



**GMR Infrastructure Limited**  
**Q3 FY11 Investor/ Analysts Conference Call**  
**Thursday, February 10, 2011**

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- Moderator:** Ladies and gentlemen, good day and welcome to the GMR Infrastructure Ltd.'s Q3 FY11 Earnings Conference Call. As a reminder for the duration of this conference, all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions at the end of today's presentation. Should you need assistance during the conference call, please signal an operator by pressing "\*" and then "0" on your touchtone telephone. Please note that this conference is being recorded. At this time I would like to hand the conference over to Ms. Khushnum Pestonji from Citigate Dewe Rogerson.
- Khushnum Pestonji:** Good afternoon everyone. We welcome you to this conference call organized to discuss GMR Infrastructure Limited's operating performance and financial results for the quarter and nine months ended December 31<sup>st</sup> 2010 which have been announced earlier. We have with us Mr. Subbarao Group CFO and CFOs of GMR's business verticals. Before we begin, I would like to state that some of the statements made in today's discussions may be forward looking in nature and may involve risks and uncertainties. I would request Mr. Subbarao to begin that the opening remarks following with which we would start Q&A session.
- Subbarao:** Good afternoon everyone Subbarao here. I trust you have received the presentation which we circulated earlier in the day. Without much of other comments, we will straight away move into Q&A. We would open the floor for the Q&A, so that we have more time for the Q&A. If there are any comments then we will keep making those comments as part of our presentation as we go along. So we can go ahead with the Q&A.
- Moderator:** Thank you sir. Ladies and gentlemen, we will now begin with the question and answer session. We have the first question from the line of Inderjeet from Macquarie.
- Inderjeet:** A few questions from my side, first to start with, I know this question must have been asked to you number of times, but would you still want to comment on this entire controversy around this AERA paper and where do you stand in terms of both Delhi Airport and Hyderabad Airport? That's one. Second, now it has been some time that the Delhi Airport Terminal III has been commissioned, so when are we likely to hear on the final approvals or final tariff structure for the Delhi Airport?
- MS Narayana:** Regarding your question on the tariff AERA matter, AERA as already issued the order of the tariff guidelines last month of 12<sup>th</sup> January. As far as this AERA order is concerned, they have already **announced** the tariff guidelines last month and both in respect of Delhi and Hyderabad Airport, we are going for appeal before appellate tribunal and we are filing the appeal. So I think the matter is sub-judicious. And second with regard to tariff your question on Delhi, it is also related to the tariff guidance, as of today AERA has not come up with



any specific tariff guidelines for the Delhi and Mumbai Airport, they said that they will come out separately as per the state support agreement which also we are filing appeal before the appellate tribunal.

**Inderjeet:** So this paper which came out which talks about using the land value or the market value of land and deduct it from the asset base or the regulated asset base, is that applicable to Delhi Airport as per your information today?

**Sidharath:** See as far as the AERA paper is concerned what has been uploaded, it is applicable only to airports other than Delhi and Mumbai. It is very clearly mentioned in the paper itself that for Delhi and Mumbai, AERA will be coming out with a separate set of guidelines. And as per our discussions with the regulator, the expectation is that if this would be in consonance with the current concession document which has been offered by the government as far as Delhi is concerned. As far as the land is concerned, the land issue and the reduction from the RAV which have been mentioned in the guidelines which have been uploaded, it is very clear that this is not applicable to Delhi and Mumbai because the paper itself currently, there is an exclusion in the paper as far as these two airports are concerned. So this particular issue about land being reduced from RAB is not applicable to Delhi at all.

**Inderjeet:** Second question is regarding your power plants, I know there is some details in the presentation, but can you very quickly run through what is the likely commissioning schedule of your power plants, what's the total amount of equity which is yet to be put in, in all the power plants and the coal mines put together, in the next three years or so? And how much of funding is already tied up or how much equity funding is already tied up, how much more we need to raise for all the power plants?

**Subbarao:** Yes sure, there are three projects which are near term, which are under construction that include 1,400 megawatt in Orissa, 600 megawatt in Maharashtra Emco Project and another 768 megawatt in Andhra Pradesh gas based project. These are the three projects which are under construction. Rest of the projects are under development. These three projects to the extent of about 40%-50% of the equity total requirement of the equity we have already contributed. And the project progress we have already given the total project cost as well as the amount spent on each of these projects we have already given in the presentation. And the timeline for this, for gas based project in Andhra Pradesh, towards the end of this calendar year, the commissioning would be there. Emco and Kamalanga it would be closer to the March FY12.

**Inderjeet:** Now just maybe a small clarification that I wanted in one of your press release it says that you have received Stage II Forest Clearance for Kamalanga and you also say that you have done 40% of the project as being completed till December 10. Now what this Stage II clearance pertains to and are there any more clearances which are yet to be obtained for this project which is almost half done?

**Raman B.S:** There are some additional land requirements for railway siding and construction road which is still to be acquired. Those are not very much, but it's in the range about 38-40 acres, which is under acquisition for which notification has been issued by the government, so that will take some and we hope to complete that by June. And the project supplies are now in full swing. I think by September-October of 2011, most of the project supply should be in. I think it's the matter of construction that will take us up to March 2012 for the first unit to be commissioned. And subsequently by September-October of 2012, COD will complete the project of 1,400 megawatts.



