictions aided the economic activity. However, as you know, the third COVID wave hit India towards the end of calendar year '21, although cases surged in mid-January '22, the severity of the infection has been limited. However, cases have also started now to recede rapidly from its recent peak, about 0.35 million cases in early January '22 to about 0.07 million cases as of February 8th of 2022. As per experts, India's now much better prepared to cope up with the COVID waves going forward due to significant part of our population being vaccinated, resulting in lower hospitalization and mortality numbers. As such, economic impact of the third wave is also expected to be very limited as compared to the previous two COVID waves.

Before briefing you on the business performance, I would like to highlight the following key points: Firstly, following demerger scheme coming into effect from December 31, 2021, GMR Infrastructure Limited or GIL becomes India's first and the only listed airport company. We are now well poised for the next leg of our growth having built our expertise in the entire airport value chain. GMR Airports vertical has uniquely diversified beyond the airport development and operations. It hass developed towards high growth potential of asset and capital light businesses of airport adjacencies or airport ancillary service operations.

We started as an airport operator and have over the years not only increased our airport portfolio, but have also built expertise in the airport ancillary business operations by entering into joint ventures and partnerships in the businesses of duty free, car park, food and beverage, advertising, promotions, cargo, etc., The partnerships have helped us to develop capabilities and understanding of the airport ancillary businesses as well as understanding of the non-aero commercial businesses at the airport. It has now enabled GMR Airports to leverage its expertise and experience to independently operate ancillary airport businesses.

We will strengthen the GMR Airport platform as we build and scale ancillary business platforms. We will scale the platform presence across our own network of airports, and also expand presence to external and open market opportunities. We have in fact operationalized the new opportunities, for example, GMR Airports has won non-aero master concession and cargo business bids for the upcoming Goa Airport. It is also the operating duty-free business at the Kannur International Airport.

GMR Engineering & Management Services won an IT infrastructure bid for an airport in Kuwait.

Secondly, GMR has signed shareholders agreement with Indonesia's Angkasa Pura II for the development and operation of Kualanamu International Airport in Medan, Indonesia. The project scope includes operation, development and expansion of the airport over a period of 25-years. Kualanamu International Airport is an operating airport with healthy cash flows. The project marks GMR's entry into the fast growing Indonesian aviation sector, the largest in ASEAN and a high potential market. Our commitment is to transform Medan Airport into a western international hub of Indonesia.

We are seeing visible signs of fast traffic recovery. Third COVID wave hit India from the latter part of December '21 and had an impact on the domestic traffic. However, the impact was significantly lower than the first two waves. International traffic on the other hand has not got impacted as much compared to the previous waves.

Recent traffic data suggests that the third wave impact on traffic is waning. For instance, the daily average pax at Delhi airport and Hyderabad airport have turned around and has reached 58% and 56% of the pre-COVID level during the week ended February 6, 2022 respectively as compared to 43% and 49% respectively during the week ended January 23rd 2022.

International daily average pax at Delhi airport and Hyderabad airport reached 47% each during the week ended February 6th respectively as compared to 42% and 45%, respectively during the week ended January 23rd, 2022.

The data indicates that the traffic seems to have bottomed out and is recovering rapidly. Cargo traffic remains resilient and is unfazed by multiple COVID waves. Preceding data indicates that the traffic is expected to bounce back quickly as COVID third Wave is unlikely to be economically disruptive. We have seen similar traction in the previous two waves even amidst restrictions in the airline capacity by the government.

We anticipate domestic traffic to reach pre-COVID levels in fiscal year '23 and international in fiscal year '24 in our Indian airports, mainly driven by decline in COVID cases, rise in vaccination. As you are aware, cumulative COVID-19 vaccination doses have crossed 1.7 billion doses in India. Over 75% of the adult population in India has already been administered second dose and over 52% children of 15 to 18 age group have been jabbed so far.

Globally too, significant parts of the population of various countries have been inoculated with at least one dose, for example, US has reached a level of 75%, UK 78%, Canada 86%, Germany 76%, France 80%. Overall, 63% of the global population has received at least one dose. Various countries have also started administering booster doses to make the protection from COVID even stronger. This will aid passenger confidence to travel.

Easing COVID-related restrictions. Scheduled international operations are still restricted by Indian government till February '22 and the entire international airline operations from India is functioning through the air bubble arrangement. Currently, air bubble arrangements are with 35 countries. However, various countries have started to ease and remove COVID-related restrictions, with UK in particular, removing all COVID-related restrictions and similar steps are also being taken by other countries in Europe, such as Norway, Netherlands, Ireland, etc.,

The Asia Pacific region has also started to open up for travel for vaccinated passengers and traffic has begun with key markets including Singapore, Australia and Hong Kong.

