"GMR Infrastructure Limited Q3FY19 Investor / Analyst Conference Call Transcript"
Monday, 18 February 2019

Moderator: Ladies and Gentlemen, Good day and welcome to the GMR Infrastructure Limited Q3 FY19 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, 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. Grandhi Kiran Kumar – Corporate Chairman and CFO of GMR's Business Verticals. 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. Grandhi Kiran Kumar for the opening remarks. Thank you and over to you Sir.

Grandhi Kiran Kumar: Good morning to all. I welcome you all to the third quarter results of financial year '18. I would like to highlight the following major initiatives and development we have taken as a group before we proceed to the financial results.

We are undertaking a corporate restructuring exercise with a view to deleverage our balance sheet. GMR Infrastructure board has decided to form a sub-committee, to evaluate with demerger of airport business, to facilitate value unlocking in it and pave way for growing airport business, raising equity and accelerating deleveraging. The committees shall be evaluating all possible options for demerger/value unlocking of our airport business expeditely. Secondly, as we all know that finance is a core function for any growing leading organization hence we are reorganizing our finance function to give focus to specific areas requiring specific skill set. Accordingly, we are segregating our finance functions in two focus areas, one being accounts, compliance, audit, shared services, IT etc. which are the backbone for efficient working of any organization. And second area being the strategic functions including M&A, divestments, investor relations, fund raising, value unlocking etc. The aim of this restructuring is to achieve our aim of deleveraging at the earliest.

Mr. Suresh Bagrodia, joined us few months back and is responsible for audit, compliance etc. and Mr. Sushil Modi will spearhead the Strategic Finance initiatives. To bring synergies between both the finance functions, I am happy to inform you that we have appointed Mr. Saurabh Chawla as Executive Director, Finance and Strategy, in the category of the CFO and KMP of the company in place of Mr. Madhu Terdal. Mr. Madhu Terdal will now be in charge of new and strategic initiatives of the Group and is designated as Executive Director - Strategic Initiatives. Now I hand over the proceedings to Mr. Madhu.

Madhu Terdal: Thank you Chairman and good morning to all. The year so far though has been quite turbulent but has also been equally eventful. On one side, we have witnessed tremendous growth opportunities in the airport sector and on the other hand, we also saw some resolution of power sector. The airport saw a growth of ~11% in traffic; equally on the energy business we saw improvement in the growth rates. Indeed, we also saw signs of improvement in the resolution of regulatory issues as well as the payment record of the distribution companies. We emerged as a successful bidder for Nagpur airport during the quarter and are awaiting final letter of intent from the government. Keeping the reputation of GMR as one of the largest airport developers, recently, we have bid for all the 6 airports that are being announced for privatization from the government of India. Obviously, considering the strength of GMR Group and its abilities in terms of nurturing the airports and various dimensions of the airport activities, we are confident that we will get some good results.

Delhi airport to begin with, the traffic grew by around 9% and the non-aero revenues registered a growth of 19% during nine month ended December, 2018. The non-aero revenues basically stemmed from 26% growth in retail and 28% growth in the cargoes in the quarter ended December, 2018. The much awaited monetization has also been ushered in. The DIAL Board has approved the monetization of our Delhi airport land of up to 10 million sq ft. The RFP is being received very shortly. The Delhi airport also made a cash profit of 142 crores for the quarter ended December, 2018.

Following the orders of the AERA, DIAL has also implemented the base airport charges and this has resulted in an additional revenue of 9 crores for the month of December 2018 and this is likely to go up in the coming quarters. The Delhi airport has also filed the tariff application with AERA for the third control period that is 2019 to 2024. The work for the Delhi airport capacity from 64 million to 92 million passengers is on full swing and we will be making certain announcement shortly.

As far as Hyderabad airport is concerned, passenger growth registered a robust growth of 20% to 15.87 million passengers for the nine months and the revenue grew by 17% backed by 15% year-on-year growth in aero and 21% year-on-year growth in non-aero. Hyderabad airport also made a cash profit of 231 crores for the December ’18 quarter. Hyderabad continues to grow as few airlines such as Air India, Air Asia, Indigo, Spice Jet, TruJet and Vistara have added about 4 to 5 new routes and 10 to 12 frequencies. The expansion plans of Hyderabad are also on time and we will be sharing more details in the coming quarters.

The construction work in Goa has gone as per regular speed. Already more than 230 crores have been invested in the project and government of Goa has also constituted Mopa Airport Development Authority to provide a single window administrative clearance to fast track the Mopa airport project, including land site development.

Coming to the latest edition of Cebu, the passenger traffic grew by 15% to 8.63 million and made a cash profit of 58 crores. New terminal in Cebu has already been commissioned and we are in the process of renovating the earlier old terminal that is Terminal 1.

Coming to the energy sector, Power sector still continues be to under stress. But the government of India has initiated several measures and important one among them is the constitution of the High-Level Empowered Committee to address certain issues. The high-level committee not only has highlighted the causes of stress but suggested remedial measures which include coal availability, implementation of change in law, the transparency in payments of distribution companies, improvement in distribution system. We expect these measures to be announced by the cabinet shortly and this should help in revival of the Power sector. Pending these announcements, our Power plants have continued to show good growth. GMR Warora Energy showed an improvement of PLF from 65% last year to 75% this quarter and we also made a cash profit of 35 crores as against 18 crores last year.

