

Lanco Infratech
Analysts/Investors Conference Call
December 19, 2006

Moderator

Good afternoon ladies and gentlemen. I am Monali the moderator for this conference. Welcome to Lanco Infratech conference call. For the duration of the presentation, all participants' lines will be in the listen-only mode. I will be standing by for the question and answer session. I would now like to handover the floor to Mr. J. Suresh Kumar of Lanco Infratech. Thank you and over to sir.

J. Suresh Kumar

Thank you Monali. Good afternoon to everyone. Welcome to this conference call. I have our Chairman, Mr. Madhusudhan Rao, on the call as well, and we are here to talk about the recent announcement that all of you would have heard yesterday that we won the Sasan project in Madhya Pradesh. I will begin with an overview of the project and Madhusudhan, our Chairman, will talk more about the project in detail. This is 6 x 660 megawatt power project that we had bid for. As you all would be aware we are the lowest bidders, we bid for a levelized tariff of one rupee 19.6 paise and this is a levelized tariff that we will earn over the next 25 years under a PPA that we will sign with various state governments. I will hand it over to Madhusudhan, our Chairman, to give you his perspective of this win and then we can take it forward from there.

Madhusudhan Rao

Yes. Hi, Suresh, this is Madhusudhan.

Suresh Kumar

We have all the investors on the line Madhusudhan, and I have given them a very very broad overview of the configuration of the project, that is it is a 6 x 660 megawatt projects at a levelized tariff of one rupee 19.6 paise over the next 25 years and I left it to you to give the investors some more details about the project and also your views on what are the opportunities that we will have in this project. So, you can start off and then we will overall take questions from the investors.

Madhusudhan Rao

Hello, everyone. Just to brief on the project first, this is a 660 megawatt super critical technology power plant with six numbers adding up close to 4000 megawatts. This project has a coal mine, which is also attached to this, and basically it will be a captive mining of the coal for the use for this power project. We have PPAs with several distribution companies from Madhya Pradesh and northern part of India, about seven state COMs with an escrow mechanism as a payment security. I think this is the structure for the project. We were given I think close to about 8-1/2 years to complete the project to achieve the project COD that is commissioning of all the units of the project. I think the basis on which we have bid for this project is first we took a very aggressive schedule. This is after talking to our equipment suppliers and we have revised the project schedule to do this project the first unit in 36 months from financial closure and for every three months we will be adding one more unit and we are looking at the overall project COD will be about 4-1/2 years from financial closure. This is one of the salient features of how we have strategized in executing this

project. Generally to say that since it is a captive coal mine project, the overall levelized tariffs is at a lower level as Suresh was saying. It is a levelized tariff of 1 rupee 19.6 paise.

Coming on the basis of how we have bid, we have bid the project assuming there is a 20% return on equity for the investors. We looked at structure at the time of bidding as if 80% is debt and 20% is equity, and the 20% ROE translates to about 17% equity **IRR**. I think this is one of the underlying basis on which we bid and we arrived at the tariff. And apart from this, we are looking at Lanco Infratech doing the entire balance of plant for this project and we are looking at the overall cost for this project is about 16,000 crores which includes the coal mining cost also into this. As far as the balance of plant is concerned, we are looking at about 7000 crores of balance of plant revenue which will come to Lanco Infratech booth with comfortable EBITDA margin on that. We have also strategically tied up with Dongfeng Electric. It is one of the major Chinese supplier for the 660 megawatts project and with our association with them for our Lanco Amarkantak and various other projects, we were able to get a very attractive offer for the boiler and turbine package which is a very critical as for the entire project. So, this is how the project has been bid and we considered only 80% PLF for the project and so any thing more than 80% that we operate, will be an additional upside to the overall return. Also, just to add few more things, this being a super critical technology, this project also is eligible to claim carbon emission reduction, which we calculated would give about 2.5% additional return on equity, which is also an upside that we have need to take over and above the tariff that we have quoted.

