GMR Airports Infrastructure Limited
(formerly known as GMR Infrastructure Ltd)
Q4FY23 Investor / Analyst Conference Call Transcript
May 29, 2023

Moderator: Ladies and gentlemen, good day and welcome to GMR Airports Infrastructure Limited Conference Call to discuss Q4 FY2023 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 '*' and 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 maybe forward looking in nature and may involve risk 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 evening, ladies and gentlemen. Thank you all for joining the fourth quarter Fiscal '23 earnings call. The Indian economy still remains a bright spot in the global arena. Globally, the economies are facing challenges from geopolitical uncertainties, high interest rate and banking issues and India's economic indicators are continuing to exhibit growth momentum. Monthly collections of GST, which is one indicator, for April 23 was at an all-time high of INR 1.87 lakh crores. Inflation has receded as indicated by the latest WPI and CPI numbers at minus 0.92% and 4.7% respectively for the month of April 23. Forex reserves are slowly building up again reaching USD 596 billion in May '23 from USD 576 billion in January '22. We believe that India's medium-to-long term growth prospects are healthy and amidst the governments strong push for infrastructure spending the outlook is even healthier.

Regarding our performance for Q4 Fiscal ’23:

GMR Airports gross revenue increased by 48%, YoY to INR 1,895 crores in the fourth quarter driven mainly by traffic improvements in our operation airports. EBITDA decreased by 52% YoY to INR 259 crores. For the full year EBITDA decreased by 18% YoY. The decline in Q4 FY23 and FY23 EBITDA is mainly due to the start of monthly annual fee payments at Delhi Airport from April 22. Additionally, Q4FY23 and FY23 included certain one offs related to loss on settlement of derivative instruments of INR 30 crores and INR 90 crores respectively with respect to the partial repayment of bonds in Hyderabad airport.

Additionally, there were certain other one time write offs of around 63 crores at Hyderabad Airport during the Quarter 4 and for the full year. I would like to highlight the following key points:

During the quarter, we announced the execution of the agreement and the scheme of merger of GAL in GIL with an objective to enhance shareholder value by simplifying the corporate structure and bringing public shareholders’ closer to the airport assets. As part of the process GIL and Groupe ADP will settle the cash earnouts to GIL at INR 550 crores and also the equity earnouts at 4% out of the total 8% that was to accrue to GIL. GIL raised Euro 331 million that is 2,900 odd crores approximately from Groupe ADP through a 10 year 6.76% per annum coupon FCCB due in 2033. Immediately upon completion of the merger GMR Group will remain the single largest shareholder of GIL with GMR Promoter Group owning about 33.7%, Groupe ADP holding 32.3% and the public holding 34% respectively of the paid up equity share capital. The entire merger process is expected to be completed within Fiscal Year ‘24. So, far, CCI approval for the merger has been received and application has been filed with the stock exchanges and Reserve Bank of India and the process of evaluation and approval is awaited.

Secondly, Mopa, which is the Goa Airport commenced commercial operations from January 5, 2023. Currently Indigo, Akasa, SpiceJet and Vistara are operational from the airport. Cumulative traffic at Mopa Airport has already crossed the 1 million mark as on 1st May 23. For the month of April 23, the airport handled an average of approximately 11,000 passengers per day, International operations is expected to start from June/July of this current year. We expect the new tariff regime at Mopa to be in force by October‘23.

During the quarter, we received about 631 cores from NIIF a partnership that we have affected with respect to Goa Airport. This investment is in the form of CCDs. As you are aware in December 2022, GMR and NIIF announced a financial partnership for NIIF to invest in the equity capital for the three airport projects which included Mopa in Goa, Bhogapuram which is the Visakhapatnam airport and Nagpur Airport as and when Nagpur Airport concession is signed. Overall, the passenger traffic from GMR Airports Q4FY23 displayed a strong growth. Passenger traffic was up by 55% year-on-year to 25.8 million in Q4 Fiscal ‘23 with Delhi and Hyderabad experiencing a surge in traffic.