As far as Kamalanga is concerned, it made a very significant improvement. As against 54% of PLF last year we clocked a PLF of 74% during the last quarter. But coming to the cash profit as against a cash loss of 47 crores last year we made a cash profit of 115 crores. Bajoli Holi has made substantial progress towards the completion and we are planning to achieve the COD by the third quarter of 2019-20.

Coming to our stressed assets namely Chhattisgarh Energy, as we have earlier informed to you the lenders on the GMR Chhattisgarh Energy have already approved the change in business management plan and the new buyer has already been identified. Almost about 80% of approval from the lenders has been received but with a view to shorten the time the lenders have passed the resolution to take the application under the Sashakt Scheme for approval as only 67% approval is required under the Sashakt Scheme. We expect the resolution to be completed before March 2019. With that GMR will be resolving the issue of GMR Chhattisgarh Energy. The second stressed asset Rajahmundry Energy, as we have informed last time, we have received 100% approval from all the lenders under the bilaterally accepted resolution plan between GMR and Rajahmundry and as a result of which the sustainable debt will be coming down to 60% only and this is likely to be completed in the second or third week of this coming March.

As far as Indonesian coal mines are concerned, the success story continues. The sales volume increased by 68% to 6.9 million tonnes as against 4.1 million tonnes and revenue also increased to 1980 crores as against 1206 crores the previous year. Profit also grew up by 17%.

Lastly but not the least, the urban infrastructure made substantial improvement. We executed the concession agreement for development of commercial port in the East Godavari district of

Andhra Pradesh. The port will be developed with an initial capacity of 16 million tonnes and will be spread over 2000 acres and it has already received the state support from the government of Andhra Pradesh of up to 200 crores. Government of Andhra has already signed an MoU with Haldia Petrochemicals to set up refinery cum Petrochemicals in the Kakinada SEZ. So you will be hearing much good news in the coming months in this sector as well. Of course to clarify that GMR is not intending to make any significant capital investment in these areas.

With this I would like to open the forum for question and answers and I will revert back to you during the closing remarks.

Moderator: Thank you sir. Ladies and gentleman, we will now begin the question and answer session. The first question is from the line of Nikhil Upadhyay from Securities Investment Managers.

Nikhil Upadhyay: On the urban infrastructure side i.e. on the Tamil Nadu SIPCOT thing, we had received some request from them regarding the land for the Defence. So where are we in terms of the monetization process there and what is exactly taking the time in that case?

Mohan Rao: The SIPCOT is having the plans to buy this land and already they have issued certain government approvals and audit. We're waiting for the final approval from the collector. Once it is released, the SIPCOT is going to acquire the land. It is in a very advanced stage. We will get this acquisition by SIPCOT shortly.

Nikhil Upadhyay: If I am correct, based on the annual reports of the subsidiaries what we have mentioned that total land which SIPCOT will take from us should provide us around 300-400 crores of cash accruals?

Mohan Rao: Yes around that. In fact, they are also acquiring phase wise. Depending on that overall, we will get this amount.

Nikhil Upadhyay: That should be probably by this calendar year or next 15 months do you think it's visible in terms of…?

Mohan Rao: Yes partly it will happen in this calendar year and a small portion in the next calendar year.

Nikhil Upadhyay: On the airport side starting with DIAL, on DIAL what I had understood was that we were doing the zoning of the land and going to AAI for getting all the approvals for monetization. So that approval from AAI regarding the zoning we have received for all the zones or where are we there in terms of the approvals for monetization of land?

Madhu Terdal: The land has been earmarked as per the master plan. We have asked for the FSI which is still pending with the Airport Authority of India.

Nikhil Upadhyay: This 60-65 acres which we are planning to monetize, so we have the approvals and everything for this land?

Madhu Terdal: The board has already approved for 10.6 million sq ft of commercial space. The land area has not yet been finalized implying land parcels have been identified. The FSI is depending upon the approval from the AAI; the number of acres will vary. But we are expecting it will be around 60 to 65 acres basing on the estimations.

Nikhil Upadhyay: Do you sense that it can happen in this year or any cash accruals in this calendar year?

Madhu Terdal: It may not happen in current quarter but this calendar year certainly it will happen.

Moderator: Next question is from the line of Giriraj Daga from KM Vesaria Family Trust.

Giriraj Daga: First question is on the net debt; so if I look at quarter-on-quarter like September quarter to this quarter, net debt is up by about Rs. 4600 crores, so if you can give possibly the cash flow status of how the cash has moved and how the CAPEX and the working capital has behaved from quarter to quarter? My second question is related to the Hyderabad airport, is there any case or is there any hearing pending that it might impact FY20 revenue - on that so may be next controlled period are we looking at whether the current rate would sustain or we might have to lower the rate in the next controlled period on Hyderabad particularly?

Madhu Terdal: I will request Mr. Vishal to address on the net debt issue.

Vishalkumar Sinha: The net debt increase is primarily because of the settlement of the private equity which has happened in the last quarter. So, around 3500 crores of the loan has increased because of that loans we have taken and 2000 crores NCDs that has been invested by the investors, so both has been treated as the borrowings. And plus there is a CAPEX which has been started in Delhi and Hyderabad airports, so the cash has come down by around 500-600 crores in these two airports. That is the main reason of increasing the net debt overall.