The other upsides to the project that we see, as per the RFP document, it comes with close to about 550 million tons of coal reserves and going by the record of how the earlier mines around the place have yielded we are looking at this project having a reserve of about 650 million tons and the quality of coal we have seen is a very good quality coal, qualifies for a D-grade classification and the actual requirement at 80% PLF for the project is about 375 million tons. So, we see a potential of about 275 million tons of excess coal that is available which is attached to the project and this is where we see a very large upside over and above the bid that we have given. I think this is the basis on which we evaluated and strategized our bid. Suresh, if any questions are there, I can also clarify.

Suresh Kumar

Just to supplement what our Chairman has said is the way we are planning to structure our investments in this project is that Globeleq, our partner, will own 49%. Technically, initially he will be seen as investing 51% in the project equity, but later on by the time commencement of operations, we will look at a majority structure in this project for Lanco Infratech. Just to give you some more statistical information in terms of location of the mine and the distance between the mine and the project site is about 20 km, it is a **pit-head** plant; it is also 50 km away from our Anpara project which is in south-eastern part of UP. It is where we are developing our 1000 megawatt thermal power project. In terms of financing, as we see the requirement of funds over the next five years, we do not see additional equity requirements for which we need to go to the external markets for sourcing. We feel that we can source our equity investments in ultra mega out of our internal accruals going forward. As you all would be aware, we will also earn reasonable margins on the contract revenue that we will earn from the ultra mega project which should keep us going as far as our share of the equity requirements are concerned. I will stop over here and leave it open for all of you to ask your questions and we can answer the same on by one

Moderator

Thank you very much sir. We will now begin the Q&A interactive session. Participants who wish to ask questions may please press *1 on your telephone keypad. On pressing *1 participants will get a chance to present their questions in a first-in-line basis. Participants

are requested to use handsets while asking questions. To ask a question, please press *1 now. First in line we have Mr. Pritish Vohra from Indusino.

Pritish Vohra

Hello. This is Pritish. I am calling from Indusino Advisor. Mr. Rao, my question to you some time back during the IPO time, you mentioned that you will not bid for project which has less than Rs.2.25 or something per unit, and it was like read my lips kind of a statement which you made in IPO. I would understand obviously you mentioned about the coal upside and also you have mentioned about the good coal deposits. What is the criteria which made you bidding at such a low level?

Madhusudhan Rao

Yes, I think, the basis which I told you in terms of return on equity and the costing to our Amarkantak project and we arrived at the tariff based on those assumptions. One of the reasons the tariff looks so low is because of the coal costing. This is a good mine with good potential. It has got say two layers of 40 meters deep coal which is very good to mine and with a coal to overburden ratio of about 4-1/2 times, and we were able to commission five independent teams to evaluate the coal mining cost and our cost of coal mining with the high calorific value we have in this coal deposit and with the supercritical technology it translated to a energy variable cost which is less than 30 paise. If you look at a similar project like our Lanco Amarkantak which we are executing in Chattisgarh, where we have coal linkage from one of the coal mines and when we quoted a tariff of Rs.2.25 and with a 4% to 5% escalation year-on-year on the coal, the coal tariff for such quantities will account to as high as Rs.1 to Rs.1.10; I think there is a difference between a Rs.2.25 tariff and Rs.1.20 tariff what you are seeing here.

Pritish Vohra

Right. Can you tell me about what is the actual contract? Is it Rs.1.196 is cast in stone or is there some kind of a deviation available whereby increase in the coal cost or increase in the project cost, or due to whatever reason you can charge it back?

Madhusudhan Rao

This Rs.1.196 is a levelized tariff as per the model and this levelization was achieved by discounting at 10.6% and as part of the strategy we had the flexibility where we to some extent front-ended the tariff in the sense this level of tariff we have seen that the first 15 years the tariff is slightly comfortable compared to the last ten years and we do not have any cash flow mismatches as we have a year-on-year tariff which is different, but on levelization it comes to Rs.1.196, a 10.6% discounting.

