"GMR Infrastructure Limited Q4FY22 Investor / Analyst Conference Call Transcript"

May 18, 2022

Moderator: Ladies and gentlemen, good day, and welcome to Q4FY22 and FY22 Earnings Conference Call of GMR Infrastructure Limited. 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 call, 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 other senior management from the business. Before we begin, I would like to state that some of the statements made in today's discussion may be forward looking in nature and may involve risks and uncertainties. Also, recording or transcribing of this call without prior permission of the management is strictly prohibited.

I now hand the conference over to Mr. Saurabh Chawla for the opening remarks. Thank you and over to you Sir.

Saurabh Chawla: Thank you. Good afternoon, ladies and gentlemen. Thank you all for joining our fourth quarter fiscal year 22 Earnings Call of GMR infrastructure. Hope all of you are doing safe and are keeping well.

To begin with, I would like to just make a short comment on our economy. It has been recovering quite smartly, especially after the post third COVID Wave. During Q4 FY22, the economy displayed stability despite global headwinds arising from geopolitical tensions and interest rate hikes in the US. India's GDP growth rate for fiscal year 2022 is expected at 8.6% compared to a contraction of 7.3% in fiscal year 21. Going forward, according to IMF estimates, India's nominal GDP is expected to cross $5 trillion by fiscal year 2029 and as you are fully aware, growth in GDP implies a multiplier effect on the aviation industry like ours.

Coming to our performance for Fiscal Year '22 GMR Infra's net revenue increased by 37% year on year to INR 4,377 crores, while EBITDA increased by 167% year-on-year to INR 2,103 crores in Fiscal Year '22 mainly driven by traffic improvements in our Indian operational airports. Net loss after tax is also reduced from INR 1,243 crores in Fiscal Year '21 to INR 752 crores in Fiscal Year '22.

I would like to highlight the following key points with respect to our airport business:

Firstly, on the Nagpur Airport, Supreme Court of India has upheld the judgment of the Nagpur bench of the Mumbai High Court that had previously quashed and set aside the letter issued by MIHAN annulling the bidding process for the Nagpur airport. Accordingly, the authorities are expected to execute the concession agreement at the earliest for Nagpur airport with GMR.

Secondly, as culmination of a process. Hyderabad airport has received a letter of confirmation from Ministry of Civil Aviation extending the term of the concession agreement for a further period of 30 years that is from March 23, 2038, to March 22, 2068.

Thirdly, we have made significant progress on our CAPEX programs related to expansion. Delhi, Hyderabad and Goa airports have achieved 61%, 73% and 72% completion as on March 31, 2022. As you know Goa airport is expected to be inaugurated during August 2022 while Delhi and Hyderabad is targeted for completion in September 2023 and December 2022.

In Crete airport, approximately 11% financial progress has been achieved with the completion of 76% of earthworks in the airport area and 30% earthworks in the access roads as of March 31st. We are on track to achieve the completion target at our airports.

Fourthly, the traffic recovered rapidly, especially the domestic traffic post third COVID wave which hit India in December of 2021. Domestic traffic at our Indian airports has already reached near to full recovery while international traffic is fast catching up, as scheduled international operations began only on March 27, 2022. International daily average passengers in the Delhi Airport and Hyderabad Airport have reached 65% and 74% during the week ended May 8, 2022, respectively. Cargo traffic remained resilient and is unfazed by the multiple COVID waves.

In our international airport business, Cebu Airport is in a recovery phase. Its domestic daily pax is now almost 50% of pre-COVID level, while International is at a nascent 7% as of April 2022.

Overall connectivity in our Indian airports have also increased. In Delhi Airport 77 domestic destinations are now connected as against a pre-COVID level of 72.

On the international front 49 destinations are connected as against pre-COVID level of 78 which will significantly increase as already indicated that the scheduled international operations have just begun from May 27, 2022.