On a full year basis, passenger traffic of our operational airports was up by 69% year-on-year to 92.8 million in Fiscal Year '23. In India, our market share in passenger traffic is approximately 26.6% for Fiscal Year '23.

With respect to progress on capacity expansion in our airports:

Delhi, Hyderabad and Crete all the three airports achieved an 86%, 85% and 20%, respectively the completion as on March 31st, 2023. As of April 30th Delhi and Hyderabad Airports achieved 88% and 86% of the traffic progress. Delhi and Hyderabad Airports are targeted for completion in Q2 FY24, we expect the new tariff regime at Delhi to be in force by April 24.

On the Airport Land Development in Delhi Airport, we have initiated our first self-development commercial building of about 6 lakh square feet in the gateway district. In Mopa (Goa) Airport land monetization for two hotel plots has been initiated in Quarter 4 Fiscal 23.

On Medan airport, on a YoY basis traffic is up 76% to 1.7 million passengers in Q4 Fiscal year 23. Domestic daily passengers has already reached about 112% of the April 2019 levels while international passenger traffic was about 80% of April 2023. Currently, 18 domestic and 6 international destinations are connected.

On Nagpur Airport review petition was filed by Ministry of Civil in Supreme Court challenging the earlier Supreme Court order. However, the petition was dismissed by the Supreme Court and its order dated May 11, 23 we expect execution of the concession agreement at the earliest. In Bhogapuram Airport the foundation stone of the airport was laid by the state Chief Minister on May 3rd, 2023 tender processes is on for the selection of the EPC contractors. R&R processes are fully completed and land handover process is in final stages as joint survey of the land is underway.

On the ESG front, GMR is fully aware of its role with the business activity needs to be compatible with the permanent commitment to development and sustainability. In this direction during the year, Delhi Airport became the first airport in the country to run entirely on hydro and solar power from June '22. For its operational usage, Delhi Airport is switching to electric vehicles from the current conventional vehicles in phase wise manner. Hyderabad Airport has also received ACI Asia Pacific Green Airports Gold Recognition Award 6th times in a row in 15 to 35 million passenger category.

Delhi and Hyderabad airports have maintained an ASQ score of 5 during the quarter. The presentation with all financial numbers are already available with you. If not you can download it from the IR section of our website. We are available to respond to your questions on this call and offline after the call.

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

Moderator: Thank you very much. We will now begin the question-and-answer session. We have a first question from the line of Mohit Kumar from ICICI Securities. Please go ahead.

Mohit Kumar: My first question is on the financials the other expenses has gone up by 3 billion QoQ of course you mentioned that they are one off and write offs, but these write offs are close to around 1.8 billion while the other expenses we can say have gone up by roughly around 3 billion, so can you please explain are there any other one offs in this?

GRK Babu: There are only two major expenses we have incurred. One is the one of the upfront fee paid to bank facilities since we have completed the entire fund raising of the Hyderabad Airport and at a much cheaper rate, the upfront fee which we have paid to the bankers for the facilities is now charged to P&L account since we have reached the finality of the project and also we are just completing the project and capitalizing the asset that is one of the major items. The second one is basically as you know our Hyderabad Airport has done the refinancing of the FY24 bonds at a much cheaper price for a longer tenure. So, regarding the earlier bonds where we have done hedging which has to be now cancelled to the extent of that the loss or the cancellation of the hedging has also been charged off in the P&L account, even though there is no cash flow issues. These are the two major and some of the expenditure we have incurred on the legal and professional charges in all the airports for the various cases, which are happening especially MAF and CGF issues appeal before TDSAT and everywhere. Some of the legal expenses, professional expenses, we have incurred that has been provided for. These are the major reasons for increasing the cost. These are all only one-time and they will not be a recurring in nature.

Mohit Kumar: Sir, how much is the amount cumulative amounts to, the total amount one off?