Government of India continues to track these developments and is expected that they may consider allowing scheduled international operations in the near future.

Further, even on the domestic front, state wise restrictions and air travel have eased substantially with indications of further easing.

In addition to this, fleet additions by major well capitalized Indian Airlines, especially the takeover of Air India by the Tatas, and entry of new airlines, including that of Akasa in Jet Airways will further improve the traffic scenario.

Lastly, we have made significant progress in our CAPEX programs. Delhi, Hyderabad and Goa airports have achieved 53%, 69% and 54% completion as of December 31, '22. In Goa as of

January 31, '22, we have achieved 60% of the CAPEX programs, and the airport is expected to be inaugurated during August '22 in a phased manner.

I would also like to briefly touch upon the best practices and recognitions received on the ESG front. Delhi International Airport has been reaccredited by the Airports Council International (ACI) Airport Health Accreditation program (AHA). AHA validates airports health measures, implement practices that align with ACI aviation business restart and recovery guidelines and provide reassurance to passengers whilst demonstrating the airports commitment to public health and safety and grants industry recognition for excelling in safe hygiene practices.

It was a proud moment for GMR that Mr. Videh Kumar Jaipuriar, CEO of Delhi Airport, has been declared as the International Airport Review's Person of the Year. The competition was stiff, with over 70 global nominations for the award, which finally got shortlisted to 10-odd people.

Hyderabad airport was awarded the Certificate of Merit at the National Energy Conservation Awards 2021. It was also awarded with the prestigious excellency Gold Award in the Telangana State Energy Conservation Awards of 2021.

ACI result for Hyderabad airport stands at 5.0 for Q3 fiscal year '22.

The presentation with all financial numbers are already available with you. If not, it can be downloaded from the investor relations section on our website. We are available to respond to your questions on this call and offline post the call.

Now, I would like to open the forum where my colleagues from the airport sector and specific airport assets and airport corporate can answer your queries. Thank you so much.

Moderator: We will now begin the question-and-answer session. The first question is from the line of Mohit Kumar from DAM Capital. Please go ahead.

Mohit Kumar: So my first question is, what is the status of arbitration with Airport Authority of India? Can we expect the normal service to resume from FY'23 onward for revenue sharing?

GRK Babu: As far as the arbitration is concerned, it is going on and now the date have been finalized for the month of May for the purpose of cross-examination as well as the final hearing. We can expect the final outcome from the tribunal maybe in the third quarter of this calendar year. As far as the revenue share payment to the Airport Authority of India going forward, we will look at it that if we reach the pre-COVID level operations by March, we may consider, but as of today, no decision has been taken.

Mohit Kumar: Secondly, sir, can you please explain the new arrangement with Bharti Realty and how does it affect our accounting for this quarter?

GRK Babu: There is no impact in this quarter, whatever impact has already been given in the last quarter. Bharti transaction is 4.98 million sq.ft., out of that 2.78 million sq.ft. they have taken over and they've paid the entire money, I think we have explained in the last call, almost about Rs.1,100 crores has been received including the annual license fee. For 2.78 million, the annual license fees is about Rs.204 crores has been fully received for one year on end of September, that has already been accounted. This quarter, we have accounted proportionately for 3 months.

Mohit Kumar: On the FCCB, in the presentation you have mentioned that the FCCB amount is Rs. 1.4 billion, is the amount correct? And what is the conversion price of the FCCB – are the arrangement similar like earlier or there is some change?

Saurabh Chawla: FCCB amount was $300 million, which in the demerger has been allocated $25 million to the airport sector and $275 million to the non-airport sector. As you are aware, prior to the demerger, conversion was at Rs.18 per share, though it is substantially in the money and the conversion has to be simultaneous, that is that the FCCB holder has to hold to convert the both sides at the same period of time, at this stage GPUIL or the demerged entity of the non-airport assets is yet to be listed, which could happened by end of February. So, it will become very clear as to what are the pricing of both sides on the demerged entity and the holder can convert it at that particular point of time. Last but not the least, because it is deep into money. The issuer also has the right to force the conversion of the FCCB if required. Having said that, we are always in touch with our key stakeholders, the holder which is Kuwait Investment Authority has been supportive investors and we will do whatever is in the best interest of the company and of the investors.