In Hyderabad 70 domestic destinations are now connected as against a pre-COVID level of 55 and on the international side 16 destination now connected which is equivalent to the pre-COVID time.

At our Delhi Airport as an interim arrangement, we and the airport authority of India have entered into a settlement agreement for the payment of the monthly annual fee with effect from April 22, 2022, prospectively.

On a new airport wins, Medan Airport that is Medan Airport in Indonesia, the demobilization and preparations have begun to ensure that the SPV starts operating the airport by beginning of Q2 of fiscal year 23.

Going forward traffic recovery, we expect that a traffic recovery will gain further momentum, mainly driven by the start of the scheduled international operations. Significant population in various countries are fully vaccinated. For example, India is 64%, US about 66%, UK 74% Canada 83% and globally if we look at it, it is about 61%. Countries have also started administering booster doses which will further boost passenger confidence to travel.

Fleet addition by major Indian Airlines and the takeover of Air India by the Tatas. entry of new airlines such as Akasa including restart of Jet Airways is further likely to boost traffic. In our view, possibly the fourth wave impact may be limited as economic and air traffic recovery post Second and Third waves have been quite rapid.

On the ESG front, sustainability has always been an integral part of GMR's corporate ethos, and the business strategy. It is our strong belief that economic growth and resource conservation are complementary goals to support sustainable development. We at GMR have adopted strategies and methods to reduce adverse impacts on the environment from our operations. Some of our operations are carbon neutral, and we monitor our activities carefully to analyze and further reduce the emissions.

The presentation with all financial numbers are already available with you. If not, you can download them from our IR section of 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 corporate side and the businesses can answer your queries. Thank you so much.

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

Mohit Kumar: Congratulations on getting the concession for Nagpur airport back. My first question is given that the world is getting normal, and how do you see the pace of monetization of the balance of land, especially in Delhi, and Hyderabad.

Saurabh Chawla: So, honestly speaking, which we have highlighted in many of our previous calls also, at this stage, we are not looking at further monetization of land. There was an option that had happened in which Bharti had one for a potential development of 10 million square feet in two parts 5 million first and the second 5 million. We will wait for that development to take off before looking at any further monetization, but as a strategy going forward honestly, our focus is now going to shift from monetization of land to self-development, build offices and commercial properties for build-to-suit customers, that would be our focus going forward. There could be some intermittent land parcels to be monetized but that is not a an ongoing long term strategy as far as Delhi Airport is concerned. It is pretty much similar in Hyderabad although in Hyderabad, we have few land parcels that have been now contracted to be delivered to third parties, these are in the area of education, they are also in residential basically the co-habitation functions which are there in Hyderabad, also long-term leasing of our SEZ lands for industrial development. So, Hyderabad of course, will follow a mixed use but again, the broader strategy also would be is still you know, as we go forward, enter into the into the arena of self-development, which after development, we can monetize those assets and then get the requisite margins on those developments, which today we are missing in our business.

Mohit Kumar: Understood sir, mainly sir on the revenue share, so if I'm correct, I believe that we will start sharing the revenue from April 1, 2022. Is my understanding correct?

GRK Babu: Correct.

Mohit Kumar: Sir lastly, have you filed a petition for Goa and when do you expect clarity on the tariff order, how you will charge in the interim once the operation starts.

GRK Babu: Goa we have discussed with the regulator. So, we have already filed an application for the total tariff and also for the interim tariff. Since for the total tariff, the regulator says that he will take more time about 9 to 10 months, he has advised us to file for interim tariff valid from the date of commissioning of the airport till March 2023. So, that has also been filed with them. So, we are expecting that the tariffs will be in place by the time we start operations in September.

Moderator: Thank you. The next question is from the line of Subhadip Mitra from JM financial. Please go ahead.

Subhadip Mitra: Two questions from my side. To begin with, I think the auditor's report talks about some qualifications if you can, help us with some color on the same and secondly on the EBITDA for fourth quarter, whether it is on consolidated or whether for Delhi Hyderabad, individually, we have seen a decline on YoY and QoQ any particular reason for that?