GRK Babu: In case of the write off of the bank charges will be around Rs. 60 crore and in case of the legal expenses will be around Rs. 50 to Rs. 70 crore and in case of the fees which we have paid in case of the GMR Airports Limited we have raised the funds since you are aware that Cebu we have already divested we got the funds and we have prepaid some of the loans and the upfront fee which we have paid them which were supposed to amortize over a period of three years now charged off to P&L account, is a positive development since we have repaid the loans that expenditure has been charged that is about Rs. 30 to Rs. 40 crore.

Mohit Kumar: My second question is one of the slides you are talking about the refinancing of the debt at GMR Airport, what is the debt at GMR Airport and what is that rate interest that we are paying right now and what are the kind of savings is possible in let us say in FY25?

GRK Babu: So, GMR Airports we are talking about, the total debt will be around Rs. 3,300 crore by March since after repayment of the process which you have seen and with the current financial year will be doing the refinance to the extent about 17 to 18 billion INR rupees.

Mohit Kumar: My last question is on the Bhogapuram, what is the timeline we are looking at for the airport and what is the total project cost?

GRK Babu: The total project cost which is almost finalized in case of the Bhogapuram will be around to INR 47 billion and which includes the amount to be refunded by the Government of Andhra Pradesh which is about INR 1.3 billion and the timelines is, the Chief Minister has already laid the foundation stone and the joint survey of the land is going on. We are likely to take over the land and some more cases are pending in the High Court which are only for compensation which are likely to be settled in a matter of one month. So, we may take over the land by the end of June and in the meantime, we have already issued the tender for EPC contract international bidding, four bidders have come and who are now shortlisted. They are going through their test site and asking for all the clarifications you are providing. So, likely to start the construction maybe middle of July or 1st of August. Hopefully everything goes well.

Mohit Kumar: It will take three years or two years?

GRK Babu: It is from the date of the proceed to it is 36 months exactly three years. If you start on 1st August by 31st July 2026 it will be completed.

Moderator: Thank you. We have a question from the line of Ankur Shroff from Swarnaratna Infrastructure Private Limited. Please go ahead.

Ankur Shroff: I wanted to know regarding the land to be provided to Bharti. I think two quarters back you had said that by March 2023 we should be able to provide the land, so any kind of clarity and update on that please?

GRK Babu: This is the second tranche of the Bharti deal that you are talking about it.

Ankur Shroff: Yes sir the 2.6 million square feet?

GRK Babu: Yes, 2.17 million the land in February month itself we have issued a notice to Bharti to come and see the land parcels. The land parcels have already been seen by them now and is almost concluded and they will be taking over very, very shortly.

Moderator: Thank you. We have a question from the line of Aditya Mongia from Kotak Securities. Please go ahead.

Aditya Mongia: Thank you for the opportunity, and congratulations for a good set of results on the volumes and spending. And this is where some of my questions lie, I wanted to get a sense from your perspective on the non-aero spending at the Hyderabad airport, it seems that on a per pax basis this number has improved quite meaningfully on a QoQ basis about 8%-9% and versus pre COVID levels it is probably up in the range of about 40% or so. The question essentially relates to whether this is being driven more and more by the incremental retail area, that is being opened and if so, does it have any positive takeaways for Delhi in the near future?

Rajesh Arora: So, you are right see when you look at non-aero there are 3-4 contributors for how do you improve your non-aero revenue. So, one such contributor is the additional space, second is how do you define the layout pax flow because that increases your penetration. Third is the category selection. So, at all our airports you know, these are some of the steps which we have taken. Hyderabad has already expanded the footprint and hence the larger area is available for duty free arrival, duty free store and similarly Delhi we are expanding T1, we will have additional space over there. So, one I think this whole whatever growth we are seeing to a larger extent this is sustainable and this is what we will be increasingly we should be seeing at our airports, without making any forward-looking statement, but this is the way we are kind of looking at improving our non-aero commercial revenues.

Aditya Mongia: Sir, Thanks for the clarity. The second question was more linked to, in some ways understanding, where is the contribution to interest expense coming in beyond the mainstay business of Delhi and Hyderabad. Now, if I see your overall interest expenses, it is more than about 2,000 crores in this year whereas Delhi and Hyderabad cumulatively would be contributing probably half of that, it would make it easier for us to appreciate if you could tell us what are the other big components of interest expense, I am assuming some part of it is the standalone operations, but does not explain a whole lot of the 50% that remains unexplained?