Pritish Vohra

Right. Can you also tell me about your capex which you mentioned over Rs.16,000 crores. What is the amount of capex which you think will go into the coal mining?

Madhusudhan Rao

We are looking about Rs.13,000 crores will go into the power block and Rs.3000 crores will go into both the equipments that we need to use for mining as well as almost close to about Rs.500 crores on rehabilitation of land and rehabilitation cost for the coal mine. So, it will be about Rs.13,000 plus Rs.3000.

Pritish Vohra

Right. Will this coal mining be part of this JV or will be spun as a separate company?

Madhusudhan Rao

We will be making it part of it because of the service tax implication. Our idea is to keep the tax component as low as possible and bring all value addition into the same company.

Pritish Vohra

Alright. Thank you very much.

Madhusudhan Rao

Yes. Thank you.

Moderator

Thank you very much sir. We will take the next question, that is Mr. Nirav Parekh from LKP Shares.

Nirav Parekh

Hi sir. Sir, I just wanted to understand what is the hit rate guaranteed by the equipment supplier?

Madhusudhan Rao

We have a heatt rate guarantee of about 2260.

Nirav Parekh

And what would be the calorific value of the coal?

Madhusudhan Rao

The calorific value of the coal will be Rs.4500 average. We have three mines with slightly different calorific value. For the first 25 years as per the PPA terms as the quantity is sufficient to run this project, we are mining only from two mines which is giving a higher calorific value and lower **strip** ratio and this is close to about Rs.4500 calorific value.

Nirav Parekh

Sir, what would be the cost of coal?

Madhusudhan Rao

The cost of coal we have assumed the current price as on today, we have arrived at a price and we have given escalation both on fuel, O&M operations, and various consumables, and the levelized cost of coal comes to about Rs.550 for 25 years.

Nirav Parekh

Sir, at what rate you have tariff unit?

Madhusudhan Rao

We have assumed the debt for this project is about 9.75%.

Nirav Parekh

Okay, sir. Thanks a lot.

Moderator

Thank you very much sir. Next in line is Mr. Amit Bhandari from Economic Times.

Amit Bhandari

The tariff level that has been given by Lanco say compared to the levels which have been given by NTPC, there is a very huge difference. This kind of a difference would not be explained by just differences in cost of debt or IRR. I mean, what factors do you think would account for this almost Rs.1 plus difference in cost per unit?

Madhusudhan Rao

I think with Rs.2.12, I can tell you that it is not a serious bid. Nothing can justify that tariff. I do not think it was a serious bid by NTPC. What we need to see is the other two lowest bidders were Reliance and Tata Power. These are comparable; I think this can be discussed, debated, and I think we have a strong reason to believe that we are at about 8% lower than Reliance and about 16% lower than Tatas.

Amit Bhandari

Okay. Even L&T has bid at a similar level, Rs.2.29?

Madhusudhan Rao

I think basically it is not a serious bid. There are two aspects of this project. The biggest thing is getting suppliers for the BTG package. Being a supercritical technology, there are very few people in the world who can supply the equipment. I think the winning strategy is to partner with the right people who can deliver the equipments early and at a reasonable cost. I think we believe that our strategy of trying to work with Chineses equipment has worked. We are able to cut short the deliveries by almost 50%.

Amit Bhandari

Okay. That likely accounts for this difference that you are quoting.

Madhusudhan Rao

Yes, because between our normal delivery schedule as for the RFP to the delivery schedule we have considered, we are looking at a huge difference in the IDC. Normally, IDC for such projects comes almost anywhere from 12% to 18% depending upon the duration and the gestation of the project.

Amit Bhandari

IDC, what is that?

Madhusudhan Rao

Interest during construction which is a very critical component of the overall project costing. And if someone takes a very stretched construction period, there is a good chance that he may end up at about 18% IDC on the overall project cost.

Amit Bhandari

How much is it working out in your case?