- Inderjeet:** But what was this Stage II Forest Clearance related to?
- Subbarao:** We will get back to you on this.
- Inderjeet:** That's it from my side.
- Moderator:** The next question is from the line of Rahul Agarwal from Anand Rathi.
- Rahul Agarwal:** I have three questions on airport segment, one is related to the Hyderabad Airport, we have seen good traffic growth this quarter as well on a QoQ basis, but is there any specific reason for non-aero revenue not picking up on a per passenger basis because in the third quarter we have seen a QoQ drop on a per passenger basis?
- GRK Babu:** As far as the non-aero revenue is concerned, the revenues are flowing as per the construction agreement. As most of them are on MAG so that means now the traffic is going up and we will be able to see the growth in the next quarter.
- Rahul Agarwal:** So you basically expect MAG, you know our MAG agreements...
- GRK Babu:** Now they have crossed the MAG, since they have been paying the MAG.,
- Rahul Agarwal:** So next quarter we will be having more of revenue shares coming into non-aeros?
- GRK Babu:** Yes they will be coming into revenues.
- Rahul Agarwal:** My another question is on Turkey Airport, is there any specific seasonal reason for traffic to go down on a QoQ basis?
- Subbarao:** Yes there is, because last quarter was a winter quarter, it's not a summer quarter, so in the summer quarter the traffic would be high and in the winter quarter, the traffic would be lower, that is the reason why it's a seasonal factor, it's not specific to this year this happens every year.
- Rahul Agarwal:** Because if I see third quarter FY10 numbers, they still grew on a QoQ basis last year.
- Subbarao:** No, at that time, the airport was opened newly, so the traffic was shifted from the old airport to the new airport that is the reason why it grew, now the traffic is stabilizing here. It would be on independent basis, standalone basis we have to see now, that shifting process is over.
- Rahul Agarwal:** And my third question on Delhi Airport capitalization, how much amount has been capitalized?
- Mohan Rao:** I am Mohan Rao, CFO of the DIAL, you are aware that we made the capitalization of our terminal III in two parts that is first it was international terminal that is from 20<sup>th</sup> July we capitalized about 3,430 crore that is net of dollars and fund what we received. And similarly on 11<sup>th</sup> November, also we capitalized about 4,050 crore that is commissioned to operations at the domestic side.
- Mohan Rao:** The total is 7,493 crore.



- Rahul Agarwal:** Yes and actually our total cost is much higher than that, so like is there any further capitalization we expect going forward?
- Mohan Rao:** Yes, I mean there is some work in progress in the process, but next year, we are going to capitalize that as well.
- Rahul Agarwal:** So will that happen in the fourth quarter or FY12?
- Mohan Rao:** That is likely in FY12.
- Rahul Agarwal:** One small question on the other segment reported in the segmental consolidated numbers, I wanted the revenue breakup for 156 crore.
- Subbarao:** I think it's 127, Rahul, after adjusting the intra company transaction, it's 127 which has gone into consolidation. Primarily about 82 crore is from the domestic EPC business, there is no overseas EPC business as compared to the last quarter of the last year as the corresponding quarter of the last year. Last quarter, earlier year's quarter, we had Sabiha Gokcen construction was going on that EPC revenues were there and now this domestic, the road project as well as the power project is 82 crore revenue it accounts for. In addition to this about 20 crore coming from hotels, there are two hotels one hotel is in Hyderabad Airport and one hotel is in Turkey Airport, so both the hotels account for about 20 crore revenue for the quarter and the balance is the investment income and small other incomes.
- Moderator:** The next question is from the line of Gaurav Agarwal from CRISIL.
- Gaurav Agarwal:** You have raised around \$300 million at GMR Energy level for QIP?
- Subbarao:** Not QIP, private equity.
- Gaurav Agarwal:** Okay, private equity, what was the equity dilution or the proposed equity dilution due to this?
- Subbarao:** No, there is no equity dilution in here, it is a structure, it is a compulsory convertible instrument, which would be converted into equity at the time of IPO, at the IPO price. So the actual dilution would depend upon the IPO valuation and then only we can answer, now there is no dilution as such.
- Gaurav Agarwal:** No, but since these are compulsory convertible...
- Subbarao:** Preferential shares.
- Gaurav Agarwal:** Preferential shares, so there must be some range based upon that you have diluted this, otherwise as an investor how would someone get the confidence of how much the equity will be diluted at the time of IPO.
- Subbarao:** Yes, there is a return that would accrue till IPO on this investment, so this return accrues to them, suppose they have invested 100 million, x percent is the return and this say for two years, IPO happens two years later from the date of investment, it is 100 million plus two times of the return, so that is the totally accrued amount, which would be converted into the equity at the IPO price at the time of IPO.