Madhu Terdal: Regarding Hyderabad is Rajesh there?

Rajesh Arora: Right now the second controlled period for Hyderabad is from 2016 to 21. So we are in the second controlled period. There is a high court stay on the tariff notification which the regulator had worked out and since there were certain claims of ours were not recognized by regulator so we had gone legal. So, right now there is a stay as AERA has filed counter. As and when this will come up for hearing we will know the next steps. So it's difficult to guess what will be the revenue as we go along. Right now the revenue is based on the tariff which we were enjoying it prior to this revised tariff worked out by AERA.

Giriraj Daga: Just a follow up there, what is the difference between the revised tariffs of AERA what we are currently charging like this is the tariff is 30%-20% or 15% lower?

Madhu Terdal: The tariff as was worked out by regulator was to come down by almost 40%-45%. But then there are corresponding three major claims which they have to take cognizance. You have to see the whole thing together rather than seeing a fine parts and pieces of that.

Sushil Modi: Perhaps to add to this is something similar as you all have seen in the case of DIAL where few of the claims of the company has to finally go up till the TDSAT and finally as you all know last year, got awarded positively in favor of the company when it came to one of the biggest pillar of the claim which was the return of the real estate deposits. So, net-net Hyderabad is also going on in similar directions whether at high court where we have filed the appeal and take it the state or finally it get settled at the TDSAT order. But we are very confident that some of our claims that we are all talking are going to be determined positively. So we do carry a right sense of confidence.

Moderator: The next question is from the line of P Deven from Aakash Ganga Investments.

P Deven: My question over here is that what are you looking at, will it be a demerger of the airport business or will it be an IPO of the airport business and the proceedings from it being used for debt reduction or some other CAPEX plans? Second question is with regards to the Delhi airport, so is there any CAPEX expected in the upcoming year for the Delhi airport? Thirdly with regard to the Cebu airport in Philippines, is that we held as an investment since this airport is performing pretty well, so are we holding it is an investment to be liquidated at some further date at good valuation or are we looking at a stream of dividends coming from this investment?

Madhu Terdal: One by one, to begin with on the demerger; Sushil.

Sushil Modi: Your point is right and basically as you would appreciate that this thinking around the demerger has emanated from the feedbacks that we kept on getting from some of you as well as lot many other stakeholders, within the company and we as a team were interacting from time to time over the years. So we deliberated on that feedback in our board meeting that this is how the suggestions that are forthcoming and perhaps shall we be thinking around it. The board, finally, opted for forming the committee and to take it seriously because this feedback if it is there then perhaps may be the way forward is to implement it. But before going on for implementation obviously as you would appreciate one need to evaluate all the pros and cons. We are reasonably confident that the feedback we have received from you all and deliberated even with all the stakeholders looks to have a promising benefit for all the stakeholders. But nonetheless we would like to now take it and discuss and deliberate with various advisors and see if any piece of the puzzle is missing; to make sure that we don't miss anything. So henceforth basis the evaluation which perhaps should happen in next few months we would come back to you in terms of whether this is a final go-go in terms of implementation or is there anything. But as I said we feel reasonably confident that this seems to be the right path for going forward but nonetheless waiting for some of the stalwarts in terms of the various call it corporate law, income tax law all those need to be evaluated how those things will work out and on the top obviously the interest of the stakeholders will be at the top of the agenda. So that’s on the demerger. DIAL capex perhaps Babu, would you like to add on?

Madhu Terdal: Before Babu takes over, just to add to what Sushil has suggested. At this point of time what you should appreciate is the recognition of the need as the group starts coming out of its challenges and tries to enter into a new phase of growth. It is a recognition of the group that to allocate the appropriate risk weightage to our airport as well as other businesses. Today in the din of the various sectors coming together there is a perceived additional risk weightage to our good businesses as well. I think we should see it, in what form and what details it will happen. I think the board in its wisdom will decide on that. But at this point of time this is more about recognition to allocate the risk weightage across the sectors of the GMR Group.

GRK Babu: Regarding the DIAL capex, it is more or less finalized and you will be hearing very shortly a communication from the group regarding the DIAL capex. We are expected to incur some good amount during this calendar year.

Sushil Modi: Now just taking your third question forward which was on the Cebu, Cebu airport as such forms a very strategic part of the investment. So this basically represents our journey overseas and as you rightly pointed out and the number reflects on its own that this airport is performing phenomenal where post the commencement of the terminal in the month of July the last calendar year, the growth in its business after the direct reset whether on the Aero side as well as on the non-aero business there, it's all going around (+) 30%. So this has a huge potential. Another terminal revamp is underway which is expected to complete perhaps in this calendar year. With that I think there will be another leap forward in the performance of the Cebu airport. So as we speak this continues to form a strategic part of our investment in the airport business overseas and perhaps we would like to further improve on it. And alongside some of the initiatives like demerger and the capital raise, these are all going to further improve upon in terms of the portfolio, quality of the portfolio both in India and overseas.

Moderator: The next question is from the line of Parvez Akhtar from Edelweiss.

Parvez Akhtar: Just wanted to check one thing that there is a loss in the EPC division this quarter, have we made any provision there and if yes, what is the quantum of that provision and the reason for that?