GRK Babu: No, there are three interest components in consolidated financials. One is the DIAL, the other one is GHIAL third one is GMR Airports Limited. So, GMR Airports Limited also the interest will be around 5 billion.

Aditya Mongia: So, let us say 5 billion of airports, another 8 billion of in Delhi, another 3 billion of Hyderabad and then let us say a slightly more of a Goa. There is still a meaningful 600-700 crores unexplained kind of number. I am just trying to get a sense whether there is no clarity on which all other assets are contributing over here?

Ashok Ramrakhiani : Actually, when we consolidate the GMR Airport Infra Limited there is one more entity GMR Infra Developer Limited which come into the picture. So, there is a Rs. 1,680 crore loan, so there is additional interest cost is coming for that loan and that loan has been repaid in the April 2023from the FCCB proceeds.

Aditya Mongia: I will take this offline. Also, just to get a better understanding, but coming back to numbers. I think, this question was asked on the EBITDA and how it has changed from 3Q to 4Q, the increase in other expenses is to the tune of about Rs. 3.5 billion and what we are kind of seeing as one off is a number that is less than 50% of the gap. So, I am just trying to kind to ascertain should we be looking at full year numbers and adjusting for these one offs or looking at Q4 numbers which look quite weak and then analyzing numbers just trying to get a sense of how expense moving so much in a single quarters time?

GRK Babu: I think we have already explained some of the expenses like the write-offs of the bank line of credits and also the cancellation of the hedging which you have taken in case of the Hyderabad where we have repaid the loans to the extent of $230 million. So, all hedging have been cancelled which has also been charged off which is more than nearly 1 billion INR plus we have also have additional legal and professional charges where we have repaid the Cebu proceeds. We have got the money and we repaid the loans and the amortization expenses have been charged to P&L account and also additional legal expenses we have incurred (professional charges, towards the various cases, we are especially in case of the MAF cases and the CGF cases in case of Hyderabad and some other cases in various forums and there is some amount of expenditure is also from Goa, but most of these expenses nearly to the extent about 2.5 billion INR is one of time and it will not be repeated that is what we wanted to communicate.

Aditya Mongia: So, you are saying 2.5 billion including the Goa issues or let us say the initial Goa losses is where maybe Goa will continue, but other agreements of 2.5 billion should not be recurring incrementally?

GRK Babu: So, no it is not like that I mean what I said is out of other expenses to the extent of 2.5 billion INR is one off type expenses which will not be continued.

Rajesh Arora: Aditya additionally I think when it comes to Goa, whilst Goa may be contributing negative EBITDA at this stage primarily because of two reasons. One, these were the partial operations in the last quarter and secondly the current interim ad hoc tariff is significantly lower than what we would be expecting in the final tariff which might take another quarter or so. So, once we have the final tariff, you will see Goa contributing positive to EBITDA.

Aditya Mongia: One more question from my side, see on the Delhi Airport, it seems as if on a QoQ basis, you have been able to improve your volume numbers or is this something specific to Delhi because I think seasonality should be against the aviation sector on a QoQ basis, so is there something special happening in Delhi or is it always the case that 4Q can be better than 3Q in spite of seasonality trends?

GRK Babu: I think the traffic the way the trend is it is across India; it is not specific to Delhi just because the volumes are bigger in Delhi otherwise the trend is same. If you look at it actually Hyderabad has actually gone bigger than even Delhi percentagewise. We have only 17.7 million we have achieved and in case of Hyderabad it is about 5.7 million. So, the trend is same I mean it is not specific to Delhi.

Aditya Mongia: Sure, maybe last question from my side. Have you seen quite a few routes being started from Hyderabad on the international side of things, and I think this has been a focus area. Could you give us some kind of forward-looking guidance of what kind of growth in international numbers in Hyderabad one can expect from here on maybe for the next two years I understand the bases were pretty low over here, so I am just checking because you are competing with Bengaluru and trying to do more?