- Gaurav Agarwal:** Let me dwell into it further, let's say we are going to come with an IPO tomorrow, so what would be the kind of equity dilution I can see, I mean if you can give me some range, otherwise as an investor how would someone know how much of the equity is going to be diluted?
- Subbarao:** You have to make an assumption on the IPO valuation, assuming IPO valuation is 20,000 crore, assuming okay, and 300 million is about 1,500 crore and further assume that 100 crore is further accrued return on this, so 1,600 crore. So upon 20,000 crore valuation, 1,600 crore pro-data it comes to about 8% dilution that's how it works.
- Gaurav Agarwal:** No, that's how it works, but there must be some calculation which has gone into this, I am looking for the broader range.
- Subbarao:** There is no other calculation, it is a variable calculation, so the variables are, what is the IPO valuation and what is the total accrued investment till that point of time, these are the two variables. And other things will get determined only at the time of IPO, how do we determine suppose we have put something that amount will accrue some return, and that will get converted into equity at the IPO price, tomorrow to know that, I have to know today what would be the IPO price per share then only we can say or what would be the IPO market cap issue, total issue at that time, so then only we can translate into the dilution quantum. Otherwise no.
- Gaurav Agarwal:** Right, I understand. One more thing, there was news regarding a QIP issue with Macquarie, SBI on your airport holding company, could you please update us on the status?
- Subbarao:** There is no QIP and nothing has been concluded so far. We are not planning any QIP. So we were planning some PE investments, it is in the closing process, till the transaction is closed, we would not be able to say anything, we are bound by the confidentiality till the contract is closed.
- Gaurav Agarwal:** So it is still on though. One more question on this year, you know there is Rs. 1.06 billion tax credit on your Hyderabad Airport, so what was the minority share out of this tax credit?
- Subbarao:** GMR Infra holds 30%.
- Gaurav Agarwal:** Okay, so in proportion.
- Subbarao:** 37% is the minority interest.
- Gaurav Agarwal:** And what was the FOREX loss at SGI level?
- Subbarao:** It is Rs. 4 crore.
- Gaurav Agarwal:** Okay that is entire other income was FOREX loss.
- Subbarao:** Yes FOREX loss.
- Gaurav Agarwal:** And sir, one last question on the DIAL, Delhi Airport, there was no deferred tax provision in this quarter despite a huge loss, may I ask why?

- Subbarao:** For recognizing the deferred tax asset, we need to have certain conditions. Condition is if the future profitability that is, just look at the Hyderabad Airport, the tariff part has been received the UDF has been received. Now we see a continuous flow of the profits in future years. And so the loss is when we see that a possibility of reversing the earlier losses through future profit that is the time you recognize the deferred tax asset.
- Gaurav Agarwal:** So shall I say that management is uncertain about the future profitability...?
- Subbarao:** No, it's not the management is uncertain, there is a guaranteed return under the concession agreement, we are pretty certain and confident, otherwise we won't have built this asset at all. There is an audit process beyond that there are checks and balance in systems, there is an audit process. Auditors would agree to this only when there is a feasible profit.
- Gaurav Agarwal:** Right I do understand.
- GRK Babu:** As per AS22 there should be a virtual certainty that means that's our guarantee, so there should be a guaranteed order or something of this sort.
- Sidharath:** See as far as Hyderabad Airport is concerned, because of the clear visibility on tariff guidelines, the tax asset has been created, but in Delhi AERA is yet to come out with a final tariff guidelines as far as Delhi and Mumbai is concerned as I mentioned earlier. So that is one reason why the auditors will not accept the tax asset.
- Gaurav Agarwal:** At Hyderabad?
- Sidharath:** At Delhi.
- Gaurav Agarwal:** But even at Hyderabad, if I look at your notes, it says that it's actually the Statutory auditors of the companies have modified their limited report as in their opinion based on existing support evidence and explanation provided by the management. The above may not meet the requirement of future certainty at this juncture under the AS22 so it means that company is sure about the virtual certainty of the cash flows, but auditors are not, isn't it?
- Subbarao:** No, absolutely there is not an iota of doubt as far as we are concerned on the virtual certainty of Hyderabad Airport ability to earn profits on going concern basis. But auditors at this point of time, because this is the first quarter that company has earned the profits and they would like examine some more information.
- Moderator:** The next question is from the line of Pramod Amthe from RBS.
- Pramod Amthe:** This is with regard to the Delhi Airport especially with regards to the non-aero revenue and since there is only a couple of months you have started operations, how are you performing on the non-aero side against your own benchmark, how much you have booked in terms of revenues especially on the retailing front and the leasing side and all and how much will flow through in which quarters, can you give some sense on that?
- Mohan Rao:** Can you please be specific, I mean the non-aero revenue at our Delhi airport is increasing substantially because of mainly two reasons, we commenced operations at the T3 terminal with enlarge commercial space etc. And also



apart from this, duty free contribution, flight catering etc., and the cargo is also giving the major portion in the revenue side.

- Subbarao:** To add to that, there is about 37% is the overall revenue share in all the joint venture companies which has resulted as compared to immediate quarter as well as the corresponding quarter of the last year by about 66% there is jump in the non-aero revenues. So this is beyond our expectations, so the retail space is in fact, surprising us. So it's going at almost a crore per day this is the kind of sales that we are recording in duty free retail in Delhi. So it's going beyond our expectations, the overall revenue share if you see, it has crossed all the historical levels of non-aero. And this is based on just overall revenue shares, our value is still there in the respective JVs, in fact the respective revenue share from the various JV, amounts to about 106 crore for the quarter. Apart from this, we have got the revenue share, there is a revenue share, there is a revenue consolidation, both put together is about 260 crore something for the quarter, this is the total value of the non-aero revenue businesses.
- Pramod Amthe:** And the basic work about leasing and all is done so, is all reflected in the December quarter or is it more to come through in the March quarter also?
- Mohan Rao:** I am not clear, which leasing you are talking about?
- Pramod Amthe:** Entire retail spaces and all the contracts being signed through and it's all flowing through the revenues in the December quarter for both?
- Mohan Rao:** Yes, it is going through the December quarter because already commencement of the operations are over. As Mr. Subbarao already explained to you, apart from the revenue shares from the joint venture company and other concessionaires and for utilizing the land and other utilities, we are also charging per sq. meter basis some amount that is what we call as a lease rental from the concessionaires. But also it's contributing...
- Pramod Amthe:** So entire space is leased up, so that is through or....
- Sidharath:** I will just add to what Mohan said, as far as this space is concerned, currently about 22,000 sq. meters of space is available which most of it has already been given out to the concessionaires and stroke joint venture entities. However there is a plan to develop the retail further on the peers, if you have visited Delhi Airport then peers are yet there, there is a lot of space available, where further development of the commercial can take place. And non-aero team at Delhi Airport is looking at those areas so that further development and upside on non-aero can be brought in the coming quarters.
- Moderator:** The next question is from the line of Gautam Bafna from B&K Securities.
- Gautam Bafna:** My question is regarding the airport segment revenue, you have reported a revenue of 802 crore in segmental revenue numbers but if I add revenues from all the airports it is 725 crore, so can you please explain the reason for this.
- Subbarao:** The JVs which we have formed in DIAL for various non-aero activities, there is a part from the revenue share we are getting, since they are joint ventures, we have to do line by line consolidation to the extent of our share of equity of those joint venture companies. So the 106 crore is the consolidation impact, 106 crore revenue is the consolidation revenue from those joint ventures, I think you have to add it up to get the total amount.



