



GMR Airports Infrastructure Limited
(formerly know an GMR Infrastructure Ltd)
Q3FY23 Investor / Analyst
Conference Call Transcript
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Moderator: Ladies and gentlemen, good day and welcome to GMR Airports Infrastructure Limited Conference Call, to discuss Q3FY2023 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 and 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 opening remarks. Thank you and over to you, Sir.

Saurabh Chawla: Thank you. Good afternoon, ladies, and gentlemen. Thank you all for joining the third quarter fiscal '23 earnings call. During Q3FY23, global economies continued to face headwinds on multiple fronts, including inflation and high interest rates. However, Indian economy continued to show resilience. Inflation levels receded as WPI inflation stood at 4.95% in December 2022 from 10.7% in September 2022. The WPI inflation further eased to 4.73% in January 2023. GST collections continue at high levels, given the post-COVID economic recovery as monthly collections for January 2023 stood at INR 1.56 lakh Cr. Other economic indicators are also encouraging. Recent Union Budget announcement is also expected to act as an enabler of growth. Capital investment has been increased for the third year by 33% to INR 10 lakh Cr which is equivalent to 3.3% of GDP. On the Airport Sector, 50 additional airports, heliports, water aerodromes and advanced landing grounds will be revived for improving regional air connectivity. This will provide huge opportunity for airport operators, including GMR.

Regarding our performance for Q3FY2023, GMR Airports Infrastructure Ltd.'s Gross Revenue increased by 29% YoY to INR 1,766 Cr in Q3FY2023, driven mainly by traffic improvements in our operational airports. EBITDA decreased by 26% YoY to INR 530 Cr, mainly as we started paying Monthly Annual Fee w.e.f from April 2022, prospectively. However, on a QoQ basis, EBITDA increased by 12%. Amongst our operational airports, Hyderabad Airport, over the past three consecutive quarters, has contributed positively to our Consol PAT. During 9MFY23, Hyderabad Airport registered a PAT of INR 91 Cr vs loss of INR 72 Cr in 9MFY22. Please note that Hyderabad Airport EBITDA and PAT for 9MFY23 and Q3FY23 include one-off loss of INR 60 Cr from settlement of derivative instruments related to partial repayment of bonds due in 2024 and 2026. Adjusted for this one-time loss, Hyderabad PAT stood at INR 151 Cr for 9MFY23.

I would like to highlight the following key points:

As you know, we have signed a deal with Aboitiz InfraCapital for divestment of our stake in Cebu Airport. During the quarter, we received ~ INR 1390 Cr against the divestment. It is important to note that we would continue to operate as the Technical Services Provider to Cebu until December 2026 and would also be entitled to additional deferred consideration based on the subsequent performance of the Airport for the same period.

GMR and National Investment and Infrastructure Fund (i.e. NIIF) decided to enter into a financial partnership as per which NIIF will be investing in three airport projects, including Mopa (Goa) and Bhogapuram (Visakhapatnam, Andhra Pradesh) airports. The transaction envisages NIIF making a primary investment of INR 631 Cr in the form of Compulsory Convertible Debenture (CCD) in GMR Goa International Airport Limited, a special purpose vehicle to run and operate the New Goa Airport. This investment shall be NIIF's first investment, as I said earlier, in an airport asset in the country and it will be the first direct investment in the state of Goa.

On the overall passenger traffic for the GMR Airports, Q3FY23 represented a strong growth in traffic. Passenger Traffic was up by 37% YoY to 25.8 mn in Q3FY23 with Delhi and Hyderabad experiencing a good surge in traffic. Domestic traffic at Delhi Airport reached a high of 102% of 2019 traffic levels during Dec 2022 aided by travel from friends and family and tourism, while International traffic touched 86% levels. Traffic from North America, the Middle East and Europe continue to grow beyond the pre-Covid levels. Recovery is mainly aided by traffic to and from South East Asia countries, including Thailand, Singapore and Malaysia.

At Hyderabad Airport, domestic traffic reached 94% vs 2019 traffic levels during December 2022 again aided by friends and family travels. Corporate travel has picked up but still lagging behind 2019 levels. International traffic on the other hand has touched 90% mark and the recovery is supported by the rising South East Asian tourist traffic, mainly Singapore and Thailand. Singapore Airlines converted a few narrow body flights to wide body while Thai Airways resumed wide body operations out of Hyderabad.