Mohan Rao: This loss is mainly due to anticipated loss on the CTC basis as a prudent measure. We provided the loss for our dedicated freight corridor project as there is some increase in the material costs especially because there change in law in the UP that is mining on the change in law. So we will get this amount from the DFCC by way of clients etc. But as per the accounting standard, we anticipated on CTC basis and provided for. As on today it is a loss till the end of the project though we have not incurred this loss we provided as per the accounting standards.

Parvez Akhtar: What was the quantum of the provision that we have done yet?

Mohan Rao: We have provided about 100 crores.

Moderator: The next question is from the line of Vipul Shah from Sumangal Investments.

Vipul Shah: What is the quantum of fuel intake for Warora and Kamalanga?

Ashis Basu: Warora for the entire quantum of PPA, we have the coal linkage. For Kamalanga we have for the entire quantum of PPA but there is a small shortfall. We have had 500 MW complete quantum of linkage but for the balance 350 MW roughly which we have PPA we have won linkage through auction with a small 15% deficit which we are making good through e-auction.

Vipul Shah: As regard DIAL what is the quantum of increase we have taken in aero charges post this judgment? Can you quantify it?

GRK Babu: If you look at the tariffs which we have been charging from 7th July, 2017, now with the base airport charge the increase will be around 100 to 120 crores in a year.

Vipul Shah: So 100 to 120 crores of additional revenue per year will come due to this tariff order, is that correct?

GRK Babu Correct.

Sushil Modi: That's right what you just said, by virtue of the implementation of this floor tariff, base airport charge as is on day zero the aero revenue goes up by around 10% on a per an annum basis. But in addition perhaps you already know that this tariff even the floor tariff, base airport charge keep increasing broadly at a rate which is proxy to the passenger growth itself because these revenues are not the absolute revenue that is fixed. These are all like per aircraft or per passenger or per parking. So as the passenger grows, to that extent this floor revenue also keeps growing.

Vipul Shah: What amount we can expect from monetization of additional 60 or 65 acres, that can you quantify roughly?

Madhu Terdal: I think we cannot make that forward statement.

Moderator: Next question is from the line of Lavita Lasrado from Athena Investments.

Lavita Lasrado: I want to know you have given a breakup of non-aero revenues, what is the others in non-aero revenues which is 34% in Delhi and 21% in Hyderabad?

GRK Babu: I think if you want specifically we need time otherwise the major growth has come from the duty free and duty paid. Duty-free has grown by more than 25% and duty paid has grown as about 30% in case of DIAL.

Lavita Lasrado: That comes under retail, right? So you have shown a breakup of others. If we see the presentation page #10 which is the airport business for Delhi, you've shown the non-aero revenue breakup, 34% come from others, what is the others in that?

GRK Babu: If you're talking about other income, basically it consists of two factors. One is Rs. 35 crores.

Sushil Modi: Babu, in the non-aero revenue our pie has the others 34%, beyond the duty-free cargo and advertisements which is basically to do with some of the other elements like ground handling, the fuel those are the other type of non-aero revenues which have been clubbed together as others in the pie that you're referring to.

Madhu Terdal: Can I ask Amit to provide the details on the actual split up of that? Ma'am you have another question or can we move on?

Lavita Lasrado: My other question is what is your space rentals in non-aero revenue, is it fixed or on revenue share?

Management: Basically when you look at the non-aero revenue, most of our contracts are on a revenue share basis. There will be very small component of space rentals. These space rentals will be mainly on account of the space given to airlines and other concessionaire. But all our non-aeronautical revenue, concessions are on the revenue sharing basis.

Lavita Lasrado: Why has your ad rentals fallen?

Management: Advertisement all cross this year we have seen the revenues have taken a dip. It's not only a phenomenon for Delhi or Hyderabad, this we have seen in other airports also. So, primarily it looks like some of these Chinese mobile handset guys who are doing it in a big way as advertisement at the airport. They have moved to the other ways of advertisement. So that was one of the primary reasons I would say from Hyderabad point of view. But that's something which we have seen everywhere.

Lavita Lasrado: You mentioned about CAPEX plans for airport business, how will you fund that CAPEX in future?

GRK Babu: When it comes to the CAPEX of Hyderabad airport, it is already been tied up totally through debt and internal accruals. In case of the DIAL, DIAL is already having a sufficient cash of about Rs. 3000 crores and we are in the process of finalizing the entire….

Lavita Lasrado: What is your debt in airport business, your total debt?

GRK Babu: If you look at it, the total debt of DIAL and HIAL put together is about 8000 crores.

Lavita Lasrado: My last question would be, interest cost in airport business has gone up sharply, what is the reason, why has that gone up sharply. Why has interest gone up in Q2 and Q3 as there was also sharp increase?

GRK Babu: This is rupee depreciation. It is basically a rupee depreciation. In case of GMR airports because of the NCD of Rs. 2050 crores where interest has been accounted for and in case of the DIAL because of the rupee depreciation.

Lavita Lasrado: This EBITDA per ton in your PT GEMS business seems to be falling, what is the reason behind this?

Sushil Modi: There is basically bit of a pressure that we have seen in the third quarter but that is more primarily arising as temporarily Chinese government has put a ban on the import of thermal coals to balance their thermal coal inventory across the port and the generating companies which has led to a significant fall in the prices. But as we speak in the current year or the current quarter, the prices have already started moving upward and it is expected that soon this temporary ban that was put will be lifted and the prices will get restored. It came down to around $30 for the Indonesian coal and as we speak it has already touched around $36 once again, for 20% up as we speak.