- Gautam Bafna:** And this is all from Delhi Airport?
- Subbarao:** Yes, Hyderabad cargo is also there, all put together is 106 crore apart from DIAL joint ventures, there is one joint venture in Hyderabad Airport also which is Menzies cargo, so that is also included in this.
- Gautam Bafna:** When do we plan to resume land monetization on our Delhi Airport?
- Subbarao:** We are currently focusing on the priorities like stabilization of the operation, getting the tariff equation from AERA, these are the priorities. So once we complete this priorities, I think we will focus on issues like land monetization. As of now there is no specific plan.
- Gautam Bafna:** Our PLF is 66% in Kakinada plant, but if I look at CEA website on monthly generation reports, it shows zero generation out of our plant, so is there any reason for CEA mentioning zero number on this.
- B. S. Raman:** I think the updates from our energy team has been going to them, but apparently there has been some problem in the uploading of the site, since the last two months we are facing this problem. And I think effective this month it will get rectified.
- Gautam Bafna:** My another question is regarding this TNEB dues, what will be the accounting treatment of the balance amount to be received?
- Subbarao:** As of now we are accounting as an advance received from them pending the final judgment from the tribunal. We will decide about the accounting treatment once we receive the full quantum of the money, we should have received 160 plus 60, total 220 crore as of now out of total 485 crore, so once we receive the full money, closer to the year end, March when substantial money is received we will decide about the accounting treatment whether we have to recognize it as revenue or we will keep it as advance.
- Moderator:** The next question is from the line of Sandip Bansal from UBS.
- Sandip Bansal:** My first question is what are the funding requirements, investments and various segments of the next two years and how do we propose to go about it?
- Subbarao:** Let me deal with sector by sector, airports; all three airports Sabiha as well as two domestic airports are completely funded, there is no funding outstanding. Male Airport the construction work has to be taken, but the financial closure is over. And the 30 million equity that is, total equity is about 180 million, of which 30 million is only has to be put in by the holding company which has already been infused and the balance equity will come from the project cash flows itself over the period of construction. And the remainder is the debt which is about 60% of the total project cost, which would be drawn based on the project progress, so it's tied up, fully tied up, so that is about the airport and there is no other funding requirement.
- So roads, three projects which are under construction, the total project cost of all the three projects is close to a billion dollars and that equity requirement is about 650 crore for all the projects our share, all the three projects equities. We have already infused about 200 crore, the balance equity that needs to be infused over a period of next two years of construction is about 450 crore that's the status of road projects.



And the loans, the power financial closures are over so we have to keep drawing the loans based on the project. The energy space there are three projects which are under construction, near term projects let me discuss about these project and all the projects which are far away. Kamalanga which is about 6,400, Emco is about 3,300 and Vemagiri expansion another 3,300, so totally about 12,000 crore, let's say 13,000 crore is the total project outlay on all these projects. Equity requirement is 25% of this, all the financial closures are over for all these three projects. And we have infused about 40% of the equity for all these three projects out of 25% of the total project cost that is required to be infused as equity. And the balance will be infused based on the project progress and as and when we draw the loans more and more, so this is the total CapEx plan for the next two to three years.

**Sandip Bansal:** And you know all the equity is something which we will fund out of our cash balances, private equity and energy.

**Subbarao:** We have adequate cash existing in the system to fund all the equity requirements for the next 18 months to 24 months. Most of these projects would have been completed.

**Sandip Bansal:** This is with regards to your under construction projects across your Energy and Highways Verticals, are you seeing any kind of delays in them related to either land acquisition, environmental clearance, forest clearance wherein you know the execution time lines are slower than what you would have originally envisaged?

**Subbarao:** We completed 12 projects in all so far in all the three sectors under extremely challenging circumstances, we have created benchmarks in the construction. Delhi Airport we have set a world record in the construction Sabiha Gokcen again we have set a world record so this is a kind of track record that we have, we are used to these challenges we have overcome these challenges again and again in all the these sectors we don't see absolutely any scope for any delay in any of the ongoing project.

**Sandip Bansal:** But this question was more in terms of the not to do with GMR but more to do with the macroenvironment in terms of you know giving clearances land acquisition etc. has there been any kind of near term issues which you might have faced over the last few months.

