"GMR Infrastructure Limited Q1FY18 Investor / Analyst Conference Call Transcript"
Wednesday, 16 August 2017

Moderator: Ladies and gentlemen, good day and welcome to the GMR Infrastructure Limited Q1 FY18 Earnings Conference Call. As a reminder, all participants' lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference 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. Madhu Terdal – Group CFO and CFOs of GMR Business Verticals. 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 risks and uncertainties. Also recording or transcribing of this call without prior permission of the management is strictly prohibited. At this time, I now hand the conference over to Mr. Madhu Terdal for opening remarks.

Madhu Terdal: Thank you. Good Morning, ladies and gentlemen. Continuing its journey of improved performance, GMR has registered one more quarter of good achievements with improved numbers, reduced leverage numbers and reduced leverage ratios. Before that, we are talking in an environment where the broad economic environment is showing quite positive signals. The investments are flowing into the country; the economic reforms have signaled a new completely different story of India; the government continues to focus on major reforms and the implementation of GST is a landmark achievement that is likely to set the entire economy on a different pedestal. It is likely to improve investments and it includes an unprecedented method of transparency in doing business. The Reserve Bank has also signaled and it has reduced repo rate recently while of course latest report suggests a small upward trend in the inflationary environment, considering the good economic monsoon predictions, it appears to be nothing to be of concern. Given these developments of the macroeconomic environment, GMR has continued to march its way towards progress.

Our most notable developments in the Airport sector - Goa Airport which GMR had won sometime back, we have concluded the entire financing for Rs.1,330 crores on door-to-door tenure of 18-years. Adding to this, showing the GMR's resolve for achieving the growth story in the Airport business, we also won the Greenfield Heraklion Airport in Crete Island of Greece and this concession is going to last for another 35-years and we believe that it is going to make a very good global addition to the GMR's global airport story. GMR Airports will also work as airport operator for Greece. Both Delhi airport and Hyderabad airport continue to show significant improvement in terms of traffic and the airport revenues are have grown at a significant pace. During the quarter, the traffic in Delhi airport witnessed a strong growth of 14% and Hyderabad airport registered a growth of 19%. Even Cebu in Philippines it was not lagging behind; its traffic grew up by 16% during the Q1.

Non-Aero revenues which are likely to make the backdrop of GMR's airport profit story, they witnessed strong traction. Delhi airport non-aero revenues grew up by 14% and Hyderabad airport the non-aero revenues grew as high as 21% during the quarter. The strong growth was a combined effect of growth in Retail, Cargo, Fuel farm as well as Advertisement.

There was also a significant development in terms of Delhi airport where a clear clarity is being offered in terms of the tariff. AERA has implemented tariff order of second control period on an interim basis effective from July 7, 2017. The Supreme Court directed the Appellate Tribunal to decide the tariff appeals filed by Delhi Airport within two months from the date of Supreme Court judgment. Obviously, we expect the resolution of pending cases if not in two months but as expeditiously as possible. But however, the point to note is Delhi airport as a pragmatic measure has created sufficient cash reserves of the order of around Rs.3,150 crores as of June 30, 2017 to meet its all contingencies as well as towards the contribution of planned CAPEX and any other eventualities. So GMR Infra continues to show improved performance.

Energy business is also not lagging behind. Energy business registered an improvement in performance driven by higher PLF at Warora plant. As against 44% of plant load factor during the Q1 last year, GMR Warora registered PLF of 77% during this first quarter. Kamalanga plant clocked 65% marginally lower than 72% of the last quarter. But the most notable achievement in the Energy business is a pace at which the regulatory receivables are being realized, thanks to the strong support by the government and the improved performance of discoms. The traction with Warora realizing regulatory receivable of 60 those from MSEDCL and Kamalanga has also received Rs.85 crores under Gridco and Bihar PPAs during the quarters. This is in addition to the regular receivables.

Even Indonesian coal mines which was trying to be a little bit of laggard during the last year, it has bounced back. Golden Energy Mines has reported strong profits of Rs.210 crores during the quarter as against profit of mere Rs.10 crores during the first quarter last year. Please note the significant rise in the profits and this is primarily on account of the appreciation in coal prices backed by the higher volumes as well. The realization of the coal grew 18% to US$41.6/ton and EBITDA per ton has also seen a sharp improvement to US$15.1 as against $4.2/ton during the quarter of last year.

During the quarter, GMR entered into a conditional share purchase agreement for PT BSL for sale of 100% equity. This monetization is a continued journey of GMR's strategy of reducing our debt as well as improving our profitability.

Thus, on a summary basis, based on strong traffic growth in Airport business, backed by the strong non-Aero revenues, improved performance in the Energy business, the consolidated gross revenues at GMR Infrastructure grew up by 41% from Rs.2,239 crores last quarter to Rs.3,159 crores for the current quarter. EBITDA also increased by 11% from Rs.759 crores to Rs.844 crores during the current quarter. Most importantly, the consolidated losses before minority have been reduced from Rs.190 crores last quarter to Rs.107 crores during the first quarter of the current year. So GMR continues to record its improved performance and it has also met its commitment we had promised to the investors of deleveraging and improved performance. So we have continued to show that progress and commitment. The deleveraging ratios have improved our net debt-to-equity which was 3.6x in the first quarter of last year has fallen to 1.4x during this quarter and net debt-to-EBITDA has also shown a very significant improvement as against 10.6x during the Q1 of the last year to 4.2x this quarter.