Moderator: Next question is from the line of Pawan Kumar from CRISIL Research.

Pawan Kumar: I have a question regarding your Nagpur airport, recently around 3-4 months back you have won this airport. Could you please tell us what is the revenue share offering under Nagpur airport and what is the expansion plan for the same?

Madhu Terdal: If it is in public information or not?

GRK Babu: It is in public information. I think the amount which we have quoted is 5.67%.

Pawan Kumar: What is the expansion plan because Nagpur airport is already little congested is what we believe?

GRK Babu: Those figures are not yet finalized. There are some figures which are available in the model and I think we can't speak about it now.

Pawan Kumar: One more question regarding your Cebu airport. You mentioned that you have been seeing a significant improvement in your tariff. So how is the tariff structure determined for Cebu airport, is it similar to Indian model or is it something else?

Management: No, Cebu tariff structure is entirely different. Once in five years there is an increase in the rates. However, after Terminal 2 has started, the rates have already gone up from 1st July 2018. The next increase will be in 2019 September. That is once in five years.

Pawan Kumar: What will be the basis for that increase, any specific reason?

GRK Babu: I think there are some formulas which have been provided and basis on that the rates will go up.

Sushil Modi: Cebu airport basically is not in line with what we see for our Indian airports. While our Indian airports are under the Hybrid-till mechanism, the Cebu works on a Duel-till mechanism whereby meaning none of the non-aero business subsidizes the aero. So aero revenue straightway increases for per passenger as much as the passenger growth that in any case the increase keep happening year-on-year based on the tariff that has been agreed upon. Onetime off-swing in the tariff we saw which as per the concessions that was to kick in once the new terminal comes in, that got triggered thereby, significant jump up happened. Now it will grow for the passenger growth as well as what Babu just indicated more in line with like to compensate for the inflation. So the inflation plus the passenger growth both becomes the kicker to the aero revenues year-on-year.

Pawan Kumar: My next question is regarding the Goa airport, how is it proceeding regarding your investment plan and when will it start construction as such for Goa airport?

GRK Babu: As has already been explained, the construction has already started. The equity infusion from GMR airports has already gone to the Goa to the extent of Rs. 114 crores. The entire loan has already been tied up. Two tranches of loans have already been drawn. Work is going on in full swing.

Moderator: Next question is from the line of Ashish Shah from IDFC Securities.

Ashish Shah: Just coming back to this point on Cebu, we've mentioned that we have seen a tariff increase in July for the new terminal commissioning, what was the increase which we saw in July? If you can mention in terms of the percentage….

Management: In case of the domestic it moved from 181 pesos to 223 pesos. In case of the international it moved from 383 pesos to 446 pesos. As I explained the next increase will be on 1st November, 2019 that is once in five years, the first concession was signed on 1st November, 2014.

Ashish Shah: Would it be now a safe assumption that since this increase happened only in July of 2018, the one in November 2019 will be a mere inflation impact? There wouldn't be much jump up in the tariffs except for the inflation.

Management: More or less. There are refined terms in the concession agreement basing on that.

Ashish Shah: But broadly it would only account for inflation?

Management: Yes, that's fair. So after getting the 20% odd one-time kicker, in terms of per passenger, it will be more like inflationary. But the another kicker will always be the passenger growth which we don't see in any of the Indian airports opportunities because of the Hybrid-till.

Moderator: Next question is from the line of Shankar Dutt from Kanav Capital.

Shankar Dutt: I noticed that in the thermal power plant for both Warora and Kamalanga roughly for the nine months we have turned around 70% to 75% PLF and on PAT level we are just about breaking even. Will PLF continue to be at similar high levels in coming months or how is the outlook like? In Kamalanga there was another project to build a 350 MW extension, is there any plan within the company to further pursue that or we will just not go after that right now?

Ashis Basu: In terms of PLF, we expect to continue the same run. Coal supply remain a concern but we have taken all actions to make sure the PLFs improve, if not keep at the same level both for Kamalanga and Warora. In terms of fourth unit, as you rightly said, that's a sweet spot for Kamalanga for fourth unit as all balance of plants are already there. What we have to add is the BTG and we will wait for the opportune time. The construction would also be much shorter because all the enabling infrastructure - land, transmission, everything is in place. But we will wait for the opportune time in terms of signals. No new thermal capacity is going to get added by the private sector, there would be a time and it would be speculative to say whether its 2021 or 2022. But at that point of time we will take a call. We remain very well placed. The power plant being 35-40 km from mines and linked to the national grid, it is very well placed for the future growth which decision we will take depending upon the signals.

Shankar Dutt: There was also a recent proposal from CERC after some pilot project that even for the plants where they have PPA signed they would want to pursue just within the fixed whatever the PPA signed fixed compensation and source power on a variable basis from a most efficient player. So if that happens how does it impact our energy vertical. Do you first of all see that as a major risk for us or it just at a very early stages as of now?

Ashis Basu: Are you talking of ideas of new PPAs coming up for stress assets, are you talking of that?

Shankar Dutt: No, there was a proposal from CERC that instead of long-term PPAs, even for existing PPAs source more power on a spot basis rather than a PPA market and existing PPAs holders would be compensated in terms of some fixed payment but most of the power purchase would happen on spot basis rather than a long-term PPA.