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

Atul Tiwari: Post this demerger from GMR Infrastructure, how much of the demerged entity's debt and any other liability has been guaranteed in terms of the contingent liability?

Saurabh Chawla: So, these are historical agreements that were in place. The broad contours would be that the continuing contingent liability would be about 3,000, 3,500-odd crores going forward, where the loans have moved to the new entity which is GPUIL whereas there is continuing guarantee from GIL. Having said that, if you look at some specific cases, for example, one of the continuing guarantees towards the acquisition finance taken many, many years back to acquire 30% stake in a coal mine in Indonesia, that was an acquisition finance done for about $500 million. Today, the bank exposure over there is only $160 million, and the coal mine is doing extremely well. The current coal prices are quite buoyant. Every year, we are getting about US$100 to 120 mn as dividend flows on our 30% from that mine. Over a period of time, this exposure is going to reduce down to almost zero in next 12 to 18 months. Having said that, we are in the process of refinancing this particular facility, and in a short period of time, the guarantee given by GIL in the refinancing process will also get removed. There are few such instances which are there, which, honestly speaking, do not have any cause of any credit concern on GIL-1. But because these are historical in nature, over next six to 12 months will get removed either through divestment processes or refinancing that happen on some of those financings.

Atul Tiwari: So just to understand clearly, so the total contingent liabilities, guarantee from GIL is 3,500. And most of it appears to be on account of this one item $500 million acquisition debt taken at one point of time to finance the Indonesian asset. And anyways, that debt is running down. So once that debt gets paid fully, there will be no contingent liability, I mean, nothing substantial, right, is that understanding right, because $500 million is itself almost 3,500?

Saurabh Chawla: No, I think you've misunderstood. I had given the example of $500 million, which was a debt taken almost seven years back to acquire that mine, about 7 years back. Currently, that $500 million is down to $160 million, which I told you. So the contingent liability only remains $160 million. Similarly, there are one or two other financings in total as I said would be around Rs.3,000-3,500 crores which are there. These are assets which are well into money or have cash supporting those exposures and hence in the refinancing will get removed over the next six to 12 months, that's what my view to you.

Atul Tiwari: Will it be possible to share the breakup of console debt between Delhi airport, Hyderabad airport, Goa airport which is under construction and other assets and the corporate debt?

Amit Jain: This is quite possible. You can always contact us, but broadly if you look at the total debt today as of December in GMR Infrastructure is ~20,000 crores, ~18,000 crores is put together in airport and the remaining is corporate. So, this is the broad break-up. The nitty-gritty details you can always contact the team and information can be provided.

Moderator: The next question is from the line of Apoorva Bahadur from Investec. Please go ahead.

Apoorva Bahadur: So, at the beginning of your comments, you highlighted that we are now looking to go big in the airport ancillary service business. So if I recollect correctly in previous calls, we never really touched upon this. Just wanted to know what has changed or why this change in tactics and what sort of opportunity size do you see over here?

GRK Babu: The adjacencies business concentration has been there for quite a long time. But we were not fully doing it. Now, the concentration of GMR Airports Limited is to develop the adjacencies in airport sector especially our area of concentration is four, one is a duty free, other one is the cargo, third one is the car park, fourth one is the master concession. These are the four areas identified by the business and where we wanted to do concentration. For example, in case of duty-free, we have already started operating Kannur duty free outside GMR book. As far as the master concession cargo, recently Goa have gone for a bidding and where GMR has bidded and won the master concession of the non-aeronautical revenue as well as the cargo business. So, our endeavor is to develop all these BUs within the GMR Airports Limited and to develop these one as separate line of businesses apart from the airport operation.

Apoorva Bahadur: Would you like to put a number to this opportunity size?

GRK Babu: The number of the opportunities or numbers are not very big as of today. For example, maybe the Goa non-aeronautical revenue, the master concession and cargo may throw in the full year of operation is about Rs.100 crores. And for example, in case of the duty free of the Kannur is doing about Rs20-Rs.30 crores. As and when the opportunities are coming up including the DIAL and HIAL International, we wanted to build these businesses separate as BUs as separate plan of expertise by the GMR.

Saurabh Chawla: Just to come in over here, so, far these adjacencies are done below the concession entities, right, so, Delhi will have its own, Hyderabad will have its own. What we have decided is that we should do these businesses at the holding company level, which was GMR Airports Limited. That allows us much greater flexibility in our businesses. And as these businesses get scaled up, it also allows us to go to an offer and bid for third-party businesses. Previously, because these were housed within the concessions, that flexibility was not available, now, this is available. The market opportunity is huge. All that we are demonstrating right now is that the confidence level is high. We have learned the ropes of this business. And hence we would like to make these businesses also on a global scale. That's the guidance.