With this, ladies and gentlemen, let me conclude my opening remarks. We are opening for question-and-answer. Thank you for your attention, thank you for your participation and support. Over to you.

Moderator: Thank you very much. Ladies and gentlemen, we will now begin the question-and-answer session. The first question is from the line of Giriraj Daga from KM Visaria Family Trust. Please go ahead.

Giriraj Daga: My first question is a bit of clarity on this Delhi case where you mentioned that you have started the second control period. So just want to understand like what kind of impact we are expected to see in the coming quarters from that? Do you also able to give some indicative breakup between EBITDA of Aero and non-Aero at Delhi?

Sidharath Kapur: As Madhu had mentioned that with the vacation of the order of High Court by the Supreme Court through SLP petition, the earlier order passed by the regulator in 2015 is implemented and that means there is a drop of almost 89% in Aero tariff. There are two things in this – One is immediately of course the Aeronautical revenues are expected to come down in the remaining part of the year. Even if the same tariff continued or the entire financial year which is not our expectation… I will just come to that in a moment. We expect that we would be in a position to make cash profit in the current year while I do not want to give a detailed guidance on profitability of Delhi airport for the current financial year but if the same tariff continues for the remaining part of the year then we expect to make a PAT loss at Delhi but a significant cash profit.

Giriraj Daga: Cash profit means over and above the covering interest part also?

Sidharath Kapur Yes, covering interest also. Now, coming to where we are in terms of this order, of course, order has been implemented and tariff reductions have happened and they have been passed on to the passengers. Whether the airline pass on or not, that is a different matter, but at least we are not charging. #2 is that the Supreme Court has given a direction to TDSAT which is now the appellate authority for airports, to take the decision in two months. Now, TDSAT has started vigorously hearing the current issues in Delhi all there been. Though we do not expect an outcome in the next two months, but hopefully in the next three to four months, we expect an outcome from TDSAT which will bring a great deal of clarity as far as the pending issues are concerned and we do expect positive outcome on fair number of issues out of our total appeals which are pending. So if that happens, then of course there will be another reworking of the charges by AERA which will go back to the start of the first control period which is effective from April 2009. So there will be a significant true up, which will be available to us if the appeals or any part of the appeals get decided in our favor.

Giriraj Daga: My second question was on the deleveraging plan. Like last quarter we also spoke about land monetization also. So just wanted to get a process that how far we have reached in the land monetization part, how far we are away from receiving the money and getting deleveraged, so just update on that?

Madhu Terdal: Yes, absolutely. Whatever we had told last time, those efforts are in full swing. But as last time also I have mentioned we should wait for at least between somewhat 9 to 12-months that is what I had suggested. But I can only say all the efforts are on the right direction. We are definitely confident of achieving significant results in the coming few months. But as you see that PTBSL we have already achieved it and you will see that kind of deleveraging will happen immediately. Though we have told that is a conditional sale agreement, it is just conditional on the receipt of the regulatory approvals in Indonesia and Singapore. But for that there are no other hurdles on that.

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

Ashish Shah: Just a question on the Energy business. Kamalanga as well as Warora plant we are seeing that, while the utilization has improved in Warora, it still continues to be a little below where we would have wanted to see. So what is stopping the offtake of power from these plants?

Parag Parikh: Clearly if you look at it from a comparative who has seen its own set of improvements on the corresponding quarter. As far as Kamalanga is concerned, while we have been marginally lower as far as PLFs are concerned, to some extent as far as coal supply is concerned, has been a bottleneck over the first quarter. Moving forward, we expect this offtake to continue to move stronger and from an annualized PLF we do expect the numbers to continue to improve. Most importantly and I think what Madhu mentioned also earlier there is also a strong resolution happening as far as lot of tariff policy issues were concerned. Having said that, we have already seen some realization in Warora and in times to come we expect to see this unlocking of the regulatory asset.

Ashish Shah: Parag, for Warora and Kamalanga for FY'18 what would be your best estimate of PLF?

Parag Parikh: We expect certainly to be better than last year. Beyond that I may not give any guidance for this current year.

Ashish Shah: Is the shortfall uniform across all the PPAs or it is one particular PPA where we are supplying short and the others have been supplied at their full potential, so is it like pro rata down or is it …?

Parag Parikh: It is largely pro rata down as far as PPA obligation is concerned for Kamalanga.

Ashish Shah: But there is nothing remaining in terms of any transmission bottlenecks or anything of that sort, so that part is okay?

Parag Parikh: No, that is absolutely fine, it is more only on the shortfall of coal supply.

Ashish Shah: Second question is on any status update that we have on the Delhi and Hyderabad expansion plans. I see that you said that you have got the environment clearance for Hyderabad. But where are we in terms of actually putting money to work, from what timeframe we can expect the money to be actually spent?

Sidharath Kapur: As far as the expansion plans of Delhi and Hyderabad are concerned, the detailed plan is ready. As far as Hyderabad is concerned we have approached the regulator for reviewing the total CAPEX which is now at the fag end, they had appointed an external agency to review the CAPEX and that is almost over now. Once we get their final clearance which we expect that they will approve the entire CAPEX program in terms of the entire cost as proposed by us, we will then start the deployment of capital and start working on the actual expansion work on the ground. We expect that to happen in the next three to four months and it will be spread over the next three to three-and-a-half years. As far as Delhi is concerned, we are in the stage of detail design and we will be approaching the regulator again for the total CAPEX program and that may take another three to four months' post which we will start work on capital deployment.