Ashis Basu: Let me clarify that basically there is a CERC staff paper of which you may have read in the newspaper, there is an idea to transit the market everything being sold through the pool; while everything will be sold through the pool, through the exchanges, the long-term PPA obligations remained unchanged on both parties. So we delivered to the pool—I am trying to explain it simply hope it makes sense—everybody will deliver to the pool, the supplies to the states will be through the pool. But the underlying PPA agreements, rights and obligations will remain unchanged. What it signals, slowly the long-term PPAs will go away. It would be replaced by medium-term and short-term. So they are trying to transit into a new market structure without affecting the long-term PPAs. So to answer your question, we have the entire capacity of Warora tied up in long-term PPA. We have roughly 85% of the Kamalanga capacity tied up in long-term PPA. There would be no changes to that. But in the medium to long-term you will see more medium-term and short-term PPAs coming up. So no impact on the existing PPAs.

Shankar Dutt: And for our renewable energy portfolio both for wind and solar assets, is there any plan to monetize them or are we happy to continue running them as they are?

Ashis Basu: Our wind assets are very small, solar we had refinanced sometime back. But we will look at suitable opportunity but there is no specific transaction we have on the board now.

Moderator: Next question is from the line of Manu Agarwal, an individual investor.

Manu Agarwal: We have been aggressive in bidding for the Airport business and the new projects which we are developing in Kakinada and Krishnagiri which will have some major investment outlays. I couldn't understand, what is our outlook, how will we refinancing those projects or financing those projects because there are no major developments towards reducing our debt. The only plan we have is monetizing the airport business. So, can you give us some upper cap towards the debt that we can have on the books?

Sushil Modi: First to set things right, while we are participating in all the airport bids, to the extent to 6 airports bidding that happened last week, we have participated which we would you have picked up, but that doesn't mean we are aggressive. We remain committed to Indian Airports business and henceforth we would be participating to the extent that, on a reasonable risk return profile. But coming to your specific issue around the leverage, you are right and that's why we are very mindful of the same and to that extent we are on the journey of raising capital through multiple means. Obviously, there are multiple set of assets that the company owns and airport which has been nurtured over the last more than a decade, perhaps we feel that the time is right and looking at the interest from the multiple set of potentials investors both in the financial as well as the strategic space, the kind of interest and appreciation that we are getting all around about the quality assets that we have created primarily in India and but as well on the overseas space. We are reasonably confident that sooner we will be able to monetize in some form or the other. Obviously, the more and more work is going on that side at our end and we feel that sooner we will come back to you in terms of better visibility and color around this monetization scheme of things. You would see even as of now as we speak if you really see on Airport business on a consolidated basis, perhaps the leverage is pretty low because you know that while we stated a while back that we have on the airport around 8000 crores odd of debt but then there is a corresponding significant amount of cash also sitting. On the net debt basis our leverage level at the airport business standalone is nothing significant perhaps. It's only the corporate debt which is making an impact and to that extent we are very conscious and we are taking all the steps that is required to de-lever this corporate debt at the earliest possible. You will soon hear.

Manu Agarwal: Can I get an elaborated answer on what are the steps being taken because we have already removed the loan from the Chhattisgarh and Rajahmundry from our books. So, the existing loans would get removed from the books. The only way we can remove the loan is through the money we will be getting from the Airport business. So, what are the steps are we taken in order to deleverage the corporate book?

Sushil Modi: That's right. So, which is what we were just discussing. So, Airport business is one of the promising businesses as I said we are seeing a significant amount of interest. So, any monetization if we succeed in doing, and as we indicated perhaps which you would have noticed, that we have received multiple offers and the interest on the airport business. If we materialize any of that, that would help significantly in terms of the deleveraging all the corporate debt that you just spoke. So, wait and wait for hearing back from us in times to come on this deleveraging in reality that's happening.

Manu Agarwal: Can we get a commitment from the management that our loan book won't grow up beyond a particular limit. Do we have that in mind that we will not increase our loan book from up to 20,000 or 25000 crores, nothing beyond that? We will just keep on adding the projects and adding on the loan books? What is the management philosophy in those terms?

Madhu Terdal: I understand the intent of the question. So, without specifically answering to that, the maximum what we as a group can say is like this, #1 is we would like you to acknowledge that we have learnt our lessons. Obviously, the growth which we envisaged did happen but the anticipated revenue streams there was a setback not wholly because of the GMR groups but because of the extraordinary environmental that were created. First and foremost, we have acknowledged it, we have understood it, we would like to assure all of you that here afterwards the growth will not come out of the leverage or the debt. This is the first assurance I would like to give you. And as rightly Ashish told that we do not have any plans of growing in the Thermal sector, at least till the things stabilize or at least in the near future. The third thing is that two of our most distressed assets as you have already mentioned Chhattisgarh, Rajahmundry are going out of our balance sheet. The most valuable jewel in our crown is the airports as Sushil has told. Significant efforts are on to monetize in some way or the other and we would like to assure you that enough of capital will be raised to fund this growth in the airports. I would like to remind you that these bids, they are not going to call for very substantial capital. Even the new bids that have been announced and even if when we bid also, there is not going to be any need of or any additional capital during the next - at least 12 months or so. So, it need not be there just because I have one Nagpur for example, we haven't put a single paisa into that. So please take a note that we will create enough of gestation period before any additional capital is created. Lastly, I would also like to remind that we do have other sectors of business that is the Energy as well as the Urban Infrastructure where we have just articulated in the beginning the plans are afoot to monetize our port land as well as the other urban infrastructure land. So, I would like to assure you that the board is very conscious, the top management is very conscious to deleverage the balance sheet as much as possible. I hope I have tried to answer your concerns.