Madhusudhan Rao

We are almost as close as about 11.5%.

Amit Bhandari

Okay, sir. Thank you.

Moderator

Thank you very much sir. Next in line is Mr. Suhas from UBS.

Suhas

Good afternoon. Just a couple of questions. Can you split that entire Rs.16,500 crores into various heads. Is that only the project-related cost or does it also include coal capex? If you could just split it between power coal first and within power if you could split between BTT balance of plant, IDC overheads, it will help. And second question is in terms of financing, who are your main lenders? I think, lastly, what is your first year tariff?

Suresh Kumar

I will take that question. As chairman mentioned, total cost is Rs.16,000 crores of which Rs.13,000 crores is the power block and Rs.3000 is the coal block. The breakup within the Rs.13,000 crores, I would rather give it later. We have not yet disclosed because it is sensitive a bit, but we will certainly update all of you in due course, but it should suffice to say that out of the Rs.13,000 crores of the power cost, Rs.7000 crores worth of balance of plant contracts will come through Lanco Infratech through a separate contract. So, you should be in a position to like figure out what is the rate, but I would rather keep it to ourselves the breakup of the Rs.13,000 for the time being. Sorry to say, but can you repeat your second questions.

Suhas

My second question was who are your main lenders?

Suresh Kumar

Yes, lenders, while we have not tied up, we have almost a year to tie up our financial closure for this project. Our approach would be is to look at all markets, not just India, but also the international market and we have a track record of tying up loans for our projects almost with about 20 institutions in India and certainly we are looking up at options of not just domestic institutions, but also international institutions.

Suhas

And the last question was, your first year tariff.

Suresh Kumar

Our first year tariff would be about . . .

Madhusudhan Rao

I am sorry, Suresh, what we did was, we have structured the tariff different for every year and the model which was given for bidding is different to how we normally get into it, we receive payments on a year-on-year basis. As a strategy, we found it is better to quote the first two years as low as possible, because we will not be operating at full capacity in the first two years. So, for that reason we took the first two years of our tariff I think much lower than Rs.1. And from the third year to the 15th year is where we loaded most of the tariff.

Suhas

Okay. Just one last thing. What is the likelihood of you being able to operate above 80% PLF without incurring any significant cost?

Madhusudhan Rao

This coal project, if we look at India, the plant availabilities are very high. The major issue that most of the projects are facing is consistent supply of coal. There is always a shortage of coal supply and since the coal mining is in our position, we are looking at about 90% PLF when we operate this plant.

Suhas

So, is that something your equipment vendor is also guaranteed?

Madhusudhan Rao

Yes, I think the level of guarantee on the plant is much higher than that.

Suhas

Okay. Thank you very much.

Madhusudhan Rao

Thank you.

Moderator

Thank you very much sir. Next in line is Mr. Sanjeev from Kotak Research.

Sanjeev

Hello. Sir, Sanjeev here. Just wanted to know the tract record of Dongfeng in supplying power equipment in India as well as globally, especially in the supercritical project equipment. If you could also give us the status in terms of market share or something of Dongfeng has in worldwide and also in China?

Madhusudhan Rao

Dongfeng is basically one of the largest equipment manufacturers in China with a total capacity of about close to 20,000 megawatts of power generation capacity. Just to give a scale, BSL is about 6000 megawatts a year compared to Dongfeng at 20,000 megawatts. In India, they have supplied for smaller projects, the largest projects are being supplied now for the past about year and half, and we do not have a ready made experience on Dongfeng on larger machines like 300 and above. Coming to Dongfeng, they are using Hitachi technology. They are licensees from Hitachi to manufacture the supercritical plant. The largest of 1000 megawatts frame size also Dongfeng has supplied. The first one is going for commission sometime this month. So, it is 660 megawatts and also they even make 1000 megawatts single unit also.

Sanjeev

Sir, would you also prefer them for your upcoming 1000-megawatt projects?