Ashish Shah: So fair to say that next financial year we would be actually deploying capital in both of these assets?

Sidharath Kapur: Yes, that is a fair statement.

Ashish Shah: On the Bajoli Holi project, any update in terms of how much construction is complete and how much capital would have got deployed so far?

Parag Parikh: As far as the progress of the project is concerned, we are almost through halfway. At this juncture we expect commissioning over FY'19. So that is where we are poised at this juncture. As far as the overall spend on the project is concerned, it is more or less in the same ratio of the 50% number that I gave you both as far as equity is concerned as well as the debt that is being drawn down on the project is concerned.

Ashish Shah: Quickly, Parag, what would be the offtake from this plant in terms of the PPA, what price and everything?

Parag Parikh: We are working on it. As you are aware, originally when we set it up, it was also to take advantage somehow on the merchant tariff and we are working on also parallel on some sort of PPAs. So I think over the next few quarters, we will come back to you on that.

Moderator: Thank you. The next question is from the line of Sachin Kasera from Lucky Investment Managers. Please go ahead.

Sachin Kasera: In line with our asset monetization strategy, are you also looking at exiting the PT GEMS Project?

Madhu Terdal: As I explained to you, PTBSL we have already completed. PT GEMS has shown improved performance. There are capital raising and consolidated monetization plans. We may not be able to comment exactly what we are doing. But definitely I can only hint that there will be some action in that area.

Sachin Kasera: So other than that sir, what are the assets we could look in terms of monetization as of now?

Madhu Terdal: I only want you to take note of that monetization is in full progress, divestment is in full progress and every effort is made, it will be difficult for us to keep a target okay, this quarter I did, next quarter I do not want you to have also to build any such expectation. What we would like to focus on what we have achieved. The trend and the growth direction what we are proceeding and also the improved performance numbers rather than focusing on what is yet to come. So when it comes, you will be able to see it very clearly.

Sachin Kasera: My second question was regarding the sale of some land that we had done. Is there any progress on that or we have to just wait for some more clearance to happen and that is when we will be able to monetize the land at SIR regarding that GAIL Petrochemical Complex that is coming up?

Madhu Terdal: I just responded to the previous query on the subject. Land divestment is not very easy thing, but as I told you that we are making significant progress. All whatever we have explained to the analysts and the investors on earlier occasion continue to be on progress but obviously last time also I told you will see the result in 9-12-months. It will be difficult for me to say what progress has happened on quarter-to-quarter but we are on the right track, we will still stand by what we have told the divestment will be done unless any kind of an unforeseen events happen, we are on track, but it will take some time as last time also I articulated.

Sachin Kasera: On the Delhi land development, post the Bharti deal, is there any more planning that has come up in terms of master plans to what we want to do, how do we want to go ahead, any progress on that?

Sidharath Kapur: No progress to report at this point of time, but hopefully next quarter we will come back with some more update.

Sachin Kasera: Can you give us some sense to what is the amount that you are looking in Phase-3, Phase-1 was Aero city, Phase-2 was the Bharti deal?

Sidharath Kapur: I think over a period of next 12 to 18-months we are looking at about 10 to 15-acres.

Moderator: Thank you. The next question is from the line of Pawan Kumar from CRISIL. Please go ahead.

Pawan Kumar: Currently, what is the status of investment that is happening in Goa airport sir?

Sidharath Kapur: Goa airport, the appointed date is yet to start, there are certain CPs which have to be complied by the Goa government and we are awaiting those to be completed, we are ready from our side to take over the land and kick start the concession period, but once those CPs are complied, then hopefully in the next two months we would start the appointed date and that is when the concession period will start, post that we will implement the construction.

Pawan Kumar: So pre-development process and financial processes are already done sir?

Sidharath Kapur: It does not need any pre-development. The land is fairly good, it does not need too much of development. But there are certain CPs to be complied from the government in terms of rehabilitation which are yet to be done and plus some small portion of land acquisition. As far as we are concerned, financial closure is complete, all the debt has been tied up, equity is already available with us in GMR Airports. We are ready to move ahead as soon as there is a green signal from the Government of Goa.

Pawan Kumar: My another question is regarding the Hyderabad airport. You have mentioned earlier that next 3-3.5-years you will be seeing some investment. Could you tell me how much you are expecting in Phase-2, how much investment is envisaged or something like that?

Sidharath Kapur: The total investment is about Rs.2000-2300 crores, and there will be some debt raising depending on how much cash we are generating over the next 12-months to 24-months. But the entire equity portion is going to come from internal accruals and there would be some debt raising which will happen, we will see as we progress.

Moderator: Thank you. The next question is from the line of Vibhor Singhal from PhillipCapital. Please go ahead.

Vibhor Singhal: Just a couple of details and clarifications that I wanted; what would be our gross debt number at the end of this quarter?

Madhu Terdal: The gross debt number at the end of this quarter is Rs.19,947 crores.

Vibhor Singhal: This would not include the debt on Chhattisgarh and the Rajahmundry plants, right, because there would be less than 50% holding?

Madhu Terdal: That is true.