Apoorva Bahadur: So, these will be at GIL level and not GAL level?

Saurabh Chawla: No, it will be at GAL level, not at Hyderabad level or Delhi level or Goa level. It will be at GAL level.

Apoorva Bahadur: Sir, in your comments to a response to a question, corporate guarantee contingent liabilities, you said that a large chunk will fall off over the next 6-12 months either through refinance. My understanding is that Rs.2,000 crores of this relates to Rajahmundry guarantee. So, is there any possibility or any progress on realization or possibly exiting that assets?

Saurabh Chawla: Yes, so, the guarantee is about 1,000-odd crores for Rajahmundry. Having said that, there is a lot of traction as we speak with some of the divestment initiatives that we have taken. Combination of sale of equipment and land is also another possibility. So, work is moving ahead quite well. We are of course also awaiting some of the new guidances from the Government of India with respect to combined tariff for gas-based businesses and renewables like solar. That will aid further potential to such divestments going forward. So, things are moving ahead. And as I said, you should see substantial visibility of many of these transactions between next three to nine-odd months. Earlier, my indication was between six to 12 months, but some of these will happen even faster.

Apoorva Bahadur: **A**lso, now that the airport business is separate and probably two to three years down the line it will be quite free cash flow-accretive. Would you want to come out with the dividend policy so that mean there is a clarity for the minority investors as well how GMR Infra will go about distributing profit?

Saurabh Chawla: You're absolutely right. As you look forward over the next two to three years in some of the airports there is going to be significant amount of cash accretion and significant amount of free cash for equity. We will be coming out with the dividend policy. Having said that as you are aware there is one more strategic action to be taken which is with respect to the reverse merger of GMR Airports with GIL. There is still one layer in between which we would like to remove which in our agreements with Groupe ADP will be undertaken in fiscal year '25 after the testing of ratchets. So by end of fiscal year '25, GMR Airports would have reversed merge into GIL and hence that layer would also get removed, and by that time Hyderabad and some other assets should start throwing good amount of cash and hence that would be the opportune time for us to announce a dividend policy for the shareholders of GIL.

Apoorva Bahadur: There are quite a few one-off in the non-airport business like in energy and other businesses. So can you please highlight what do they pertain to?

Saurabh Chawla: Can we keep that conversation for a later date when we talk about non-airport business? It's going to be listed soon. So we will talk all about what those one-offs have been. Let this conversation be on the airport side. Now, that it's a pure airport entity. Let's talk about airport.

Moderator: The next question is from the line of Shreyans Daga from Barclays. Please go ahead.

Shreyans Daga: Congrats on good set of numbers. My question is a follow up on Bharti Realty that was asked earlier. If I recall correctly, you mentioned that the contract with Bharti Realty has not been adjusted but in your presentation it says there has been some adjustment. So if you could throw some light on that? And secondly, based on the figures, I think you mentioned there is no drawdown left from the transaction. So I guess if you could answer how much is currently outstanding from Bharti Realty?

GRK Babu: That is pertaining to the amount which we have reversed pertaining to the Bharti to the '19-20 amount which we have recognized as income in the financials and because of the delay on the contract, the payment has been received only in September, the amount of revenue recognized in '19-20 has been reversed. That is the only one of the items which is shown as reversal. As far as the Bharti transaction is concerned, 4.98 million square foot transaction is divided into two parts; 2.78 and 2.17. 2.78, entire full payment has been received by 30th September 2021 and accounted for in the books. That means almost the RSD ADC and one year of the annual license fee has been fully received and accounted. So there are no dues from Bharti as of today, enter amount has been received, whatever the amount that has been agreed upon entered into agreement and handed over. The second phase of 4.98, that is 2.16 million that will be effective, that will be taken over by the Bharti between April 2023 to September 2023, they're bound to take it over. During that period we'll get the balance payment pertaining to that land parcel.

Shreyans Daga: How much approximate amount would that be?

GRK Babu: If you consider in 2023 April, the balance 2.16 million square foot both RSD plus ADC plus full license fee, three put together will be around Rs.1,000 will be there.

Shreyans Daga: My second question relates to the average tariff. So with regards to your CPs with Airports Authority, could you give us some sense of how much is the year-on-year increase in average tariff for this year compared to the last year?