GRK Babu: Yes, we have been trying to do better, for example, recently I think the operations have already started to London already there and they are also starting two more international lines in case of Hyderabad. Our thrust is more on international traffic, but if you look at the trend, I mean we are competing with the Bangalore in case of the Bangalore and Hyderabad even though overall traffic Hyderabad will be lower, but when it comes to the international traffic Bangalore and Hyderabad will be almost equal. So, our thrust is more and most probably as of today our traffic is about 15% of the total traffic of the Hyderabad is international 15% to 17%. So, we wanted to make it around 20%-25% is our targets.

Aditya Mongia: Any incremental debts that you would be taking at an asset level in Delhi or Hyderabad or do you have enough cash?

GRK Babu: No, I think the entire financing is complete in the case of Hyderabad and Delhi. Hyderabad has already raised the money and it has got sufficient cash balances. It is completing the entire construction and starting the full-fledged operation by September. Delhi, in the month of April we have raised Rs. 1,200 crore with that entire Capex program funding is completed. It is also expected to complete the entire construction by September, October and start full-fledged by November. So, no more fund raising is required in both airports as of today.

Moderator: Thank you. We have a question from the line of Nirav Shah from Geecee Holdings. Please go ahead.

Nirav Shah: So, the first question is on the EBITDA contribution from the JV subsidiaries at DIAL. I am seeing that now for this quarter, we have reported an EBITDA loss of 29 crores versus the run rate of around 60 to 80 crores that is the general run rate, so any specific reasons for this?

GRK Babu: JVs negative contribution.

Nirav Shah: For the year it is 335 crore contribution and if I reduce the 9-month number which is 364 crores I get a 29 crore of negative?

Amit Jain: Nirav from where you are getting this numbers.

Nirav Shah: I have taken the Q4 presentation details the annual JV contribution and I have taken the 9 month?

Amit Jain: Your numbers are not reconciling with our numbers at all. We can take it offline because we are not able to correlate from where you are taking the numbers.

Nirav Shah: And just on the commissioning timelines for the Nagpur Airport we mentioned the Bhogapuram part, but the timelines Nagpur when do we expect to start the construction and the completion timelines?

GRK Babu: Nagpur Airport four review petitions have been dismissed till today, but there is one more petition - curative petition still pending that we are expecting very shortly.

Rajesh Arora: Nagpur would be is a Brownfield airport so it is not unlike Bhogapuram.

GRK Babu: It requires some Capex, but it is not immediately.

Moderator: Thank you. We have a next question from the line of Rounak from Bank of America Securities. Please go ahead.

Rounak: I just wanted to again work through the math on the other expenses and the EBITDA which was I guess we have discussed it multiple times, but just to go through it, on DIAL I see a quarter over quarter movement of around 57 to 60 crores. On Hyderabad I see a movement of around 80 odd crores and on GAL consolidated level I am looking at somewhere around 270 crores, now couple of things have been mentioned. One thing that has been mentioned is the hedges on GHIAL which has been 100 crores and there have been write off of around 63 crores, so this totals to 163 crores of onetime expenses, so adjusting for the onetime expenses would we say that GHIAL performance for the quarter was actually around 80 crores better than the previous quarter, would that be the right thing to say?

GRK Babu: Yes exactly, if we exclude the one offs in case of Hyderabad that is 63 plus around 30 about 90 crore, 95 crores yes the performances should be considered excluding them it is much better.

Rounak: So, any reason again it ties back to the seasonality point which was mentioned earlier, but Delhi Airport, Hyderabad Airport both showing significantly strong numbers for Hyderabad especially if they are saying that there is around 80 crores of improvement in the EBITDA do not really see that on the top line either we see around 30 crores of improvement on the top line, so exactly where is this improvement coming from?

GRK Babu: So, you are talking about Hyderabad performance or EBITDA level improvement.