Madhusudhan Rao

Yes, we will be, because we have a strong relationship with them in terms of association and definitely we will be considering them.

Sanjeev

Thanks a lot, sir.

Madhusudhan Rao

Thank you.

Moderator

Thank you very much sir. Next in line is Mr. Sirish Rane from SSKI.

Sirish Rane

Good afternoon sir.

Madhusudhan Rao

Yes, good afternoon.

Sirish Rane

Sir, two-three questions. First on the IRR which you said ROU of 20% or a IRR of 17%, does it include the carbon emission and the surplus sale of coal upside included?

Madhusudhan Rao

No. We did not include the carbon inclusion. The 2.5% additional ROE is over and above the 17% equity IRR. And also on the coal side, we did not take it into this, it is an upside that we kept it for ourselves and looking at the calorific value of this coal which is about Rs.4500, a similar type of coal is being supplied by northeastern coal fields in the same

region at about Rs.11,000 per ton. At our cost of Rs.550, we have a very big upside especially on the surplus coal.

Sirish Rane

Sure sir. Sir, in terms of the selling of surplus coal, as of now the legislation does not permit any captive user of coal mine to sell the surplus coal. So, you expect the legislation to change or in the RFP there was a change made specifically to accommodate this in this project?

Madhusudhan Rao

Yes. There are two aspects of the things that we can do with the excess coal. One is we can do a combination with the RFP and also selling of excess coal to coal companies. Let us say, we have a project like I can sell this coal to northeastern coal fields at a price what they are selling to others. If Anpara requires coal for our project which is also in the similar region, I can sell this coal to northeastern coal field and northeastern coal field to Anpara. We are looking a combination of coal fields and also an increase in capacity by adding another 35% of the capacity as earlier said.

Sirish Rane

And, the RFP does not prohibit you from increasing the capacity?

Madhusudhan Rao

It does not talk about that, but if today my tariff is Rs.1.20 paise, even if I supply at Rs.1.75, it will be one of the lowest tariff in the country.

Sirish Rane

Sir, I am just looking from contractual condition perspective, not from economic perspective.

Madhusudhan Rao

Contract is silent on that. It does not talk anything more than 4000, but this is something which you need to work out.

Sirish Rane

Sir, on the equipment supplier, Dongfeng, when you bid for this project, did they give a binding quote to you; I mean, whatever they would have committed, they will hold now, or is it more like a indicative quote which they have given? I mean, what is the status of that. I mean, I am not so much so interested in the price, but more so in the contractual agreement between the two parties.

Madhusudhan Rao

It is a binding quote that we have and we have worked it as close as the actual cost.

Sirish Rane

Okay. So, they will honor whatever they would have given the cost to you, more or less the final cost.

Madhusudhan Rao

Yes, that is the final cost.

Sirish Rane

Sir, what about the O&M part there, again guarantee you the O&M or who does the O&M?

Madhusudhan Rao

The O&M will be done internally like how we are executing our Lanco Amarkantak or our other project. It will be executed by the project company alone.

Sirish Rane

Okay, fine sir. Sir, one more thing on the overall contract. How much of bank guarantees you have to give before you can start your financial closure to the government?

Madhusudhan Rao

I do not exactly remember. Suresh, can you answer?

Suresh Kumar

Rs.320 crores.

Sirish Rane

Rs.320 crores? And is there any incremental commitment barring this Rs.320 crores before you start funding the project?

Suresh Kumar

No.

Sirish Rane

But these are company bank guarantees, not the sponsor bank guarantees.

Suresh Kumar

It is bank guarantee.

Sirish Rane

Correct. And sir, final question on Globeleq. What do they bring to the whole consortium, I mean, in your opinion, what is their value addition to the whole thing?

Madhusudhan Rao

To give you a perspective, Globeleq is an developer arm of Government of UK, it is part of the CDC group. Globeleq worldwide owns about 3500 odd megawatts of capacity all over the globe. Globeleq was our equity partner in Lanco Kondapalli until about a month back. We bought in out recently in that project, but they joint ventured us for Sasan and they joint

ventured us for Krishnapatnam as well. So, we see a lot of mutual benefits of co-investing together in such large projects.