Vibhor Singhal: Sir, out of this Rs.20,000 crores, how much debt would be at the various holding company level which is your GEL, GMR Highways and any other holding company which is a non-SPV debt?

Madhu Terdal: Corporate Debt is Rs.4,417 crores.

Vibhor Singhal: Also sir, basically Chhattisgarh and the Rajahmundry plants if I look at the presentation, post the SDR wherein debt was converted into equity, I think in both the projects put together that is around Rs.8,300 crores of debt which is still there, am I right about that?

Madhu Terdal: That is right.

Vibhor Singhal: That we would be paying interest on that?

Parag Parikh: Given the nature of how the RBI has announced its SDR Scheme, it goes into a standstill period. So during the standstill period, there is no payment of interest.

Vibhor Singhal: So it would be going in the interest accrued but not due?

Parag Parikh: That is correct.

Vibhor Singhal: That would keep getting accumulated?

Parag Parikh: On the books of accounts, yes.

Vibhor Singhal: But at this point of time, there is no cash outflow vis-à-vis the interest expense?

Parag Parikh: That is correct.

Vibhor Singhal: On the Chhattisgarh plant, what is the status on the Talabira and the Ganeshpur coal mines that we have done, I think last quarter there were some reports that we were looking to maybe basically get an arrangement with the government to maybe cancel the Ganeshpur mine or something like that. How true is that and what is our stance on that, how do we see these two mines going forward?

Parag Parikh: All those alternatives are being evaluated at this juncture, Vibhor. Having said that of course while Ganeshpur is still about 18-20 months away, the operationalization of mine itself is concerned. Talabira of course is an operational mine and to that extent that continues to remain under operations for us. We are evaluating all possible alternatives. To a large extent as you would recognize, also in the current scheme of an SDR, lenders are also co-owners and to that extent all these possibilities are being discussed.

Vibhor Singhal: How much money have we invested into these two mines till now?

Parag Parikh: The number will be in the somewhere in the range of about Rs.80-90 crores.

Vibhor Singhal: At this point of time, as you mentioned the Talabira coal mine is already operational. So what are we doing with the coal that we are extracting out of there?

Parag Parikh: On and off, there are some operations going on. Even if you look at in the first quarter, there are some operations which are going on in the Chhattisgarh plant.

Vibhor Singhal: We are supplying it to the Chhattisgarh transfer?

Parag Parikh: No, this is going all in merchant tariffs for any short-term PPAs.

Vibhor Singhal: On the Delhi Airport business, this 89% drop in aero tariff that has been implemented by AERA after the order of the court, I believe the second tariff order was announced by the government three years back, so three years delay has already happened in that. So this 89% tariff, does that take into account the three years delay that AERA has faced in implementing that order itself or assuming let us say whatever is the final outcome of that, there would be still be an incremental basically drop that they would propose beyond this 89% if the second tariff was to be implemented as they had said?

Sidharath Kapur: The tariff order was passed by AERA in end of 2015 somewhere in December if I remember this correctly. Firstly it is not three years, it is less than two years. The second point to give you a categorical answer, no, it does not factor in the collection or the overcollection over the last two years.

Vibhor Singhal: So just taking into account the worst case scenario that might happen, in case the ruling is not in our favor, we have to go with 16% cost of equity and also Nil return on real estate deposit as well. So if they get their way, then they would probably have more of the two years over-collection that we would have to compensate them for?

Sidharath Kapur: But that would get carried over to the next control period.

Vibhor Singhal: Next control period of course, because we are having CAPEX, so we would expect some increase in tariff any which ways?

Sidharath Kapur: Correct and your non-Aero revenues, real estate revenues are going to be much higher. So we expect that in the worst case situation in case this overcollection gets accounted for and moves on to next control period, then there will be an adjustment in the next control period tariff.

Moderator: Thank you. The next question is from the line of Sangeeta Purushottam from Cogito Advisors. Please go ahead.

Sangeeta Purushottam: My question was really relating to the news on Rajahmundry which said that basically RBI has not given the extension that the bank have requested for. Now, I would just like to understand what is the financial implication of that on you in case given that this extension is not there because there is some kind of a corporate guarantee right of approximately Rs.2500 crores. So is that likely to get invoked? What happens to the interest going forward in these cases?

Parag Parikh: I think let me just give you a perspective of where we are as far as Rajahmundry asset is concerned. Clearly, on one hand there is an improving underlining gas scenario, that is likely…when I say gas scenario improvement likely, if you recollect there was an eRLNG Scheme which was on for about two years, clearly there is a lot of active engagement going on today to see if reestablishment of such policy can happen. So that is one parallel track that is going on. On the other hand, there are guys like ONGC who have enhanced their production. Today, they are doing about 5.5 mmscmd and is expected to touch about a number of 20 over the next two years. So that is where the scenario as far as gas or fuel supply is concerned. The reason for me for mentioning this is that this is the fundamental criteria on how the asset will start evolving over the next 24-months. B) As far as lenders are concerned, the lenders have actually gone through a process of appointing an investment banker to help them in terms of possible or potential sale of the asset. This process is actually to some extent being concluded. There have been a few interest that have actually come from various parties. To some extent, there has been an active investor who also put forward and keen to look at this asset. What you see as far as RBI is concerned, in this context, obviously it is never easy for a collective consortium to make any decision and therefore there was a request for this extension as far as RBI is concerned.