**Subbarao:** Macroenvironment unless we have complete specific issues would not be able to comment but say let me just quote, macroenvironment say Orissa Kamalanga, there are several developers have started power projects simultaneously, you know how many developers have actually started the construction. So though there are challenges on the macro level it depends upon how each developers handles those challenges and overcome those difficulties and we can talk about our projects, macro level there are if you take sector by sector, you have land acquisition challenges, you have environmental challenges, you have various other challenges in the power sector, in roads NHAI has to give the land. It is not the developer's responsibility in the road project to get the land allocation, there could be some projects **that are part of** golden quadrilateral still there are some 5% projects are still pending because of the land acquisition but 95% has been completed. It is NHAI's responsibility to acquire the land and hand it over to the developer, so unless we have specific issues. Generally, I don't think in the roads, yes there are challenges, I am not saying but NHAI has been able to overcome these challenges and acquire the land and give to developers.



**Moderator:** The next question is from the line of Shashikiran Rao from Standard Chartered.

**Shashikiran Rao:** Congratulations on a good turnaround in Hyderabad Airport, if I might say. My question is related to the Hyderabad Airport itself. You have booked an asset reversal of tax on 106 crore. So would you say that this obviously would not be in continuing item but what would be the adjustment of that on your consolidated results?

**Subbarao:** 106 crore is a deferred tax asset which you have booked and share of GMR Infra in this is about 63%, the balance 37% goes to the various minority share holders and the principle of deferred tax asset or deferred tax liability is that if you have a profit but if you are not paying at the corporate tax rate of 30% or whatever it is, then you have to book the deferred tax liability because this tax will come in future use and currently you are not paying this tax because of various timing differences like deflation and all those things, so there is deferred tax liability. Similarly deferred tax asset if you have past losses and when you have now started making the profits and when you can recoup the tax shield and the past losses by adjusting the future profits, you recognize the deferred tax assets, this is the principle. So since Hyderabad Airport now started making profits and there is a certainty of making the profits based on the AERA order and hence we recognized this deferred tax asset because we have virtual certainty of recovering these past losses and adjusting the tax shield on those past losses against the future profits. So this is all about it. Yes this non-recurring in nature, as far as Hyderabad Airport you recognize the tax credit only one that is all been recognized as of now.

**Shashikiran Rao:** So basically you have recognized this entire amount at one go, so going forward your tax in Hyderabad Airport would be at normal corporate tax rate.

**Subbarao:** Yes the normal corporate tax rate.

**Shashikiran Rao:** Adjusted for that if I may say your total quarterly loss would be 85 crore?

**Subbarao:** Yes if you adjust that yes, without that around 90 crore.

**Shashikiran Rao:** My other question is regarding the road projects. Three of your projects have had a loss at the PAT level. I would realize that it is high interest and depreciation cost. Is there any way that you can increase your toll revenues, to adjust for this or on these NHAI projects else you will be collecting only as per the mandate rate numbers?

**Subbarao:** The nature of toll road projects or airport projects, is that you create the project with a high CAPEX and you create a capacity for a 20 year future year and you don't use the capacity at one go and the capacity utilization gradually goes up say in the case of toll projects. So the revenue for the year has gone up by almost 24% as compared to last year and next year by the same reckoning it might go up by another 24% and that is how it continues. When this revenue outstrips the capacity cost, which are interest and depreciation which are likely to happen next year or so. So then the company would start, all these projects will start making profits subject to Ambala-Chandigarh, Ambala-Chandigarh is the only project where we have a problem because there is a serious profit leakage of diversion through a state supported, state built road ahead our stretch, there only we have problem, other two projects are in the normal course any toll projects unless you are exceptionally lucky, you would not make profits in the first two years of operation, that is what is going on in this. Similarly Hyderabad Airport, Delhi Airport you take any airport, because of the high capacity cost that you create though EBITDA is positive till those capacity

costs are absorbed through higher revenues again through higher capacity utilization you go through this process but the substance is if you have a 20 year concession period for your toll project. In about two, three years, yes, you go through a dry period as far as PAT is concern, not cash dry. So those projects are able to support their cash requirements in terms of loan servicing, in terms of interest payment but post that, you don't have a positive PAT. But this positive PAT will come in the next one or two years and thereafter on a continuous stream basis it will be positive PAT.

**Shashikiran Rao:** On the Ambala-Chandigarh itself are you working out on plugging the leakage, I mean considering that this would be somewhat of a violation.

**Subbarao:** It's a violation of the state support agreement by the state because state support agreement guarantees that they would not build a competitive road for the project we are working on various options both legally or otherwise, to overcome the situation.

**Moderator:** The next question is from the line Vibhor Singhal from Alchemy Shares.

**Vibhor Singhal:** Just a couple of quick questions, in terms of the road project which are the projects which are loss making in terms of those six projects?

**Subbarao:** There are three toll projects.

**Vibhor Singhal:** Right.

**Subbarao:** One is Tindivanam-Ulundurpet in Tamil Nadu which is making loss, Jadcherla is almost broken even at the PAT level in the current quarter. Its loss is about 2 crore 22 million 70 lakhs. It is almost broken-even, I think from the next quarter we should see a better picture here. Ambala Chandigarh which I explained because of a strange situation there profit diversion we are going through the painful process. Otherwise out of three toll projects one toll project is breaking-even in the second year of operation which is commendable in fact. At the PAT level so Ulundurpet, yes, I think we should be able to move to break-even June next year and it is not a forward looking statement that is our assessment.