Sirish Rane

My question was more pertaining for that 49:51 structure getting converted into 51:49 structure. I mean why the 2% difference, because financial commitment does not seem to be very large for 2%. So, why this 49:51 which later on gets converted into 51:49?

Suresh Kumar

Madhusudhan, you want to take that question?

Madhusudhan Rao

I think basically this is an understanding that we have with Globeleq to operate this plant, to get into the plant, and we take lot of responsibility of getting the project to ...

Sirish Rane

Sir, one final question on the mining side. When you said overburden, you meant about five times overburden to one ton of coal. Is that what you said or it is the reverse way around?

Madhusudhan Rao

Yes, we have overburden of 4-1/2 times, overburden to one ton of coal.

Sirish Rane

Assuming this overburden, you are saying the levelized mining cost will be Rs.550 a ton?

Madhusudhan Rao

Yes, that is right.

Suresh Kumar

Sirish, are you clear on the GCV, calorific value?

Sirish Rane

Yes, it is 4500 and this is basically, you have done enough study in the area or you have gone by the mines in the area to arrive at this 4500?

Madhusudhan Rao

We have looked at the surrounding mines and also based on the report and based on that we have taken the view.

Sirish Rane

Sir, just to get some more clarity, what will be the first year's mining cost if you have the number?

Madhusudhan Rao

The first year mining cost will be slightly higher because we need to get the mine operated and we have definitely lot of overburden but we have capitalized it.

Sirish Rane

Okay. What would be the running cost, it will be around Rs.550 only?

Madhusudhan Rao

Yes, Rs.550 is a levelized tariff on a 25-year period after giving all due escalations on year-on-year.

Sirish Rane

Okay. Thank you very much.

Madhusudhan Rao

Thank you.

Moderator

Thank you very much sir. Next in line is Mr. Karthikeyen from Stratcap Securities.

Karthikeyen

Good afternoon sir. If you could clarify a couple of points. First is, what is Dongfeng's comfort in using Indian coal? The fact that this is a D-grade coal make a difference?

Madhusudhan Rao

Can you just repeat this, I just missed this.

Karthikeyen

Yes. I just meant, what is Dongfeng's comfort in terms of using Indian coal or is there something specifically to be done. Are you planning to set up a washery as well in order to . . . ?

Madhusudhan Rao

Rs.4500 is not bad when it comes to Indian coal and I think with Dongfeng, the boiler was based at a calorific value much less than Rs.4500.

Karthikeyen

Okay. Secondly sir, who would be doing the mining for you, the coal mining? Are you doing it in-house, would you be getting subcontract?

Madhusudhan Rao

Yes, it will be like some type of a subcontract structure, but it will not be a 100% subcontract. We will be leasing out lot of equipment for that. We are working out various practices, in-house to outside. In Lanco, we also have huge earth removal experience; so, we will be

leveraging both those things, it will be a combination of both in-house as well as external, but keeping the service tax in view, we would like to minimize the tax burden.

Karthikeyen

Sir, just a couple more questions. Sir, if you could share with us some clearance of what kind of repayment terms you would assume for the debt?

Madhusudhan Rao

I think we look at about a total of 14 years, is it right, Suresh?

Karthikeyen

Hello. I am listening.

Madhusudhan Rao

Suresh, are you on the line? I think it is for 14 years of repayment.

Karthikeyen

14 years of repayment. Any moratorium assumed, sir?

Madhusudhan Rao

It is about six months moratorium, six months on the project COD, after all the units are commissioned.

Karthikeyen

Six months after project COD, okay. One last question, what would be the peak tariff you quoted and which year would this be in?

Madhusudhan Rao

I do not remember exactly, but the peak tariff is definitely from the third year.

Karthikeyen

From the third year?