Sangeeta Purushottam: I understand that. My question is that what is the implication now because I think you were not paying interest on this debt and the understanding was that any interest would be booked but it will get recovered from whoever buys the asset or whatever arrangements are made with the new asset owner. Now given the process is not concluded, is there any financial liability on you going forward till it gets concluded?

Madhu Terdal: At this point of time, there is no financial implication for the group because this does not fall into a normal category, it is sort of a force majeure situation as far as the gas availability is concerned. So both the entire Power Ministry, Lenders, Reserve Bank as well as with the help of the corporate, I think we are confident of arriving at some solution in the not too distant future. I think we should wait for the outcome. I can only say that at this point in time we do not have any kind of a financial implication on the group.

Sangeeta Purushottam: So although there is a corporate guarantee, you do not see that will be invoked by the bankers, what you are saying is that all the stakeholders will work for the next few months to try and find a solution on this, is it?

Madhu Terdal: That exactly is the correct point because it is as again I told you it is not in a normal category, it is a force majeure situation of non-availability of gas. So everybody is keen and everybody is focused on finding out a good amicable resolution. That is what the efforts are on.

Sangeeta Purushottam: My second question was actually also related to some news terms which have appeared over the last couple of months saying that you are possibly looking at a partial divestment in the Hyderabad Airport project or in the Airport. I just wanted to understand your thinking on this because the communication has consistently been that Airports is going to be the new area of focus, there is enough profitability and cash flow over there. So a) are you actually thinking of any partial divestment and what would be the reasoning for looking at that?

Sidharath Kapur: You are right, I think Airports are definitely the growth engine and Aviation sector is doing exceedingly well. But having said that, I think news items which keep appearing in the press are quite speculative and it will not be appropriate to highlight any particular fact. So nothing definitive has happened at this point of time. But the intent of the group is definitely to retain management and controlling stake in all its underlying airport assets.

Sangeeta Purushottam: I understand that the news items are speculative, but what is your own thinking -- are you open to actually doing a partial stake sale may be to get a valuation, how are you really looking at it because from a cash generation point of view, it seems to me that you do not really need cash in this business, just wanted to get an insight on this?

Sidharath Kapur: I think it will be very speculative at this stage to even talk about any thinking because any approach as far as stake sales are concerned are quite opportunistic and can depend on various other factors. But at this stage, I think the only point I can highlight is that the intent of the group is to retain controlling and management stake in all the entire underlying airport assets.

Sangeeta Purushottam: There is an FCCB which has been raised at the GMR level which is to the Kuwait Investment Authority. When you gave the corporate debt number of 4417, is that including the FCCB or is it excluding it?

Madhu Terdal: No, it does not include the FCCB number.

Sangeeta Purushottam: How much would that FCCB be right now in terms of rupees crores?

Madhu Terdal: Same Rs.2,000 crores.

Sangeeta Purushottam: So that is also effectively in a sense corporate debt until the point it gets converted or repaid, right?

Madhu Terdal: But it must be noted that it is a 60-year non-recallable debt. Except the servicing of interest on an annual basis, there is around Rs.150 crores, there is no other real servicing obligation on the FCCB.

Sangeeta Purushottam: The currency fluctuations on the principal amount, how are you dealing with it -- you are taking it straight into the balance sheet or does that flow through the P&L?

Madhu Terdal: That is right, through the balance sheet.

Sangeeta Purushottam: The core Rs.2,000 crores of principal is not hedged?

Madhu Terdal: No, but interest is being hedged on a rolling over basis, and in any case, rupee has very substantially appreciated also.

Sangeeta Purushottam: We do carry some risk on that, right, because rupee movement can be either way?

Madhu Terdal: It is hardly anything… it is only $22.5 million p.a. and we are watchful of the currency development. So whenever on a rolling over basis, we keep covering it. So we do not see there is any significant currency exposure or risk, because we are seeing the anticipating trends, we are taking advantage of keeping it open, but whenever it is required, we keep covering it on a rolling over basis.

Moderator: Thank you. We have the next question from the line of Rishi Maheshwari from Aksa Capital. Please go ahead.

Rishi Maheshwari: I would like to know the sustainability of the traffic that is coming at the airport. Do you think this is post-demonetization that you are suddenly seeing this kind of jump or do you think over the last few days also you have seen the same traction in both the airports that is under control?

Sidharath Kapur: I think if you talk about on overall basis across India, we are seeing continued traction. What is definitely happening is that a) the growth in GDP and per capita income is pushing traffic growth especially in Tier-2 cities. In fact, if you actually drill down and look at the growth which is coming in Tier-2 cities is ranging from 30%-40%. Having said that, large part of the traffic growth even which is coming from Tier-2 cities will spill over to Tier-1 cities which are the major metros, and we are definitely seeing traction as we go ahead. There has been a little bit of slowdown in Delhi, but Hyderabad continues to grow on a domestic side very-very strongly at 23%, Delhi has grown at 15% over the last quarter. A large part of the traffic growth will also depend on the sustainability of airline ticket prices. India is a fairly price elastic market and we have seen of course in major metros and some parts of certain sectors, shortage of fees and that has pushed up ticket prices and that has impacted growth to some extent, but still if you compare it with global standards, it is high double-digit and our expectation is that we are going to see very strong growth coming over the next 4-5-years, and that is likely in the high double-digit. India is probably at the same stage China was about 10-12-years back when there was a major paradigm shift in the entire aviation sector and the growth which kicked it took it to the third largest aviation economy, but as far as India is concerned, I am very confident that this growth will sustain.