**Vibhor Singhal:** So is Ambala-Chandigarh also making losses currently as of now?

**Subbarao:** I am not saying anything, it is making losses, unless we find a solution yes we will have to go through the situation and we are working out various legal and other options to get over this.

**Vibhor Singhal:** My second question was on the PE investment that we had in the Energy arm so basically the compulsory convertible preference shares that we issued. So were they issued for the entire energy portfolio of GMR or were there some projects which were excluded from the deal.

**Subbarao:** The PE investors came into the holding company of energy sector hence it covers all the assets.

**Vibhor Singhal:** My last question is on the InterGen Stake Sale, so basically when we selling this our 50% Stake InterGen how much will be the net cash that will accrued to the GMR Infrastructure parent company and when will that start reflecting in our balance sheet?



- Subbarao:** Sale value concluded as per the agreement is 1.232 billion and the loans outstanding here is about a billion dollar. So after repaying the loans the balance amount which is closer to even if you assume some 20-30 million closing expenses and all this interest everything till the closure date so 200 million should accrue to GMR Infra.
- Vibhor Singhal:** And when would that payment start reflecting in your balance sheet?
- Subbarao:** We expect this sale to conclude by March or so because most of the approvals have come in except one approval, which the prospective buyer has to take it. So I think the China State approvals only are pending otherwise rest of the approvals seem to have come in so as soon as all the approvals come in, I think we can close the deal.
- Moderator:** The next question is from the line Sumit Kishore from JP Morgan.
- Sumit Kishore:** The first question is on the InterGen deal conclusion, my understanding is that it was supposed to be concluded in the first half on CY11 so what is status now and what are the losses you have or rather what is interest cost versus the dividend that you have received from InterGen and what is the over run.
- Subbarao:** As I just explained the cost is going on Sumit, so probably it should get concluded by March or so depending upon the pace at which can get the approvals. But our assessment is that by March should get over that is on this. Your second question, the dividend versus interest. The dividend that we received is about \$32 million so far. And only one tranche of dividend we got it and the interest cost is approximately \$60 million per year and till the time the transaction is completely closed.
- Sumit Kishore:** This is up to March 2011?
- Subbarao:** Yes, we guess that if the transaction goes on or if the closure goes on till March 11, yes the interest keeps accruing at the rate of about \$5 million per month.
- Sumit Kishore:** Okay \$5 million per month. Sure my second question is more of the nature of housekeeping basically for the two airports, Delhi and Hyderabad, I need the key balance sheet items you know gross block, CWIP, and debt at the end December quarter? Would you have these numbers handy?
- Siddharath k:** We can send it you separately, I think if you would want.
- Sumit Kishore:** Just one follow up, my understanding was that post the T3 commissioning the entire CAPEX there should have been got capitalized by now. Is that correct?
- MS Narayana:** Major portion of the amount is capitalized, as I told you earlier the total capital about the T3 is 7,500 crore which is already capitalized that is after net of additional DF of above 1,800 crore. Apart from this by the end of December 2010, there is about 400 crore work-in-progress.
- Sumit Kishore:** 400 crore?
- MS Narayana:** 400 crore that will be capital in due course some parts during this quarter and some parts during next quarter.
- Moderator:** The next question is from the line of Anupam Gupta from IIFL.



- Anupam Gupta:** Just wanted your comments on the gas linkage for the Vemagiri expansion project?
- Subbarao:** There are six projects to the best of our information which are scheduled to get the gas linkage in the ongoing 11<sup>th</sup> plan which will go on board by March 2012 and our project is also there in as part of these six projects, as able to get the gas linkage.
- Anupam Gupta:** So basically we will get a clarity by may be March or April this year?
- Subbarao:** Yes, I think so because the EGOM has already approved that these six projects would get the gas linkage and we are one of those projects. So that is all that we can say at this juncture before there is liquid of uncertainty. But even if the uncertainty continues, if there is 50 million or 60 million mm that is available if additional gas is not available the available gas will be prorated across all the projects.
- Anupam Gupta:** So there is slight possibility that you will not be able to operate on full capacity.
- Subbarao:** No it is a continuous situation that I said, we are assuming that only the current production level continues then there is this kind situation otherwise if the gas production improves you will get the full capacity.
- Anupam Gupta:** And for the coal linkage for the Emco project because of the shortage in coal production by Coal India so do you see any risk of you not getting coal in there and what is the alternative then?
- Subbarao:** You see the way the Coal India signs the agreement it is subject to availability right. It is not just for the Emco it is for the all the projects in India. But we have a complete commitment for the entire coal and if there is not supplying any shortage in coal allocation in all the project would be part of the system but we have backup facilities, you can participate in the e-auction or you can also get the coal from our Indonesian coal mine which is commenced in the production by the middle of this calendar year. We will be in a state of readiness to get the coal from Indonesia coal mine incase there is a domestic coal shortage.
- Moderator:** The next question is from the line of Sanjay Chawla from Antique.
- Sanjay Chawla:** You know in your Hyderabad Airport, you are now a positive PBT in your reported P&L.
- Subbarao:** PAT also.
- Sanjay Chawla:** Are you still incurring tax losses in your tax books?
- Subbarao:** It depends upon the depreciation.
- Sanjay Chawla:** So does it mean you won't be creating any more deferred tax asset going forward in Hyderabad?
- Subbarao:** No this is a one shot creation, you won't create deferred tax asset in tranches.
- Sanjay Chawla:** Second question is, on your net cash flow post InterGen sale where do you intend to use the cash proceeds do you think the requirement is more in power

projects or could a part of the amount go to under development road projects as well?