On progress w.r.t capacity expansions in our airports, Delhi, Hyderabad and Goa airports achieved ~80%, 81% and 98% completion as of December 31, 2022. As on January 31, 2023, Delhi, Hyderabad and Goa airports achieved ~81.6%, 82% and 98.7% of the capex progress. At our Goa Airport, domestic operations have already commenced from January 5, 2023 and works related to International area are in progress. IndiGo, Akasa, GoAir, Spicejet and Vistara are already operational. Goa is currently serving 10 domestic destinations. International flight are expected to start from March 2023 with commencement of the Summer Schedule. In our Hyderabad Airport, the East Pier straight portion which was handed over during Q1FY23 was commissioned in Q2FY23 while the West Processor (i.e. on International side) was handed over during Q3FY23. Delhi and Hyderabad Airports are targeted for completion in September 2023 and March 2023 respectively.

On Airport Land Development, as you are aware during Q2FY23, Chalet Hotels Limited was awarded the contract by DIAL to develop a Hotel with ~350-400 rooms at the T3 Terminal. The transaction is progressing in line with contractual terms. In Hyderabad Airport, pursuant to the execution of Sub-Lease deed with the Amity for 20 acres land during Q2FY23 for setting up University at Aerocity Hyderabad, the land has been handed over now to Amity. Amity also has an option of additional 5 acres land for school to be exercised within 12 months from the date of execution of Sub-Lease Deed for the 20 acres land. In Goa Airport, we have initiated land monetization for two hotel plots next to the New Goa Mopa International Airport Terminal building. We expect the transactions to be closed during the current quarter as we go forward.

In Crete Airport, we achieved physical progress of 17.76% as of December 31, 2022. Works are progressing on multiple fronts of Runway, Taxiway, Apron, Terminal Building, other buildings and on the access roads. Terminal building base slab concreting work has been completed, concreting work on columns and mezzanine level slab is in progress. Flood protection work is in progress in airport and access roads.

On the Medan Airport, Angkasa Pura Aviast (APA), the Joint Venture Company of GMR Airports Limited and Indonesia's state-owned airport operator Angkasa Pura II (AP2) formally took over the operations of Medan airport beginning July 2022. On a YoY basis, traffic is up 3.7x to 1.45 mn pax in Q3FY23. Domestic daily pax has already reached ~97% of the pre-Covid level while international pax was over 89% as of December 2022. Currently, 18 domestic and 6 International destinations are connected. As you are aware, Ministry of Transport (Indonesia) has already approved rise in Domestic Passenger Service Charges by 27% and International Passenger Service Charges by 16% w.e.f August 1, 2022.

In Nagpur Airport, we expect execution of the Concession Agreement at the earliest. In Bhogapuram Airport, EOI has been received for EPC contractor selection and RFP has been issued to the shortlisted parties. Land acquisition is in advanced stages of completion by the government. R&R works are in progress. On Financial Closure, project appraisal are underway by consultants appointed by lead lenders.

On the ESG front, our endeavour is to reduce the impact our operations have on the surrounding environment by implementing best-practice environmental controls. Environmental protection and sustainable development has always been our high priority. Our Delhi and Hyderabad airports have maintained an ASQ score of 5 during the quarter. Delhi Airport was also awarded the “Busiest Airport of the year (FY22)” and the “Best Sustainable Airport” at the ASSOCHAM 14th International Conference cum Awards on Civil Aviation. Hyderabad Airport won the Gold Recognition at the CII Excellence Summit in Nov’22 for its Business Excellence journey.

The presentation with all financial numbers are already available with you. If not, you can download it from our IR section of our website. We are available to respond to your questions on this call and offline, subsequent to the call.

Now, I would like to open the forum for queries that will be addressed by my colleagues from the corporate and the business teams. Thank you so much.

- Moderator:** The first question is from the line of Mohit Kumar from DAM Capital. Please go ahead.
- Mohit Kumar:** Yes. Good afternoon, sir, and good to see a very, very good recovery in traffic. So, three questions on my side. First two questions on the financials. First is, can you explain the exceptional income booked during the quarter. In the notes to accounts, nothing you mentioned about this particular income of INR 3 billion which are booked.
- Ashok Ramrakhiani:** Hi, this exceptional income is on account of the disposal of partial equity investment in the Cebu. So, that has been recorded as an exceptional item in the GIL financial statement.
- Mohit Kumar:** Okay. So, part has been booked in this quarter, part of the last quarter. Am I right? -- understood.
- Ashok Ramrakhiani:** No, partially booked in this quarter. Balance unlocked shares we will record in 2024.
- Mohit Kumar:** Understood, sir. Secondly, you just spoke about INR 600 million, which you booked the exceptional expense in Hyderabad regarding some derivative transaction for the bond. Has it been booked entirely in this quarter? Or it is for the entire nine months. It looks like the number for a quarter. Can you confirm that?
- GRK Babu:** This is one-time charge. This is basically the Hyderabad Airport has undergone liability management. We have repaid \$140 million of the international bonds by raising the domestic paper. In this perspective whatever the derivative instrument to we have already created versus amount realized the difference amount has been charged to P&L account, but there is no cash outgo as such. It is only a notional entry.
- Mohit Kumar:** This happened in this quarter, right, in that entire amount?
- GRK Babu:** That amount is this time, only onetime...