GRK Babu: The tariffs are already implemented as far as the Delhi is concerned which are under base airport charges. There is no increase as far as base airport charges are concerned. There is same number till 2024 March because this is the third control period tariffs. But when it comes to the Hyderabad airport, which has been now implemented, from 1rst April 2022 onwards, the tariffs will jump, that will be currently Rs.209 per yield per passenger will go up to Rs.430 per passenger. Thereafter, it will keep going up, substantial amount. That is we clearly provided in the tariff. That is not a percentage amount. It is clearly defined as to how much UDF will go up year-after-year. That has been provided very clearly, but currently '22-23 it is going to be Rs.430 yield per passenger as against Rs.209 currently we are charging. It is more than 100% jump will come next year.

Moderator: The next question is from the line of Mohit Kumar from DAM Capital. Please go ahead.

Mohit Kumar: Sir, in slide number 25, you've given the nine months FY'22 consol EBITDA break up. Do you have the similar number for FY'20 pre-COVID?

Amit Jain: Mohit, for all these numbers, you can directly contact us which will be very helpful.

Mohit Kumar: What is the capital expenditure you expect over FY'22 full year and FY'23 and FY'24, is it possible to share the number?

Amit Jain: Specific data points, whatever you need, you can always contact us.

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

Aditya Mongia: I had a few questions from my side. The first question which I had was on the contingent liability. Just wanted some clarity that post the rounds of refinancing that you were suggesting, let's say 12 months down the line, how much of the contingent liability will still be there?

Saurabh Chawla: Just to again, clarify. I'm not suggesting that it will be done 12 months down the line. I'm saying it will be all completed within next 12 months, number one. Number two in next 12 months, we expect zero contingent liabilities going forward. That is what our expectations.

Aditya Mongia: The second question that I wanted to ask was to response by Mr. Babu. Rs.430 which is the yield for Hyderabad for the first year, which is FY'23. Is it going to be static or is it going to be going up as he was suggesting over a five year period?

GRK Babu: It will go up in ‘22-23, '23-24, '24-25 and '25-26 March. Only in the last quarter of March 2026 it will be reduced, otherwise, every year it goes up.

Aditya Mongia: The next question that I had was more at an overall level in terms of pledging. Now, that quantum was declining as the price point was moving up. And that quantum has started to increase again, and is now close to about 40% of your overall shareholding. I wanted to get a sense of what is driving this quantum that is up? From an investment perspective, it does become an issue that needs to be discussed at some level by the company. And that's why I'm kind of seeking your opinion on this.

Saurabh Chawla: So honestly, speaking, I'm responsible for the listed balance sheet, and really cannot comment on the nature of pledges. But I can give you this comfort that it could be some blip in the interim refinancing, the trend line will only reduce over the short and the medium term, that much of assurance I can give you. The promoters are committed in reducing the pledges and bringing them to a much more reasonable number over the next few months. So I really don't know specific reason why this blip has happened. But that much I can assure you that it is not for leveraging the equity and investing in some other businesses, it would be only limited to some of the refinancing that they may have in place.

Aditya Mongia: Thank you. That's comforting. The other question that I had was that prior to the demerger in the kind of dilution that was supposed to happen on the conversion of FCCB was quite meaningful at about 20%. Should we kind of see through that kind of meaningful dilution again as a scenario if in case for GMR Infra and its current form FCCBs were to be converted?

Saurabh Chawla: While the equation remains the same, there is no change in the equation. If the conversion does take place, as you know that in the pre-demerger case, it was at Rs.18, that was the contracted value, so that deeply into money. If they were to convert, they will have to convert on both the sides of GMR Infra and GPUIL and it will be a 10% dilution of the promoters in the entity.

Aditya Mongia: So there'll be 10% dilution in GIL as it stands today if in case this event were to happen, right?

Saurabh Chawla: Correct.

Moderator: The next question is from the line of Anshuman Ashit from ICICI Securities. Please go ahead.

Anshuman Ashit: Congratulations on completing the demerger process. Sir, the first question is, can you please give us the gross debt figure for the nine month FY'22 end of the demerged GIL?

Amit Jain: Net debt which I have already given the figure was close to ~Rs.18,000 crores; the gross debt is close to about 24,700 crores for all the airport debt put together for all the assets which means that today we have close to 6,300 crores of cash in all the assets put together. That's why the net debt is ~18,000 crores.

Anshuman Ashit: And at the corporate level?