Madhusudhan Rao

Yes, third year to the 14th year, will be a peak.

Karthikeyen

Okay, fine. Thank you so much sir and many congratulations.

Madhusudhan Rao

Yes, thank you.

Moderator

Thank you very much sir. Next in line is Mr. Venkatesh from Citigroup.

Venkatesh

Sir, sorry. Sorry for the repetition if I am asking some because I just got dialed out. Just clarifying on a few things. You said the calorific value is Rs.4500, right sir?

Madhusudhan Rao

Yes, that is right.

Venkatesh

And you said the cost of production is roughly around Rs.550 per ton?

Madhusudhan Rao

Yes, that is right.

Venkatesh

What is the non-interest and depreciation cost in this Rs.550?

Madhusudhan Rao

I do not have the exact numbers, but the variable component is higher than the fixed component.

Venkatesh

Sir, if I look at a typical coal mining kind of operation, you would have royalty, you would have taxes and duty, you would have handling charges. What other costs do you have, cost of removal of overburden, that would be the other thing, right?

Madhusudhan Rao

No, the initial cost on top of the Rs.550 is royalty and some taxes and transport to the site.

Venkatesh

Okay, the royalty taxes would be in addition to the Rs.550?

Madhusudhan Rao

That is right.

Venkatesh

What would be the cost per ton of removing overburden sir, the basic operations cost per ton?

Madhusudhan Rao

It varies. I think it goes with time. Today, people are doing it as low as about Rs.65 to Rs.70 per ton.

Venkatesh

I am just trying to wonder because based on whatever calculations we have, we are getting roughly around Rs.300 or so for the depreciation and interest cost on coal mining, but we are finding it hard to explain the remaining Rs.250. If Rs.65 to Rs.70 is only the operation cost, what would be the remaining cost?

Madhusudhan Rao

Remaining cost is like we have some depreciation. We had looked at some escalable, non-escalable, some fixed cost component and the exact breakup between all those things, I do not have it offhand with me.

Suresh Kumar

Venkatesh, what we will do is, we will separately move it to you.

Venkatesh

Okay sir. I have few other questions. First of all on the power sales, you will be . . .

Moderator

Sir, can you please come for a followup sir.

Venkatesh

Okay.

Moderator

Thank you very much sir. Participants are requested to limit to two questions in the initial round. Follow-ups will be taken later.

Next in line is Mr. Ashiyanan from Pru ICICI.

Ashiyanan

Sir, you mentioned a couple of things. One in terms of your interest in construction being very important and also in terms of the coal mining. I just wanted to understand, as we are tied up with the Chinese supplier for turbines and boilers in terms of material handling equipment, because the scale of this project is significantly has not done anything we have seen earlier in India. In terms of material handling equipment and the coal washeries and ash handling equipment, etc., do we feel Indian suppliers are good enough to be able to gear up for this or what are our plans in terms of material handling, ash handling, etc.

Madhusudhan Rao

This will not have coal washery. The only material handling is to reclaim the coal in the plant and feed it to the plant and also to dispose the ash. This is a very proven technology. It is not very highly technology oriented and it is basically a bulk handling system which is available across various industries. There is not much difficulty in procuring this segment.

Ashiyanan

Okay, so the same will be procured from Indian vendors. There is no reason to abroad.

Madhusudhan Rao

Yes, we will be using domestic as well as imported wherever required.

Ashiyanan

Sir, I am sorry, your voice is breaking. Hello.

Moderator

Yes sir, your voice is breaking a bit sir. Now you can go ahead.

Madhusudhan Rao

Hello. Can you hear me?

Suresh Kumar

Yes, we can hear now, Madhusudhan.

Madhusudhan Rao

Yes, we will be using a global sourcing model for all the equipments in the project. We will not restrict anything to India to get it competitive.

Ashiyanan

Okay, thanks sir. Thanks a lot.

Madhusudhan Rao

Thanks

Moderator

Thank you very much sir. Next in line is Mr. Pramod Gupta from Principal Assets Management.