- Saurabh Chawla:** It's not that.. For the same transaction, more bookings will be done during...
- GRK Babu:** Only this quarter
- Mohit Kumar:** Just asking because Hyderabad airport EBITDA is lower Q-o-Q, and I think the operating expenses still be higher. So this -- I'm assuming that this 660 mn say, INR 60 crores expense have been booked in the Hyderabad airport in this quarter. Is that right?
- GRK Babu:** Yes. Correct.
- Mohit Kumar:** Understood. Lastly, sir, what is the capex and debt capitalization possible for Delhi and Hyderabad Airport, especially in FY '24?
- GRK Babu:** No, the entire Hyderabad airport will be completed the capitalization by June '23, and Delhi Airport is expected to complete by September '23. The capitalization will happen in '23, '24 financial year.
- Mohit Kumar:** Can you say the capex number capitalization in June '23 at Hyderabad and the corresponding debt to that?
- GRK Babu:** The total Hyderabad capex program is about INR 6,700 crores. So, the entire amount will, of course, partly, is getting capitalized, and the full capitalization will be done by June '23, is about including what has already been capitalized, will be around INR 6,600 crores. The entire debt has already been tied up and the money is already here in the bank account. There is no need to further rise any further debt.
- Mohit Kumar:** And on Delhi's 100 billion, is that the amount?
- GRK Babu:** Sorry?
- Mohit Kumar:** On Delhi and Delhi, the amount is INR 10,000 crores.
- GRK Babu:** It is about INR 11,500 crores.
- Mohit Kumar:** Understood, sir. Thank you.
- Saurabh Chawla:** Thank you, Kumar.
- Moderator:** Thank you. The next question is from the line of Aditya Mongia from Kotak Securities. Please go ahead.
- Aditya Mongia:** Got that. So, I'm just trying to kind of focus more on the non-aero part of the Hyderabad Airport on a per pax basis. It seems that these numbers over the last three years have quite meaningfully improved, whether we see non-aero or retail. If you could explain why this kind of uptick is happening and should we not assume further uptick happening from here on, as you open up your new retail space at the Hyderabad airport?

- Rajesh Arora:** See this... Increase or improvement that we are seeing in non-aero revenue in Hyderabad. It's a combination of a couple of things. One, the quality of passenger traffic has improved. So, that is one contributor. Secondly, a bit of refresh on the retail side, which has happened. And also, we have kind of expanded the retail area. If you would have travelled recently to Hyderabad, you would have seen on the line side, there are a number of retail outlets, including F&B outlets, which have come up. So, these are the three main contributors for the improvement in the non-aero revenue over the last few quarters that we would have seen. And we firmly believe that this is the trend we should keep seeing it as we go along.
- Aditya Mongia:** Okay. And just a follow-up question, let's say, on a 9M basis, retail spending at Hyderabad is net INR 60-odd per pack versus being almost INR 110-odd in Delhi. Do you see a sense of whether these numbers would be converging over time? Because obviously, as it was larger earlier and it is now lesser.
- Rajesh Arora:** Yes. So, each of these airports, all depends on the quality of the passenger traffic. Just to point in reference, when you look at Delhi, the sales per pax, SPP what we call it for duty free business is close to about \$13 and talking about more in terms of dollars and Hyderabad is close to now about \$7 to \$8. And -- but then we have seen that this has moved up from \$4 to \$8 in Hyderabad and similarly in Delhi from \$8 to \$13. So that's again, so these numbers as the quality of passenger traffic keeps improving with their offerings, you'll definitely see this numbers moving up. Now, whether Hyderabad will be able to do exactly like Delhi, I think it is dependent on the quality of passenger traffic, as I said.
- Aditya Mongia:** But would it be fair to assume that the handicap of there being, let's say, limited spaces, was a lot more in Hyderabad and Delhi so far and if that will start opening up a lot more in Hyderabad...
- Rajesh Arora:** Yes. Right. You're right. I think since we are now expanding our footprint in Hyderabad. So, that is going to be one enabler for... Also, you need to keep into perspective as I keep highlighting to you is, as we become whether international hubs or regional hubs as -- and we -- I mean, yesterday's announcement by Air India is very heartening towards that step as they start to gather pace of you know long distance you know wide-bodied aircrafts that fly like Rajesh mentioned the quality of a passenger the claw back to the spend that usually happens in other international heads starts to come back to the Indian airports and this will have, I would say, a long-term improvement in improving our SPPs. There could be some dips or surges on a quarterly basis, but on a long-term basis, it's a very positive, I would say, forecast as we go forward.
- Aditya Mongia:** All right, sir, last question from my side. What are the refinancing rates that are to on offer at the current repo for Delhi and Hyderabad?
- GRK Babu** You are talking about the refinancing?
- Aditya Mongia:** Basically, if you -- the fact that you are probably nearing the end of your construction period, is there a scope of interest rates going down for these assets?