Amit Jain: If you look at the corporate, total net debt and the gross debt there's not much difference, it is about 1,900 crores because gross and net is hardly small, ~ 10 crores cash is there, net debt and gross debt at the corporate level is same.

Anshuman Ashit: Second question is a clarification. So, we currently have discontinued the revenue sharing with AAI and we intend to start the revenue sharing from FY'23 onwards. So, will we have to pay any retrospective basis also, the revenue which we haven't shared for FY'21 and '22?

GRK Babu: No, it will not be. What we explained is that if we reach pre-COVID level of operation, the management may take a call about making the payment from next financial year. The decision has not been taken. However, as far as the 2021-22 current year whatever the amount which we have not paid, that will be decided by the tribunal basing on the final order amount, either we are going to get waiver or deferment we are going to get is known. We are not expecting that we will be required to make any payment we have.

Anshuman Ashit: Sir, the next question is on the Goa airport. So, we understand that the intention is to operationalize the airport by August. So, is it on track? And secondly, when can we expect a tariff order to be issued related to the Goa airport?

GRK Babu: Goa airport is going to start the operations by August as Mr. Saurabh has explained that we will certainly have a domestic operation from September onwards full-fledged. As far as the tariffs are concerned, we have already filed our application with the regulator and we have discussed with them because normally regulator takes more than a year for a new Greenfield airport to determine the tariff. It has assured us that by the time we start the operations in August, they will give an ad hoc tariff required to meet our operational and other expenses. And after commissioning of the airport within six months, final tariff order will be expected. So, we will have some tariffs in starting of the airport. That should take care of all of our operating and other requirement.

Anshuman Ashit: On the Kualanamu airport which we recently won, so, could you give us some details upon the revenue sharing and the potential revenues which we can earn?

Saurabh Chawla: It is an airport which was in operation. In 2018, it was about 10 billion. This airport will be housed under a separate JV CO and in that GMR will hold 49% and AP II, the government entity which will hold 51%. That is the structure. And the revenue share payable by this JV CO to AP II as we have already given in the press statement is about 18% revenue share payable.

Anshuman Ashit: So, currently the airport is operational. So, can you give us the passenger figure for FY'21 if possible?

GRK Babu: I think it has been operating around 3 million in FY'20 calendar year, because of the COVID level. Currently, it is doing better; we understand is about 5, 5.5 mn they are operating.

Anshuman Ashit: Max that airport can handle is around 10 million currently without the expansion?

GRK Babu: Currently, they handle 10 million. The capacity that has been built is 12 million. After we take over the airport, we will start a refurbishment of the airport, will take the capacity to about 15 to 16 million within next two years.

Anshuman Ashit: Is there any related CAPEX also which we are required to invest in the airport when the airport is handed over to us?

Saurabh Chawla: As of today, no, because once the JV companies floated where we take 49% stake and 51% taken by the AP II, that initial equity investment from our side will be around $13 million. After that we don't have any financial commitment as of today.

Moderator: The next question is from the line of Kelvin Heng from PineBridge. Please go ahead.

Kelvin Heng: I just wanted to check if you could maybe share some color on what is the funding plan for the remainder of this year for Delhi and Hyderabad airport just in light of what is remaining from the existing CAPEX plan. so, is there a need to return to the US dollar bond market later this year at either the Delhi or Hyderabad airport level to fund the remaining outlays?

GRK Babu: As far as Delhi is concerned, we have already spent about 5500 crores and in these two months we may spend about a maximum about INR2 billion. We are still having sufficient cash more than INR 20 billion in Delhi airport. Tapping the bond market, we'll look at it depending upon the market conditions. If there is any requirement, we will certainly come to the market maybe after April as far as the DIAL is concerned. As for Hyderabad is concerned, payments have been completed for more than INR 45 billion and these two months they may spend about 1, 1.5 billion and this airport Hyderabad is going to complete the entire construction by December '22. So, balance amount will be spent in the next financial year will be around INR20 billion. Hyderabad airport as of today doesn't require any financing because we have completely tied up the entire financing. However, for any subsidiary, if there is any contingencies or any cash requirement, we will tap the market may be in the month of April onwards.

Kelvin Heng: Can you just remind me when is the expected completion date for the expansion at Delhi?

GRK Babu: That is September 2023. And you might have heard already in the newspapers, we have partially opened the new arrival terminal for Terminal 1. We will keep on opening part-by-part. September 2023 will be full opening of the entire airport.