**Subbarao:** No as the things stand today, there are only three projects going on in the road projects with a total equity commitment from GMR Infra to the tune of about 650 crore, 450 crore has already been infused so for only 200 crore which has to be spent over a period of next two years only a 200 crore is spending that is not a big amount from GMR Infra's balance sheet and availability. So hence this 200 million which would come in so the Energy might need it or we have to see whether we can use it for deleveraging. We will exercise this option on a due assessment at a later date.

**Sanjay Chawla:** Mr. Subbarao how much is the net debt at the GIL level at the listed company level?

**Subbarao:** Only GIL standalone?

**Sanjay Chawla:** Yes.

**Subbarao:** 1,700 at the GIL level.

**Sanjay Chawla:** So you would also be looking to deleverage?

**Subbarao:** No net debt is about 1,000 crore because there is a cash balance.

**Sanjay Chawla:** 1,000 crore?

**Subbarao:** Yes.

**Sanjay Chawla:** This is from the LIC, ICICI and Citi's and all those?

**Subbarao:** Yes you are right LIC 1,000 crore another 275 crore loan is there from LIC and 500 crore from.....

**Sanjay Chawla:** So okay wouldn't you be looking to deleverage your holding company partly with the cash accruals from InterGen?

**Subbarao:** That is what I said so once we receive this, it is a 1,000 crore asset we would not need this money immediately. Road projects wouldn't need anything in the immediate future. There may be for the next one year all equities funded already. So 200 crore can be funded at closure of the projects and energy there would be part requirement so partly perhaps we would use for deleverage.

**Moderator:** The next question is from the line of Yadvendra Singh Satyawath from CMIE.

**Yadvendra Singh:** Actually I just want to know the present status of Hyderabad actually you have proposed to develop a perishable cargo SEZ at Rajiv Gandhi International Airport in two phases?

**Subbarao:** Yes.

**Yadvendra Singh:** What is present progress right now.

**Subbarao:** It is already commissioned.

- Yadvendra Singh:** What is the capacity actually. You have proposed to develop a 15,000 tonnes capacity in the first phase and to extend the same to 25,000 tonnes.
- GRK Babu:** The first capacity has already started. It was on December 2010 we started the operations.
- Yadvendra Singh:** And what about the second phase?
- GRK Babu:** Second phase once this capacity is filled up then only we will think about it but we have made a provision for it.
- Yadvendra Singh:** You have proposed actually to develop an airport based SEZ in Hyderabad.
- Subbarao:** Yes.
- Yadvendra Singh:** What is the present status right now?
- GRK Babu:** No, this SEZ company has already been notified and 2 tenants have already come MAS-GMR Aerospace Company has already come and they have taken 25 acres of land. And the constructions are already going on and they are expected to start by 1<sup>st</sup> July hopefully. Another tenant BFM Engines has already started and more are coming up now.
- Yadvendra Singh:** By when it is expected to be completed?
- GRK Babu:** No, the project, at the SEZ, the work is going on, the infrastructure development, that is over a period of 3 years phase.
- Yadvendra Singh:** Yes in 3 phases right?
- GRK Babu:** Yes 3 phases.
- Yadvendra Singh:** Another SEZ you have proposed to develop another multi product SEZ, in Shamshabad.
- GRK Babu:** Only notification has come, we have not yet started work on it.
- Yadvendra Singh:** By when is this construction work expected to commence?
- GRK Babu:** I think it takes little more time.
- Yadvendra Singh:** Okay.
- Subbarao:** We don't have any definite time scheduled here.
- Moderator:** The next question is from the line of Chandan Sharma from CRISIL.
- Chandan Sharma:** My first question is regarding the merchant realization in the GMR Energy plant. This quarter it has fallen to 3.5.
- Subbarao:** 3.66.
- Chandan Sharma:** Yes. going ahead , how do you see the merchant rate from this plant?

- Subbarao:** See as you know, merchant tariff seasonal in nature, in the monsoon month, in the winter month, the merchant tariffs would go low, it is not something that is happened newly in the current year itself. So historically this is the reality and in the summer months it will go up. And we already see the trends of merchant tariff hardening, I just understood, we have seen a spot rate of Rs. 10 also few days back. That is the kind of merchant tariffs that is hardening trend. Government has called for a bid set at a higher price so several state governments are calling for bids at a higher price. So clearly the summer months the rates would be much better than the historical level, what we have seen in the winter months.
- Chandan Sharma:** Regarding the PLF in the plant, it has been at around 66% this quarter,
- Subbarao:** Yes.
- Chandan Sharma:** And the plant was probably operational for the entire quarter, right?
- Subbarao:** Yes.
- Chandan Sharma:** So why was the PLF low and do you think that this will be the PLF that will be there be going ahead for merchant?
- Subbarao:** No, actually it not only is depends upon the demand, it also depends upon the fuel availability. So fuel availability was an issue for this plant, we got some 70% allocation of fuel for the capacity. So that is the reason plant would operate only at 66% PLF.
- Chandan Sharma:** Going ahead how do you see the PLF for this plant for FY12?
- Subbarao:** You know that the fuel vendor I think, they have some technical issues they are currently going through. The production is down as of now by about 10% in their existing capacity and we do not know how long they would take to resolve the technical issues and they can restore the production levels to 60 MMSCMD. So till that happens, I think we will have to go through this and it is difficult to forecast how long it would take from their point of view.
- Moderator:** The next question is from the line of Shaleen Silori from ICICI Securities.
- Shaleen Silori:** Just wanted to check on the Delhi airport, where in this quarter we have booked expenses for almost 148 crore and a similar expense for 149 crore in our last quarter and that too on account of additional maintenance cost in T3. Just wanted to understand, is this maintenance cost recurring in nature? What exactly it is and what is the nature of this cost?
- Mohan Rao:** This maintenance cost because of this operations of T3 terminal. This is the recurring cost, every year we have to incur this cost. This is truly revenue nature expenditure.
- Shaleen Silori:** So how much it would be out of these 148 crore? How much would be the maintenance cost for T3?
- Mohan Rao:** About 40 crore.
- Shaleen Silori:** So it means that we will continue to have operating margins of somewhere in the range of 19 to 20% on a recurring basis on Delhi Airport?