Manu Agarwal: Just one more question, is there any outlook towards the GMR Highways business and some of our Energy assets which are Kakinada and Vemagiri. Are we going to sell those or turn around those? How is the management looking towards those assets?

Madhu Terdal: As earlier also I have told in the calls, we do not have any plans to expand in that. So, we do not have any ideas or to commit additional capital. We have already more than 50% of the highways divested and they are currently on a life self-sufficiency mode but we are also expecting certain amount of arbitration outcome. They are quite substantial in the range of between 700 to 1000 crores or so. You can say that we do not have any intention to continue these assets once these arbitration claims are settled.

Moderator: The next question is from the line of from Shankar Dutt from Kanak Capital.

Shankar Dutt: You guys bid for the six new airports recently. From what I understand the bidding criteria for those airports is different from the earlier criteria which was the revenue share basis with Airports Authority of India. So, can you elaborate a bit on the criteria on which the winning bid will be shortlisted?

Management: The winning bid will be based on rate which you offer per passenger - both arrival and departure. That is the criteria which they have introduced instead of the revenue share.

Shankar Dutt: So, you won't have to do any revenue share with the airport authority in that?

Management: Nothing. You have to pay per passenger per month. I mean what is the rate.

Shankar Dutt: You will pay per passenger per month to Airport Authority of India and all your costs and revenues over and above that are yours?

Management: Everything is yours. However, your tariff determination will still be done by the regulator.

Shankar Dutt: The other question is, you talked that monetization in the Hyderabad at airport going very well, any further progress in this quarter?

Rajesh Arora: Recently, we have signed one agreement to lease for about 10 acres. There are few other transactions which are right now under discussions. So, in terms of having closing the transaction - we have done one for about 10 acres. It's on the lease rental basis and giving an NPV close to about 3 crores per acre.

Shankar Dutt: NPV of 3 crores?

Rajesh Arora: Close to 3 crore per acre.

Shankar Dutt: A last question - while the promoter shareholding in the company is high, a big amount of the promoter's shares are pledged and given. Given, what has happened recently among other promoter group companies which are specifically the Anil Ambani Group and the D group and that panic sometime happens in the market. So, one wanted to understand why are these shares pledged and are there any plans to reduce the amount of pledging on these shares?

Madhu Terdal: I do not think I will be able to make a specific clarification or explanation on that. But suffice to say that once whatever the monetization efforts and the equity raising efforts that we have just explained now, once they materialize you can see certain significant improvement. But having said that I would like to assure you that speculative people may play around, but with all the sense of responsibility from the management I can say the group is completely under control of everything and we do not see any concern in anything. The pledge is a historical matter. I think it will take some time to address this issue and believe it, we are going to address it.

Moderator: The next question is from the line of Sachin Kasera from Lucky Investments.

Sachin Kasera: Just one question regarding this Delhi land monetization - you mentioned approximately around 10 million sq ft; that looks very-very large land parcel. Can you just give some idea as to what are the various zones you are looking – may be hospitality or office space or something because to be able to absorb 10 million sq ft is going to be quite challenging. What is our confidence level in terms of being able to monetize this entire 10 million sq ft?

Management: I think after doing a lot of study as well as the enquiries received, we are confident that 10 million sq ft will be achieved. The land has already been identified. It is not far away- it is either in the downtown district or gateway district which we have already identified in next to hospitality district and opposite to hospitality district. We will be coming out very shortly with the RFP. Initially, we will come with 5 million and then again 5 million.

Sachin Kasera: Yes, but are we looking at the hospitality or are we looking at office space? Could you give some idea of something - what exactly is that you are looking to build in this 10 million of square feet?

Management: This 10 million is purely commercial office space. What I said is the land parcels are next to hospitality districts and opposite to hospitality districts have already been identified.

Sachin Kasera: But what we are looking to build is office spaces?

Management: Yes, commercial office spaces.

Sachin Kasera: The last question regarding the six airports for which the bidding is going on. As per the current stage when can we expect some clarity on the government decision on status of these bids.

Management: On 25th of February they are going to open and we will come to know. As of today, it is a Government statement.

Sachin Kasera: Any other opportunity in the industrial side we are evaluating on the airport side other than what we already have?

Sushil Modi: That's an ongoing exercise, perhaps, this is not the forum we can put the name on specific opportunities. The one that we have just done is what we just said on the six airports.

Sachin Kasera: There was some statement in the media regarding government looking to build the second airport in the NCR region in the next 5 to 6 years. Do you have any update or insight on that and how are we positioned?