Rishi Maheshwari: So my associated question was do you expect major CAPEX ramp up in the third control period or is that already frozen?

Sidharath Kapur: One is of course, yes, it is traffic dependent and whenever we will have to of course take a mid-term reviews and see and fine-tune our CAPEX plan depending on how strong the traffic growth is. But having said that there are other ways also to manage growth as we have seen in Hyderabad; Hyderabad has a rated capacity of 12 million while we did 15 million last year and closed in the last financial year at 15 million traffic and this year we are still seeing 20% growth and effectively without any CAPEX We are able to manage. This is being done by optimizing processes, by spending small money here and there in the airport to facilitate quicker processing and there are ways and means to manage growth even through non-CAPEX modes. So we will continue to work on both on processes as well as of course spending on infrastructure.

Rishi Maheshwari: My calculation suggests that even if Appellate ruling does not come in your favor, you will still be able to generate cash flows between Rs.1,000 crores to Rs.2,000 crores in this financial year. Would this be utilized towards retiring debt, you have done I think about Rs.400 crores of retirement of debt in the last quarter, would we believe that rest of the year, we should able to look at upwards of Rs.1000 crores of retirement?

Sidharath Kapur: In Delhi, there is no debt to be retired at this point of time. The entire debt of Delhi airport is in the form of long-term dollar bonds. The earliest repayment is in 2022. So the only obligation on this debt is to pay the interest.

Rishi Maheshwari: So I was talking from consolidated perspective. I understand that the airports cash flow cannot be used to retire the debt from the other parts of the business. But just understanding the cash flows that is coming for instance from the Indonesian coal mines is also substantial. Therefore, is the endeavor to at least retire about more than Rs.1,000 crores of debt in the remainder of the financial year?

Madhu Terdal: In the sense, we will continue to make the regular payments whatever is that I do not know whether exactly, the total will add to around Rs.800 crores or 1,000 crores able to tell you, but possibly, we may be able to explain exactly how much is there. The spikes of divestment will be a different aspect. But as I have told you in terms of monetization of the land it happens possibly, definitely that itself will be in the range of Rs.700 crores to Rs.1000 crores.

Moderator: Thank you. We take the next question from the line of Naveen Jain from Florintree Advisors. Please go ahead.

Navin Jain: In the segment reporting that we do along with the consolidated financial statement, there is a EBIT loss of Rs.170 crores plus in the Energy segment.

Vishalkumar Sinha: Rs.175 crores Energy what you are referring to that is primarily our share of the losses in Chhattisgarh and Rajahmundry, we still hold around 45% in Chhattisgarh and Rajahmundry, so that share is coming to this amount primarily, Chhattisgarh around Rs.140 crores and Rajahmundry around Rs.45 crores.

Navin Jain: Second question was in continuation to the question that was asked on Rajahmundry project, since the RBI has not allowed the extension, to find the new promoters, does that mean that this project is no longer going to be sold and the only option left is basically to look for other alternative solutions as you were indicating?

Madhu Terdal: Lenders who are driving the divestment process with the full cooperation of the corporate. As Parag rightly told till it is sold which is the availability of eRLNG, wherever it is available, it will be operated. The attraction for the buyer will be the kind of a potential that is likely to be emerging out of the improved gas possibility in ONGC and other fields. So full-fledged effort is on and definitely we are hopeful that it will be divested soon.

Navin Jain: There is one more question on this Greek airport. When do you expect the operations to start and what is the potential airport operations that we can sort of expect in FY'19 on that?

Sidharath Kapur: So as far as the Greek airport is concerned, it is a Greenfield airport and we have participated in it on an asset light basis. Our equity is 10% which is the minimum required for an airport operator. There is no debt in the project. It is two-third funded by government grant and rest by equity. We have the option to increase our equity to about 22%, but that option is in our discretion. But 10% is what we are looking at, at this point of time. The operator fee will kick in after the commencement of operations, the construction is expected to take about 4-5-years. The operator fees 2.5 million or 2.5% of revenue whichever is higher, so there is a minimum €2.5 million of operator fee which will come in. Apart from that, we are also providing the project management services for the construction for which there is a separate fee during the construction period and also ORAT will be provided by us. So we will be earning fee-based services revenues expected is about €15 million to €20 million over the construction period.

Moderator: We have the next question from the line of Jinesh Sheth from Arete Services Private Limited. Please go ahead.

Jinesh Sheth: Just wanted to get more visibility on the true-up related to DIAL that you mentioned on the call earlier.

Sidharath Kapur: So what I mentioned was that depending on the outcome at TDSAT level which we expect in the next 3-4-months hopefully by end of this calendar year, we expect that there would be certain issues which will be ruled in our favor, and with those issues coming as a positive outcome to us, we expect that there would be recalculation on account of these issues by AERA which will go back to the start of the first control period which was April 2009. So effectively there will be true-up available starting from 2009, so almost 8-years plus of a true-up will be available in respect of those issues which result in a positive outcome. That will be then recalculated and we will have to go back to the regulator to make changes in the tariff structure keeping the outcome of TDSAT in mind. Even in the worst case situation, let us say that does not happen and nothing gets ruled in our favor, we have the option of going to Supreme Court which is the final authority as far as these appeals are concerned. Apart from that, there is a minimum protection available under the concession agreement which is base airport charges will be available to be charged by Delhi airport at any point of time during the entire concession period. So base airport charges are charges which were prevailing in 2006 plus 10% which are available as a bottom line protection in terms of those charges. So those rates multiplied by the traffic in the relevant year would be the base airport revenue which will be available to us.