- Subbarao:** No, It doesn't mean, so if you see the last quarter and compare with the current quarter, so last quarter the EBITDA margin was 2%, it has crept up to 20%. It has not jumped up to 20%, so 19 to 20% in the current quarter. So there are two things that decide the EBITDA margins, your revenues and your expenses. Your expenses are almost frozen, the expenses will not go in tune with the revenue, expenses are all standardized, now they are frozen at the current levels but the revenue will keep accruing at higher levels on two different factors, one is on account of the growth in the footfall both aero and non-aero will keep going up and second as and when the regulator fixes the tariff, when we get the sanction, again there would steep increases in the revenue and the EBITDA levels will go back, will be much higher than the current levels, once we achieve these two levels, particularly significant jump will come in the EBITDA levels, when we get the tariff prefixed based on the current project cost assesment.
- Moderator:** The next question is from the line of Rupa Shah from Prabhudas Lilladher.
- Rupa Shah:** Regarding this 160 crore which you have booked as a receivable, received from Tamil Nadu Electricity Board.
- Subbarao:** Yes.
- Rupa Shah:** This is full from this quarter right?
- Subbarao:** 160 crore has already been received by December, which is accounted as the advance received from Tamil Nadu Electricity Board.
- Rupa Shah:** Is it in this quarter where has it been reflected? Is it in others or is it in sales, power sales?
- Subbarao:** No, it is not recognized as revenue, it is just received as advance and is shown as a liability. So till we receive a substantial chunk of the money receivable from TNEB, we would show it as advance, we will decide the accounting treatment whether to recognize as revenue or to continue to show it as advance by end of the year.
- Rupa Shah:** Second thing is just wanted to get a sense that amongst our power plant which we are operating, the barge-mounted plant, is it fully capitalized or it would be done in a subsequent quarter?
- Subbarao:** No, No it is 100% capitalized. It was an existing plant, the complete capital cost was recovered in the earlier 7-year PPA period but it is only implemental cost of moving the barge and regasification of the plant as the barge creation there, more creation there. So there's all incremental CAPEX that was capitalized, thus CAPEX has been completely done up. Otherwise they wouldn't have been able to commission the operations.
- Moderator:** The next question is a follow up from the line of Vibhor Singhal from Alchemy Shares.
- Vibhor Singhal:** Regarding the homeland energy part, the company has been making losses for the past 4 or 5 quarters and we remember that probably there was a mention of the fact that these losses would stop recurring from the second quarter. How long do you think these loses will probably continue?



- Subbarao:** Till last quarter, we were not consolidating, we just showing it as associates. So this quarter the equity percentage has gone beyond 50% and hence we started consolidating on line by line and we also started showing the minority interest in this. See we are reengineering the entire project. As of now the production cost and the sale prices are almost equal and even at the EBITDA level, there is some loss. But these entire operating contracts for entered into by the earlier management. The mining contract, the coal washing contract, everything at a higher cost. We are reviewing these contracts, we are relooking, and we have to reengineer these things to turn the company into profitable. There are also expenses on account of the head office located in Canada, which we are also optimizing. Yes it will take few more quarters I think to start getting positive cash flows and PAT from this.
- Vibhor Singhal:** The production of Eloff mine has not started yet right?
- Subbarao:** No.
- Vibhor Singhal:** Are we looking to start production on that mine in near future?
- B.S. Raman:** It is currently under exploration and we got the exploration license right now, and we are in the process of commencing a drilling. It may take some time may be about 6 months to a year, before it commences its production.
- Moderator:** Ladies and gentlemen that was the last question. I would now like to hand the floor back to management for closing comments.
- B.S. Raman:** There was one outstanding question on Kamalanga's stage two clearance, just to clarify that stage two clearance is for the forest land and as on date we got the stage two clearance for this Kamalanga forest land. Now it is a matter of going ahead and getting the registration done for this forest land, so that the project can move ahead.
- Subbarao:** Coming back to the closing comments, thank you for participating in the call. I think we have been able to explain all the questions to your satisfaction. If there are any questions furthermore, you can write to our IR Department, so would be happy to answer your queries. Thank you one and all, thank you for your participation.
- Moderator:** Thank you gentlemen of the management, ladies and gentlemen, on behalf of GMR Infrastructure Ltd, that concludes this conference call. Thank you for joining us and you may now disconnect your lines.