GRK Babu: No. See, the Hyderabad airport is concerned that whatever the fund required for the expansion has already been raised. And we'll keep refinancing the bonds which are falling due as and when. So for example, 2024, the bond is falling due about \$300 million. Out of that \$140 million, we have already done the liability management in December by raising domestic paper at 8.8% quarterly interest. So -- and we are also planning to have another liability management shortly. And the bonds will be refinanced as when they fall due. And depending upon the cash flows are sufficient, we may repay them otherwise we go for the refinancing.

Aditya Mongia: So, the 9% below rates are possible in the...

GRK Babu: We've already got it 8.8% quarterly interest in Hyderabad. It is over INR 1,150 crores we have raised.

Saurabh Chawla: The key over here is not 9% or 8.8%. The key is, what is the saving that we have versus the quoted dollar bonds that we have outstanding. So we need to look at from that perspective. Again, there has been recently been some disruption on the Indian paper for very different reasons. Obviously, the Indian Name does get impacted in the credit markets. So we use that as an opportunity in our liability management. And we go from the long-tenor bond. So December, what we did that INR 1150 crores was a 10-year basis. And the interest rate is fixed for five years.

Aditya Mongia: Got that. Those are my questions. Thanks a lot for your responses.

Moderator: Thank you. The next question is from the line of Imtiaz from Barclays. Please go ahead.

Imtiaz: Thank you very much. I just have one question with -- and this is with regards to the status of your legal issue with regards to the force majeure, your revenue share between 2020 and 2021. What's the status on that? When do we expect some form of final resolution?

GRK Babu: The status is basically the cross-examination is going on right now. That is arguments by the lawyers are going on. It is expected the timelines have been extended up to August 2023. So, we expect the final award before August, I think about July month.

Imtiaz: July. Okay, thank you.

Moderator: Thank you. The next question is from the line of Nikhil Abhyankar from DAM Capital. Please go ahead.

Nikhil Abhyankar: Thanks for the opportunity. I got a couple of questions. So, you mentioned in your opening remarks about the Amity University developing a parcel of land in HIAL. So, can you give some more details on this project?

Saurabh Chawla: This is basically university which is being set up by them on a 20-acres plot. So, the entire payment to more or less have already been received. There is some deferred payment will have to be received. It is a long-term, and they are setting up the university. We have already started

operations on make shift. And within one and a half years to two years, the entire campus will be ready.

Nikhil Abhyankar: And what are the payments that we will receive, sir?

GRK Babu: It is about INR 80 crores to INR 100 crores basis...

Nikhil Abhyankar: Annually?

GRK Babu: No, that is the full amount for the entire year.

Nikhil Abhyankar: Okay. And sir, the second question is regarding the CCD 631. So, after the conversion of the debentures, what will be the stake of NIIF and Mopa?

GRK Babu: It is 49%.

Nikhil Abhyankar: 49%.

Saurabh Chawla: Yes, up to 49%. So it could be lower depending upon how the project progresses.

Nikhil Abhyankar: And okay, sir. That's all from me.

Moderator: The next question is from the line of Lakshmana Rao Meka an Individual Investor. Please go ahead.

L.R. Meka: I just want to know about Nagpur Airport, and why it is taking so long to start operations?

Saurabh Chawla: No Nagpur airport after Supreme Court final judgment, the government again has filed for a curative petition, so it will be disposed off. It's likely to be disposed off in another one or two months.

L.R. Meka: Thank you.

Moderator: Ladies and gentlemen, this was the last question for today. I would now like to hand the floor over to the management for closing remarks.

Saurabh Chawla: Thank you, friends, thank you for joining our call for the Q3 financial results. The team of course, is available offline. Should you have any specific queries regarding our strategy, our balance sheet, would be happy to answer. Thank you so much for joining in. Thank you. Bye-bye.

Moderator: Thank you. On behalf of GMR Airport 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.