Jinesh Sheth: Sir, can you please quantify the true-up that you are mentioning?

Sidharath Kapur: It is very difficult to quantify, it depends on the outcome of the issues which are pending with the regulator, but all I can say is that they are expected to be very-very significant.

Jinesh Sheth: Sir, this must be based on the security deposit of around Rs.1,500-odd crores that we are not getting any return on that capital?

Sidharath Kapur: That is one issue, there is a long list of other issues also.

Jinesh Sheth: So that will still be significant to set off the entire excess collection that we would have made by the end of the second control period?

Sidharath Kapur: If everything gets decided in our favor, of course it will wipe off the entire excess collection. But depending on where we land in terms of outcome at TDSAT, the results can be different and there can be many permutation combination.

Jinesh Sheth: So just to understand it better, our second control period tariff was supposed to be Rs.7,700-odd crores for the entire five year period, right?

Sidharath Kapur: That was approximately the target revenue.

Jinesh Sheth: You would have collected by now upwards Rs.11,000 crores?

Sidharath Kapur: Yes, that is right.

Jinesh Sheth: The remaining that we will collect of course now the Aero revenue rates would be revised down by 89%, so the balance of around Rs.4000 or Rs,5,000-odd crores we can get if everything comes to our favor.

Sidharath Kapur: Absolutely, that is right, in fact, more than that.

Jinesh Sheth: Apart from the security deposit front, can you specify what are the other contextures that we have?

Sidharath Kapur: There is a long list but I can highlight few of the major ones -- one is of course, the return on deposits, second is the return on equity itself, the rate; third is the value of the hypothetical RAB; fourth is how they treat CPI in the calculation of the target revenue; fifth is the way taxes are treated one of the building blocks in the calculation of Aeronautical revenues. These are I think the major ones. There is a long list of another 10-12 other items also.

Madhu Terdal: For the benefit of all the people, any finer details I think it will be good to get in touch with the Investor Relations team perhaps they will be able to assist you in understanding more on this. So if it is okay with you we would like to move forward on that.

Jinesh Sheth: Fair enough, surely. Just one more point. I just wanted to get some visibility on the sustainable EBITDA for DIAL say for the third control period, if you can throw some light on that?

Madhu Terdal: As I mentioned to you, we would rather like you to engage with our investor relation team. It will be difficult to do any kind of a projected futuristic statement.

Moderator: Thank you. We take the next question from the line of Nalin Shah from NVS Brokerage Private Limited. Please go ahead.

Nalin Shah: I heard lot of improvements in terms of operating parameters with the various businesses which GMR is engaging. But when I look at the segment results, what I find is that the segment contribution has improved in the Y-o-Y hardly from Rs.498 crores to Rs.543 crores which is I would say, Rs.44 crores, hardly any of significance. Secondly, in terms of finances though your top line has grown by almost Rs.1,000 crores, there is hardly any improvement in the segment results. Secondly, finance cost also from Rs.476 it has come to Rs.466, so there is hardly any visible improvement in that. So what we want to understand because there is a complexity of these different businesses are there, what is the earliest period in the next three years timeframe when GMR as per your internal appraisal could come to at a net level some profitability can be shown.

Madhu Terdal: You have already seen the fortunes of the company are turning. So let us admit these things first. Fortunes of the company are turning, kindly see relative with our other peers also how the GMR position has been improving continuously, our debt is coming down significantly, our interest cost is coming down. It is a combination of the reduced liability as well as the extra debt whatever we might have taken. So you will start seeing these results in the coming quarters. What is important to see is the trend. I think people will be like to see how the situation is improving rather than exactly when I am going to hit the target. So it will be a combination of the overall macro policies of the government. It will be the divestment successes that we are going to achieve and also the improved profitability. The three, four things are very clear. Our debt is coming down, the interest rates are coming down, absolute interest cost is coming down, our divestment efforts are giving results. I think that should be sufficient pointers. I think it leads to your judgment as well as anybody’s else judgment as to when actually that point in time what you are looking for will happen.

Nalin Shah: Secondly, on the notes to the accounts, in the note #2, we find that there is some dispute regarding these compulsorily convertible preference shares which you have issued in the subsidiary company and there is some dispute regarding some Rs.663 crores and some Rs.441 crores. Can you throw some highlight on that what is this dispute all about and whether this was some kind of guaranteed return transaction or what was the exact nature of this transaction?

Sidharath Kapur: There is CCPS which are outstanding in GMR Airports from three large PE investors. This money was taken in 2010 and 2011. There was to be exit to be given to that at the time when we took this investment, things were little grave on account of structured transactions like this, but things became a little more explicit in 2013 and 2014. As a result of which we had to seek RBI approvals for providing any kind of an exit and we also exercised the call, the right was available to us to exercise a call on these instruments. That was done in 2015, but RBI did not give us an approval to go ahead with this. Exit can be in the form of conversion to equity. But again, given the nature of the structured instrument, it needs regulatory approval. So we went to the regulator, regulator has not responded on our request to provide approvals. There is still some discussion going on between the regulator and the Government of India not just on this transaction but also on various other similar kinds of transaction. Having said that these investors went into arbitration, there is an arbitration which is going on in Singapore as per the terms of this agreement, which is on the conversion of this CCPS into equity, which is currently pending, which is what is the notice about.