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

Aditya Mongia: I had a few questions. A couple of them relates to the Medan Indonesian asset. Now, the government representatives from Indonesia or the minister over there actually have talked about fairly large numbers of investment that GMR airport would be doing in this project over time. It would be useful if you could quantify that amount to us, for us to get a better sense of how much would be the outflow over a period of time into this project?

GRK Babu: I am sorry, I couldn't understand. Are you referring to Medan project?

Aditya Mongia: Absolutely. In Medan project, let say over a certain period of time how much would be the investment. I understand at the start that it won't be there. But over a period of time how much would be the investment will be going in to that project?

GRK Babu: The entire lifespan is about 25 years. The total estimated CAPEX over 25 years will be in the range of $3.2 billion to $3.5 billion.

Aditya Mongia: This $3.2 billion, $3.3 billion is equity plus debt?

GRK Babu: Total CAPEX. So, as far as we are concerned as per our estimates of the initial equity that they are putting in and there won't be much requirement from the promoters, it will have a sufficient cash flow to take care of its ownexpansion like Hyderabad.

Aditya Mongia: Just to clarify on this one, when you say $3.2, $3.3 billion, will this be from an equity perspective whatever that amount is, will be shared between the two entities which are 49%-51% shareholders?

GRK Babu: So it is a JV company will incur.

Aditya Mongia: A related question on Indonesia, should we be assuming that it'd be throwing cash in initial few years when you're not doing any CAPEX and the volume level are normalized?

Saurabh Chawla: Just to clarify over here… I think you are misunderstanding. What GRK Babu is saying is that the total development cost of CAPEX over 25-year period. I think your question is, how much of equity investment will go into it. Correct me if I'm wrong.

Aditya Mongia: It would be a good number to be having as to how much would GMR from an equity perspective be investing let's say over the 25 year period in this asset?

Saurabh Chawla: Well, 25 years is a little longer period for me to give you guidance on but over the next five-odd years, where bulk of the development will happen, our investment will not be more than US$100, 120 million. Obviously, the JV partner will also contribute in that and the balance will be leveraged, that will be taken. And this is an operating airport, right. So, the internal accruals will further supplement any requirement on the development side.

Saurabh Chawla: It's a pretty limited equity investment in that airport?

Aditya Mongia: And a related question that I was asking was, should we be assuming that there would be internal accruals in this project at let's say, once it comes back to pre-COVID levels even after the revenue share that you have promised?

Saurabh Chawla : Yes, it has sufficient because the revenue share payable is only 18% and it has brought the good revenue, and our expertise are going to be used for development of a lot of non-airport revenue.

The project itself will throw a good amount of cash that could be plowed back for expansion what Saurabh has said instead of resorting to the shareholder.

Aditya Mongia: A subjective question from my side, it seems that in Goa and Indonesia, both appear to be good investment prospects for you. Would I be wrong in saying that Indonesia can be even better than Goa from the perspective of the value generation that happens over time given the terms because obviously, Goa has a higher revenue share also?

GRK Babu: That is an obvious answer.

Saurabh Chawla: Potentially, I would say, yes, and I would attribute to certain geographical attributes that Medan brings to the table. So if you look at the location of Medan, it is actually in direct competition with Changi and Kuala Lumpur. And if you look at the traffic flow from Europe into that part of the world, this can be an alternate hub to these two destinations, and hence can be a very meaningful play going forward. But that's the thought process in which we also identified this as a destination. And that's how we had invested there. Now, that is as far as geographic locations and traffic, but you should also look at Goa from the real estate side of it. As you're aware that airport is not merely earning direct regulated earnings, but also the non-tariffs related, which could be the non-aero and also the real estate side of it. Goa offers a very compelling real estate side of it. It is a fully environmentally approved land parcel around that for hospitality development, which, as you may be aware, Goa struggles to find hospitality rooms given the nature of environmentalists in that part of the world, so you don't have hotel rooms coming up, but you have villas coming up, and those villas are extremely expensive. So you have to view it more holistically. But yes, Medan, of course, offers a very compelling proposition to airlines as an alternate destination into the gateway of Southeast Asia.

Aditya Mongia: I would assume from what I know that there will be more prospects beyond Medan for you and other operators to be bidding for in Asia, given the drive towards privatization that is happening over there also and business model is uncertain, I completely agree but there is also an opportunity. From a funding perspective, I also see that from a GMR airport perspective, that is still a standalone debt that is there. And I'm trying to kind of grapple as to whether there is enough support that you would be having given the opportunities that may be coming up in India and Asia. So if you could give us some sense of how you are taking through from an opportunities perspective and from the perspective of you actually bidding for them?