Ashok Ramrakhiani: Yes, auditor qualification is mainly related to the comparative period because in comparative period, you must have seen that the discontinued operations are coming for the non-airport business. So, the auditor qualification related to the comparative period were not restated for the qualifications. So, overall bases on financial basis they have no impact in the current period.

Subhadip Mitra: Understood so these are largely for the discontinued operations and that too for the previous year. Am I right?

Ashok Ramrakhiani: Yes. So, these are largely for the discontinued operations except one, which is for DDFS, so there is no financial impact for the same because that qualification was corrected in the March 2021 actually.

Subhadip Mitra: Understood and on the second question on EBITDA if you could please help.

GRK Babu: As far as the DIAL EBITDA is concerned which has come down on year-on-year comparison, in FY21, last quarter, we accounted the Bharti income on straight-lining basis. Subsequently, since, as per the agreement, the revised agreement Bharti they have taken over 2.72 million square foot and balance 2.16 million square foot they will be taking over only in April 23, it has been reversed. So, that is the impact because the amount accounted for in FY 2021 last quarter is very high amount on entire 4.9 million whereas now it is accounted for 2.78 million.

Subhadip Mitra: So, sir, what is the quantum that is what reversed?

GRK Babu: The total reversal as far as the Bharti is concerned as an exceptional item is about 325 crores has been reversed.

Subhadip Mitra: Okay and anything on Hyderabad specifically.

GRK Babu: There is not much difference in Hyderabad. Hyderabad year on year comparison so the EBITDA has moved Rs. 104 crores to Rs. 87 crore. It is basically some operational expenditure has been accounted for in the last quarter.

Subhadip Mitra Okay, there is no one-offs over there.

Saurabh Chawla: No. So, just to add on this, as the airport's come back to normalcy and they start looking at actually growth from where COVID hit, there will be some mobilization of people which will start getting accounted for so that is where a little bit of additional expense that has happened. So, well nothing more than that.

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

Apoorva Bahadur: Sir wanted to know the debt refinancing for contingent liabilities, I think we were looking to refinance part of the non-airport business debt. So, that the contingent liabilities, which have been moved to the airport business sort of negate it. So, any update on that?

Saurabh Chawla: Yes. So, there are three main contingent liabilities, which are continuing on the books of GIL versus what they have given to GPUIL. The first one is related to the acquisition financing that was done many years back for acquiring the 30% stake in PT GEMS. That acquisition financing was to the tune of almost $500 million. Today, the outstanding is about $165 million and as you may be aware, coal prices have shot up over the last almost 9 to 12 months and recently, of course, they have been hovering around $100 tons. So, with an expanded capacity of almost, 35-36 million tons on an annual basis and coal price of almost $100 a ton. This business is throwing exceptional amounts of cash for the shareholders. So, as we speak right now, theoretically, as we speak, right now, this $165 million of outstanding will come down to 0 in a very short period of time within this fiscal year. Having said that, GPUIL is currently in the process of refinancing this $165 million and the term sheet that the GPUIL has signed with respect to that refinancing envisages no corporate guarantee from GIL. So, I have given you two indications one the cashflow itself is very robust to bring it down to 0 within the current fiscal year and the second one is that it is in the process of refinancing. The second asset under which there was a guarantee that was with respect to Bajoli Holi. Bajoli has now achieved completion as of end of March of 22. So, the guarantee that was given that falls off and what we will be continuing over there is just a comfort letter as a sponsor, but as we go forward as the asset becomes stable, because, there is a phase wise in which these runoff river projects are energized, we will be refinancing the debt at Bajoli and that should also within this by the end of this fiscal year that guarantee also should get removed from our comfort letter actually should get removed, it is not even guarantee it is the comfort letter which will get removed from the books of GIL. The third one is related to the restructuring that was done at Rajahmundry, which is the gas plant and for that restructuring, GIL had given a guarantee. As we speak right now, gas is still not available, but there is a stay which is there in place in the courts against banks to take any action on this because it was the responsibility of the state to provide the gas which they have not been able to provide. Having said that, we are again, in the process of disposing of that asset, we should be working towards selling that asset over the next few quarters and we are getting good inquiries specially from buyers out of Africa. So, we may sell that asset by end of this fiscal year or early next fiscal year and remove that guarantee also, so general guidance to you is that at least two out of the three guarantees will automatically get removed upon the consummation of their transactions and the third which is the Rajahmundry 1, we do expect it to get completed, but it may flow into the next fiscal year. That is the broad guidance to you.