Rounak: So, I am just adjusting for the numbers, which I have mentioned, which was 100 crores on the hedges for GHIAL and 63 crores of write offs it happened at GHIAL level, so if I adjust for that 163 crores on the sort of 557 crore EBITDA which was generated, this basically gives me an 80 crore upside over the 140 odd crore EBITDA which was generated in the December 22 quarter, I am just trying to understand is there an 80 crore improvement in the EBITDA when the top line improvement has been just 30 crores, not even 30 crores, around 22 crores. So exactly where is this improvement coming from I am just unable to tie up the numbers, am I missing something is the Opex number something that needs to be adjusted even further are there more adjustments which are being missed on I am just trying to understand that?

GRK Babu: We just wanted to understand you are talking about consolidated financial or asset side you are talking about.

Rounak: No, just the asset level. I am talking about the GHIAL asset level.

GRK Babu: GHIAL asset level that EBITDA movement quarter-on-quarter you are talking about it?

Rounak: Yes, last quarter it was 140 crores, this quarter this is around 57 crores. I am not adjusting for multiple adjustments which are made, and I am just doing the basic sort of adjustments which are usually made and I am coming to this number and so the difference between the two of them being 83 crores and then I am just removing the one off factors which I mentioned earlier being the hedges being canceled and the right off being taken away and that shows me an 80 crore improvement on an operational basis, so that is where I am coming from?

GRK Babu: That is correct I mean whatever the one-off items we remove the performance of Q4 will be much better this is what we are trying to explain.

Moderator: Thank you. We have a question from the line of Sumit Krishna from RK Stockholding. Please go ahead.

Sumit Krishna: Sir can we give any visibility of when we will be coming in profits, or because it is already too long, consistently we are posting losses and losses and means you see whatever gains stock has made in last six to seven months in single day it has all gone, so do we have any visibility, how we can come to profits?

GRK Babu: So, DIAL now the expansion is getting completed by September. In the meantime, we are also filing our application for the tariff revision by July and the new tariffs are expected to come from 01 April 2024 onwards. In the current financial year, we may still continue to post a little more losses, but FY24 onwards we are expected to come into the green basis the revised tariff and an increase in the traffic and also increase in the CPD revenues. We are hoping that '24-25 will be in profits.

Sumit Krishna: So, do you have any plans to raise equity to reduce the debt because operationally I do not know how we will come to the profits because debt component is so much and usually we may handle DIAL and Hyderabad, but on a corporate level, do we have any plan to substantially reduce our debt?

GRK Babu: So, this project finance as far as the project finance is concerned assets are self-sufficient and able to comfortably service the debt. There is no challenge as far as the assets are concerned. At consolidated level, the debt coming down immediately not possible because now we have just completed the expansions. Over a period of three to four years then DIAL will start reducing because this will be more or less will be our final expansion after that whatever the cash generated will start reducing the debts. So, it will happen over a period of three years onwards down the level and we will start reducing the debts.

Moderator: Thank you. As there are no further questions, I would now like to hand the floor over to the management for closing comments.

Saurabh Chawla: Thank you so much everybody for joining this call. We are available offline to answer your queries with respect to these one offs and some of the margin improvements that we are seeing now especially at Hyderabad, which I think going forward as we expand our retail footprint area and duty-free area in Delhi you will see as we as we move forward. So, primarily I think the theme is that traffic has come back with vengeance, it is going very well. It is highly correlated with India's GDP and spending power of consumers and as we start to offer more and more flights, but also ability for consumers to spend at the airport. The metrics are only going to improve. The specific question on debt reduction, I think, being a Capital Intensive industry, we have to wait for the new tariffs to come into place for the Capex already happened. I think there is always a lag, but the trend line is very sufficient, that in three to five years' time we should be free cash positive to not only to reduce debt, but also to service our shareholders from dividend payouts, as and when those happen. So, I think Hyderabad is already demonstrating that fact. Hyderabad is profitable this year and hopefully I think very shortly Delhi should also start to demonstrate the same metric. Thank you so much. We are available offline. You can contact us by mobile or by e-mail. Thank you.

Moderator: Thank you sir. On behalf of GMR Airports 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*.