Saurabh Chawla: Well, that's a very fair question to ask and the response is multifold. Number one, I think we had alluded to earlier in our presentation that many of the adjacent businesses are now being brought out of the concession entities into the main entity which is GMR Airports, right. So, that entity will no longer be just a merely holding company, it will be an operating company with many SBUs, and these are very fast growing businesses, which will be there. So, it will throw up cash and can also have financing capacities available at GMR airports going forward. That's number one. Number two is let's look at various opportunities that are coming in India and in Southeast Asia. Most of them are Brownfield airports do not require too much of equity outlay, requires more efficiency and, and has the ability to raise without recourse debt for the development of those concessions. We intend to play that strategy out going forward. Third is as you are aware, there are many assets in our book now, which are now maturing. So, we have the option and I don't want to be pinned down on that, but we have the option to monetize some part of equity of a mature asset and take that money and put into a development and development asset. So, from arbitrage perspective, earn much higher returns on the same capital as I look at opportunities coming both in India and abroad. Last but not the least is you have to look at also that GMR airports is a joint venture. So, it is GIL which will contribute some equity and ADP will contribute some equity. But in our scheme of things like we did in the case of Delhi and Hyderabad, the early days. There is a lot of tailwind by many of the sovereign and pension funds who want to actually participate on the equity side of it at the asset level itself. So, a combination of many of these things will play out which ensures that the current perceived lack of capacity of GMR airports because of the debt of 3,000 crores on the GMR asset book does not become constrained and we do not lose out on the growth opportunity going forward. So, it will be a combination of these things that will be playing out. I cannot give you a very specific answer because that will be a little market sensitive from my perspective.

Aditya Mongia: Lastly, on the corporate debt that is sitting at this point of time, obviously, there is no way of servicing it given the state of affairs at the airports from a CAPEX perspective. Is there an end game over there that you would want to kind of elaborate on to take that kind of stress out?

Saurabh Chawla: So, we will be refinancing that debt, that is a process which is already underway, that will be refinanced. Like I told you earlier, the stress comes because if it is not an operating entity, in three years' time, GAL will be a very vibrant operating entity which has significant businesses in duty free, in F&B, in cargo across India and across Asia. So, we need to keep that into mind. It will be very easily available to manage that debt. You also must take into cognizance that GAL also gets a certain operating fee and a management fee from the assets that it manages. Going forward, that will continue to play out. So there will be significant amount of predictable assured management fees coming from the airport assets to GAL for it to manage its own balance sheet. So, again, multiple streams of income, cash income and also recycle of capital and partnership will play out as GAL looks for further growth opportunities in India and Southeast Asia.

Aditya Mongia: I hope that once things become a lot better and the reverse merger happens, it will be fantastic entity to see in terms of cash flows.

Saurabh Chawla: Absolutely, that is the journey that we are looking at. It is just a bridge to substantial value creation in fiscal year '24-25 when all contracts get settled.

Moderator: The next question is from the line of Apoorva Bahadur from Investec. Please go ahead.

Apoorva Bahadur: Quickly I think you highlighted that the conversion ratio for FCCB will be around 10% and dilution at GMR Infra level. Can you throw in maths over here how does that change from 20% to 10?

Saurabh Chawla: Can you just take this question offline and I would rather discuss it? It's just a math, maybe Amit can send you on this. The different price points for the airport and different price points for GPUIL, so he will share you the math as to why the promoter dilution is around 10%-odd.

Moderator: As there are no further questions from the participants, I would now like to hand the conference over to Mr. Saurabh Chawla for closing comments.

Saurabh Chawla: Thank you everybody for participating in our Q3 call. Really appreciate your time. The IR team is available offline to answer your specific questions especially those which we said that we will give you the further details. So please reach out to both Amit and Bishnu and they will answer all questions, and look forward to your inputs going forward. We are. sensitive to the inputs by the capital market players and I can assure you that our strategy will get tweaked because we believe in value creation and as on date any value created 63% do go to the promoters. So we are working towards that, we are working towards asset light, capital light business model. The big CAPEXs are getting over. New opportunities will come but those will be mostly in partnership, so they should start yielding good equity value for the shareholders. Last but not the least, the cherry on the pudding is the adjacent businesses that I've talked about, look at it seriously, look at what the duty free throws at Delhi airport and Hyderabad airport and when you start to extrapolate that into an independent business unit at GAL with the world as a platform, you will get a very different outlook. So look forward to interacting with you offline and take care and be safe. Thank you so much.

Moderator: 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*.