Apoorva Bahadur: Okay, very useful. So, thanks a lot sir on this Rajahmundry the inquiries that you are getting? Is the consideration adequate to pay off the entire debt or will we have to take some haircut over there?

Saurabh Chawla: Well, I will be able to guide you better once we have something firm on the table, but so far, it is a combination of equipment sale and land monetization, the land over there has now become more of an urban land and hence, there is a much better value associated on that. So, it is a combination of equipment, which is as you may be aware, it is a plant which is mothballed and it is a GE plant which has not been operated and hence almost as good as new. So, that is something it will be a combination of both and we believe that we should be able to get the full value to satisfy the lenders over there.

Apoorva Bahadur: Okay. Sir you also highlighted on land development side we will be entering into focusing more on self-development. Have you earmarked any CAPEX for this any specific amount how much will you be spending and over what timeframe?

GRK Babu: We are proposing over a period of next 3-4 years will be around Rs. 400 crores to 500 crore. As of today, we are just concentrating on completing the expansion, it will be a small amount of maybe Rs. 50 to 100 crores only, we will spend the next one or two years.

Saurabh Chawla: So, for self-development honestly you really requires actually construction finance. You are not putting much of cash equity into it, so not much will be allocated on the self-development or just a beginning of a particular process as we speak.

Apoorva Bahadur: Okay. So, any update from KIA on FCCB conversion for the airport business basically any strike price that has been determined yet?

Saurabh Chawla: Well, we are in conversation with KIA and as you are aware, they have been very supportive of our efforts to create a pure airport platform and also spin out the non-airport businesses. They have honestly speaking benefited in value creation because prior to the demerger last year, similar time the stock price was about 20 to 23 bucks. Today it is at about 35 to 36 bucks has seen a high of more than 40. So, they have benefited that, where they have facilitated this value creation. As and when we culminate our conversation obviously we will inform the markets as to where they go but between GIL and GPUIL, the allocation for GIL is about $25 million and for GPUIL it is about $275 million.

Apoorva Bahadur: Right so last question from my side and that is I believe we were due to receive some EBITDA base payout from ADP this year based on the performance of the airport business, so wanted to know if we have received any amount and what quantum?

Saurabh Chawla: We have not. The process is a little different, it does not happen instantly as soon as the fiscal year ends. So, we will have to wait till this audited numbers go out and then the process of validation and verification and the understanding as for the shareholder agreement will be entered into. So it is not like an instant take or pay kind of transaction. So, it will happen within the first six months. Also just to highlight that, last year we had the issue of the minimum payment to airport authority. So, that is still pending. So, as and when that gets also addressed then we will take it for because the quantum gets determined based on all matters being settled.

Apoorva Bahadur: Okay, so unless that AAI due issue is still within the court to be will not receive the EBITDA based payout and sir if and hopefully the issue is settled in our favor, what would be the quantum that which you will receive this year for the EBITDA based payout.

GRK Babu: We have almost achieved EBITDA which is the requirement is about Rs. 2250 crores. We have almost touched 2200 right. So, we should able to get more than Rs. 300 crores.

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

Aditya Mongia: The first question that I had was related to the trends in non-aero revenues per packs that you highlighted in your presentation, which suggests a meaningful improvement versus pre-COVID times for both the airports. Could you give us some sense as to the reasons why this improvement is happening and whether this is sticky or transient.