Nalin Shah: So if this is getting converted into equity shares, then what will be the kind of effect on the GMR Airport's equity, what kind of a dilution we are seeing there?

Sidharath Kapur: So at this point of time, it cannot be really highlighted what will be the dilution because it will depend on the outcome from the arbitration.

Madhu Terdal: I think it is being under arbitration and matter is of a subjudice nature. I would suggest that the notes are quite elaborate as they explain. But any clarification on that we will be happy to engage with you separately. It would be difficult to draw conclusion since there is an arbitration process is going on. So I would request you to respect the process of judicial process that is going on because very elaborate notes have been given on that. Mr. Amit Jain from Investor Relations is available to you. As long as it is not in the nature of judicial dispute, we will be very happy to give any clarification.

Moderator: Thank you. We have the next question from the line of Aditya Jaiswal from Stewart and Mackertich. Please go ahead.

Aditya Jaiswal: As you know that the Indian Railways has identified about 400 stations for modernization, could you put some light whether are we planning to bid for any projects especially one in the Anand Vihar terminal?

Mohan Rao: Yes, we have evaluated upgraded of these stations, etc., but as on today, we have not yet taken on any decision on this and we have to still wait to look into these stations upgradation.

Moderator: Thank you. We have the next question from the line of Giriraj Daga from KM Visaria Family Trust. Please go ahead.

Giriraj Daga: Few clarifications; Rajahmundry, the SDR date is over right sir, it has happened in Q1 or this quarter?

Madhu Terdal: Q1.

Giriraj Daga: Any indication where the banks have taken it a write-off of this because as per the rule after 18-months, they will have to provide the entire thing, right?

Madhu Terdal: We do not know how the bank is treating it. But as I told you, the whole efforts are on finding a solution. Accounting wise, we are not aware how exactly they are doing?

Giriraj Daga: So we are not seeing any Q2 impact also because some write-down or something on the Q2 on this account so far as of now?

Madhu Terdal: Obviously.

Giriraj Daga: My second clarification is that you said the base charges airport 2006 is 10%, that is 10% CAGR from thereon, right?

Sidharath Kapur: No, no, it is the base airport charges which were the charges prevailing in 2006 plus 10% on that, that is the base airport rates, it is not 10% CAGR year-on-year.

Moderator: Thank you. We take the next question from the line of Nirzar Gupta from Mavenvest. Please go ahead.

Nirzar Gupta: I have two questions. We have heard the Neyveli management talking about looking at GMR Chhattisgarh project for acquisition. So if you would like to throw some light on what is the progress on that, some due diligence, etc., is also going on? Secondly, if you could throw some light on any further progress on the road divestment. Thank you.

Parag Parikh: So as far as Chhattisgarh is concerned, obviously, you have seen in some of the print media also. Neyveli Lignite has been evincing interest in buying out potential thermal assets. So I think that is where it stands and clearly both in terms of their own existing mines logistics wise. Chhattisgarh has an asset is well-suited. Given the fact that this is a government undertaking, it has to go through its own processes it is still at that stage where it is taking initial steps. But beyond that, I think too early or premature for us to come on this.

Madhu Terdal: As far as Roads is concerned we are continuing to focus on the divestment efforts. We hope you will see some traction in the coming quarter.

Moderator: Next is a follow-up question from the line of Ashish Shah from IDFC Securities. Please go ahead.

Ashish Shah: Just a small clarification on the Energy segment EBIT which we discussed some time back of Rs.180 crores loss. So what all does this include if you can just summarize it again?

Vishalkumar Sinha: Yes, it includes primarily Rajahmundry and Chhattisgarh our share, it has got the PT GEMS 30%, that is Rs.60 crores positive this time, then it has GMR Energy and Kamalanga, so Kamalanga you have seen around Rs.50 crores total losses about a quarter, but Rs.23 crores is our share. So the entire Energy portfolio, our share we are accounting as an associate.

Ashish Shah: At the EBIT level also, these losses are consolidated from Rajahmundry and Chhattisgarh as well?

Vishalkumar Sinha: Yes, yes, the segment result includes these losses.

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

Madhu Teral: Thanks a lot once again for all your attention and the continued interest in GMR. You will be able to make out that the GMR is carving out a different road for itself compared to lot of infrastructure company and like it is a sustainable growth you are seeing compared to what we achieved in the last year and you will see this continued progress is being seen in the quarter, and we hope to continue the same kind of trend in the coming quarters also.

I would also like to place on record our contribution and the presence of all my colleagues here -- Mr. Sidharath Kapur, Radhakrishna Babu, Rajesh Arora from the Airport sector; Mr. Parag Parekh and Ashis Basu from the Energy; Mr. Mohan and Amit Kumar from the Highways; Mr. Sushil Modi from the Strategic Finance; Amit Jain from the Investor Relations.

So ladies and gentlemen, thank you very much and look forward to see you in the next quarter. Over to you.

Moderator: Thank you very much. Ladies and gentlemen, 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