Sushil Modi: That exercise as you rightly said that's on. Obviously, needless to say the government is trying its best not to repeat the Mumbai and Navi Mumbai once again where it got so much delayed that we all know; some of you are also calling from Mumbai. So, we all know that it's completely choked. So, to that extent, government is trying to be proactive in terms of ensuring that the new airport comes pretty well in time or maybe a bit ahead but still the journey of coming up, while it's been spoken for a few years, it's getting delayed. We are also hopeful and keeping our fingers crossed that perhaps the next 12 to 18 months there would be some action, a concrete action on the ground. In terms of our edge around that airport - Jewar, Yes, because this is within 150 km of Delhi, to that extent, we have the roofer. We would have an edge in terms of getting that airport.

Moderator: The next question is from the line of Ashwin Bala, an Individual Investor.

Ashwin Bala: I just wanted to understand the GMR Hyderabad. We had planned to acquire about 11% from its partners and that deal didn't happen. I want to understand what is the reason behind that and why was that transaction delayed?

Sushil Modi: There were certain regulatory construct as CPs that we were to fulfill, both the party needed to be fulfilling and somehow within the timeline that we had an agreement fixed, the same did not happen but we continue to be very optimistic that sooner we would be able to consummate this. Both the parties are trying their best to see the compliance and the achievement of all the conditions sooner. So, you should hear from us on this, perhaps in times to come but we should be able to have this transaction consummated in times to come.

Ashwin Bala: Is there any specific compliance requirement that was not fulfilled or what was that like and will it get consummated in the future, with the valuations change?

Sushil Modi: This is something that both parties will discuss but both parties continues to be committed to the transaction and the commercials that was agreed. At least, without speculating too much because it becomes difficult at times depending upon the time when we finally achieve all the satisfaction of the CPs. But in all probability and fairness generally, there should not be any substantial change in the construct. Nonetheless that is something that we would once again discuss as we see the CP is getting compliant with.

Ashwin Bala: My next question is Goa's first phase initial COD was somewhere end of September 2020, if I am not mistaken 2021. Is that still on track, when is the first phase COD for Goa?

GRK Babu: COD for Goa is, you are correct in 2020 but the way since because of the delaying NGT by 6 months 23 days, we have already asked for the government for an extension by 6 months that is now into active consideration of the government.

Moderator: The next question is from the line of from Ashok Kumar, an Individual Investor.

Ashok Kumar: I believe the third-control period for DIAL starts on April 1, 2019 and I wanted to find out when can we expect the finalization of the tariff order, nearing February end?

GRK Babu: CP 3 has already been filed, the tariff application has already been filed with the regulator and regulator has already appointed SBI Caps as they are consultants. We are working with them.

We have provided all the data. We are expecting before March; the consultation papers should be out.

Moderator: Thank you. Ladies and gentlemen, as there are no further questions, I now hand the conference over to Mr. Madhu Terdal for closing remarks. Over to you sir!

Madhu Terdal: Thank you Zaid. Before I make the closing remarks, I would like to acknowledge the presence of my senior colleagues led by Mr. Grandhi Kiran Kumar, who have just left for an urgent meeting, Chairman of the Finance and Strategy. Mr. Saurabh Chawla who has just joined as Executive Director of Finance and Strategy, Mr. Govindarajulu T – Executive Vice President. Mr. Suresh Bagrodia – the Group President, Operations, Mr. Sushil Modi – Group President Strategic Finance, Mr. Amit Jain – Head of Investor Relations and from the Airport side, Mr. Sidharath Kapur – Executive Director Airport, Joint Ventures, Mr. GRK Babu – Group CFO Airport sector, Rajesh Arora – Chief Financial Officer of the Hyderabad airport and in Energy Mr. Parag Parikh – the Group Head for Project Finance and Structured Finance. Mr. Ashis Basu – the Chief Executive Officer of Energy, Mr. Manojkumar Singh – Chief Financial Officer of Energy, Mr. Mohan Rao – Chief Financial Officer of Urban Infra and Transportation and Mr. Amit Kumar Head of Finance and Accounts - Highways.

Ladies and gentlemen, as they say all good things also have to come to an end. As the Group CFO and before that the Head of the Strategic Finance, I have led the analyst call for almost now 8 years out of the 13 years of GMR Group's capital market existence. When it got listed way back in 2006 and our capital market journey has seen lots of ups and downs from a pinnacle of a 10 billion market cap, we are going through a not so glorious time now. Whether it is really a glorious time of growth or a challenging time of addressing the stress, the times what I have spent as a Head of the Finance has always been challenging, invigorating and highly educative. I had the privilege of knowing most of you individually except for some new people who might have joined the analyst fraternity. I thank each and every one of you for the splendid support you have extended to the Investor Relations team, in general and to all the team, all the group in particular. But as the group has slowly ushering into a growth phase, as it is endeavoring to come out of the stressed sector, it is time to pass on the baton to the new trio. The trio led by Mr. Saurabh Chawla, who with a tremendous experience and expertise has just taken over the role of Executive Director of Strategy and Finance. He would be very ably led and supported by Sushil Modi and Suresh Bagrodia who have been around with this group for some time. Of course, as a matter of clarification I would like to clarify that of course I will continue to serve the Group in a little different capacity as Executive Director of Strategic Initiatives. With this ladies and gentlemen thank you very much once again and you will see the new voices in the next analyst call. So, I pass on to Mr. Zaid. Thank you very much.

Moderator: Thank you Sir. Ladies and gentlemen on half of GMR Infrastructure Limited that concludes today's conference call. Thank you for joining us and you may now disconnect your lines

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