GRK Babu: Basically, the spend per pax have substantially gone up in case of the duty free where there is a huge sales are taking place and also the advertisement has come back in a very good number and cargo has thrown a very good results. So, these are actually enhanced our non-aero revenues.

Saurabh Chawla: So, again, as the GRK was highlighted, I would just like to articulate our strategy. Our focus on the non-aero is very sharp whilst as macros improved, the number of travelers will improve as disposable incomes go up, people will move away from railways and start to travel. Everybody has seen what has happened once the per capita income goes above $2500. So, all that will happen. But from our side, our key focus would be as management over here, what all can I do to offer our customers more brands, so that they can shop in our airports rather than get cannibalized by airports, specially the hubs of the Middle East or Far East. So, that is our focus and it is good to see that as we increase the brands as we increase the visibility of these brands at our airport, the spends has started to go up. Just to anecdotally tell you that there was a time when we used to only offer Red Label and Black Label whiskies but now the whole fair is there and everybody wants to buy and on a product price basis, actually, we are more competitive than even Dubai, it is a notion in people's mind that Dubai would be cheaper actually, we are cheaper than Dubai in many in many products. So, that would be the focus. Second is also how the traffic is moving. So, previously, the lot of focus of the policy makers was to which encouraged actually hub travel. So, a lot of that travel, demand got cannibalized by Middle East especially. Now with the direct flights going into North America and obviously Europe, we have direct flights, but also now direct flights into Australia. We see a lot of shopping happening over here rather than getting people waiting at Dubai or Doha to shop so that is further adding incremental demand at our airport. A lot of work we are doing as you are aware, we have an industrial partnership with group ADP. We are working very closely with them as to what all we can offer at our airports, how we bring more brands, into our airports and continuously increased the spend per passenger. The way I would like you to look at an airport is actually it is a shopping area. I would like people to shop more and more at the airport and we provide services to facilitate that shopping, shipping, whatever is necessary. So, it is a large retail mall, which is where the base cost is being serviced by the aero's, and the cream comes from the non-aero. That's the way we are focusing on our business. Thanks for the response.

Aditya Mongia: The second question that I had was more to do with interest rates that on a blended basis that Delhi and Hyderabad would start paying and the time period post which let's say a meaningful refinancing can happen on those rates.

GRK Babu: Hyderabad, if you look at it, the rate of interest blender rate is just fully hedged. They have got three bonds one is $350 million, $300 million, $300 million, total $950 million bond. So, the average rate of interest is less than 9% or 10% altogether and the repayment which are coming up is only 24 and 27 and 29 and at appropriate time we get them either refinanced depending upon the cash flows, we fully repay them. That is Hyderabad is concerned on the and the DIAL the average rate of interest of the existing bonds, that three bonds about $522 million bond is there, then we have $450 million bond, another $500 million bond. So, all together about $1.45 billion. The average rate of interest will be around including hedging is about 10.4% to 10.5%.

Aditya Mongia: The third question that I had was there was a hint given that obviously, Indonesia would start contributing in the next year, I want you to get a sense of what kind of EBITDA run rate post revenue share should be analysts be budgeting in for the full year.

GRK Babu: Medan Airport will be taking over only in July and as of today, I mean, if the revenue share payable in case of Medan is about 19% and we have already filed an increase in the tariff that is already under the consideration of the government and this will start throwing the cash for two years after that we will get into expansion. So there would not be any, I mean. PAT will be positive for two years after that it will get into the full expansion.

Saurabh Chawla: So, Medan is a 10 million passenger. As of today it is a 10 million passenger and our strategy of course there is to leverage its own balance sheet for funding going forward.

GRK Babu: We have already infused the equity in case of the Medan Airport. Total equity is about $25 million both shareholders together in the JV Company and the initially we will be doing an expansion from Rs. 10 million to 15 million that is called immediate capacity augmentation. Once that is achieved beyond that, then we will go for a full expansion. So, as Saurabh explained that balance sheet, it has a strong balance sheet and beyond the equity what we have infused, there is no further requirement from the shareholders number one, number two Medan will be accounted on equity method because we are holding only 49% stake whereas AP-II is holding 51% stake.

Aditya Mongia: Last question from my side before I get in the queue. Again, at an overall level the share from profits from associates appears to be a healthy 40 crore number for the quarter and on a run rate basis of probably ahead of where we were on pre-COVID basis. Is it more to do with the retail spends in Delhi and that figuring in over here or is there also a component of certain loss-making Hyderabad joint ventures becoming profitable in the sustainability of the same.

GRK Babu: When it comes to the JV's profitability, it is basically with the duty free of the Delhi has flown a good amount of profits and basically you are correct in the last year, year to date FY21 we have accounted around 117 crore loss whereas the current year we have accounted 71 crore is the profit. Basically, Delhi Duty Free has given a good amount and Celebi has given a good amount of the profits.

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

Apoorva Bahadur: Thank you for the opportunity again, just wanted to check so Delhi government has come up with a new liquor policy. Apparently, we are reading media articles that the outlets are selling liquor at 30-40% below the MRP. So, do you see any sustainable impact of this on our duty-free business going ahead?

GRK Babu: No, that will not have any impact as such. Actually, Delhi government has already put the restrictions on any discounting, cannot give any more discounts. As far as our duty-free sales are concerned, which are basically I mean, the quality wise, which is entirely different from the quality of the product, which is available in the market.

Rajesh Arora: Maybe just to add to what GRK Babu was saying there is already a price arbitrage between duty-free pricing and the high street. Arbitrage may have gone away to some extent, we do not see the any significant impact on the duty-free sales, one because of the price itself and secondly, I think there is the quality of product, people have more confidence in that in the duty free.

As a matter of fact, honestly speaking, even our duty paid business is doing quite well. So, the real game is how does duty paid versus at the high street that you get in the city. So, no impact honestly speaking on our business.

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

Aditya Mongia: I just wanted to kind of clarify, regarding the operating expenses booked in the quarter. What is the element of one-off on a QoQ basis? I think Rs. 100 crore kind of increase that has happened. Is it all related to one-off just wanted to get a sense?

GRK Babu: Which company you are referring to?

Aditya Mongia: At an overall level, the other expenses of the company have increased on a QoQ basis even though top line has declined. The question I think there was an explanation given off provision against certain past revenues specific to reality, just want to kind of confirm the numbers for the one of for the quarter

GRK Babu: There is a one-off items, which we have made a provision is the revenue share payable to Airport Authority of India on SEIS, which we were contesting with the AAI. This is pertaining to the FY18-19, FY19-20 and finally, we have agreed to pay the amount that is why we have made a provision for 43 crore rupees in the DIAL. That is one of the major expenditure which has hit and in case of the GHIAL there are about 15 to 20 crore rupees additional expenditures as Saurabh has explained. In the last two quarter we have to make various expenditure and provision which has been accounted for.

Aditya Mongia: Understood. Could you share on the PAT number for Delhi duty free for the year and or for the quarter.

GRK Babu: Delhi duty free total PAT about Rs. 180 crore for the year.

Aditya Mongia: The fourth quarter is number will be very useful because full year is not adequate representation of next year given COVID.

Amit Jain: Aditya this nitty-gritty numbers detailing can be provided to you offline.

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

Saurabh Chawla: Thank you. Thank you, ladies and gentlemen, for this call. We are available offline for any minute details that you may require whether from the JV entities or subsidiary entities or any clarification on the balance sheet, please reach out to Amit and Bishnu and we will endeavor to answer your questions as quickly as possible. Thank you so much and have a wonderful day.

Moderator: Thank you. On behalf of GMR infrastructure limited, that concludes this conference. Thank you for joining us and you may now disconnect your lines.

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