Vasan

Hi, this is Vasan here. Hypothetically speaking, in case something goes wrong and you do not make money here, do you have any exit option.

Madhusudhan

Suresh, I think my line is breaking. Can you hear?

Vasan

What I was asking is, hypothetically speaking, if something goes wrong and you do not make money, do you have an exit option?

Suresh Kumar

Vasan, there is normally a force majeure and there is no other exit option.

Vasan

Okay, thanks.

Moderator

Thank you very much sir. Next in line is Mr. Rajesh Kothari from Voyager.

Rajesh Kothari

Hello, sir. Just one question. In terms of that 1.19 per unit, is it possible to break up, say for example, what is the cost of fuel per KWH or something like that. Can you just give some break up of that, how that is built up?

Suresh Kumar

If you see the breakup of that 1.19, say about close to 30 paise will be a variable cost which will include whatever is the operating cost for coal and other requirements, but variable is 30 paise and 90 paise will be our fixed.

Rajesh Kothari

Out of it how much will be coal?

Madhusudhan

Predominantly in the 30 paise, the only variable cost will be the coal related and little bit of O&M, not much.

Rajesh Kothari

Okay, fine. Sir, when you say 0.30 per unit that assumes to about Rs.550 plus royalty and taxes of another about Rs.90, which is about Rs.640 per tonne kind of thing.

Suresh Kumar

Yes. And this is at 80% PLF.

Rajesh Kothari

At 80% PLF, okay. Sir, does it mean the 80% PLF, what we are saying is that, our coal cost per ton can be about roughly Rs.640 kind of thing?

Suresh Kumar

Yes.

Rajesh Kothari

Which translates into 0.3 per unit.

Suresh Kumar

Yes.

Rajesh Kothari

Okay, thank you. One more question, in terms of the construction of this project, what kind of margins one should assume at operating level?

Suresh Kumar

Rajesh, can you please repeat it, I am sorry.

Rajesh Kothari

My question is, in terms of the construction business opportunity, what kind of margins one should assume?

Suresh Kumar

About 17% to 18%.

Rajesh Kothari

At operating level?

Suresh Kumar

Yes, EBITDA.

Rajesh Kothari

At EBITDA. And that will flow in starting from which year?

Suresh Kumar

Well, it will flow in over the next five years from the date of commencement of construction. If say January 2008, we complete our financial closure, and we start construction immediately on achieving financial closure and we take about 50 months to complete the entire project, so it is about four and half years; so, we will accrue the income of four and half years beginning January 2008.

Rajesh Kothari

Okay fine. Thank you.

Suresh Kumar

Yes, welcome.

Moderator

Thank you very much sir. Next in line is Mr. Sridhar from Mann Financial.

Sridhar

Yes, good afternoon sir. This is Sridhar from Mann Financial. My question pertains to PPA, the power purchase agreement. Whether they all have been signed and what is the status actually? If it is not signed, when it would be signed, and who are the state government who are actually you are in discussions with?

Madhusudhan Rao

We have initialed the power purchase agreement as part of the bid documents and this is typically the process that one follows, that you initial the power purchase agreement and we have done with seven states or seven distribution entities across various states predominantly Madhya Pradesh, Punjab, Delhi, Uttaranchal, Uttar Pradesh.

Sridhar

Okay, sir. Thanks a lot.

Moderator

Thank you very much sir. Next in line is Mr. Seshan Balakrishnan from SSKI.

Seshan Balakrishnan

Hello, good afternoon.

Suresh Kumar

Yes, hi.

Seshan Balakrishnan

I would just like you to share with us the dates of construction period and the commissioning period for each of the six units.

Suresh Kumar

Okay, we start construction in January 2008 and the first unit is 660 megawatts will be 36 months from January 2008.

Seshan Balakrishnan

Okay. So that is January 2011.

Suresh Kumar

Yes. And the rest of the five units will be at an interval of three months each and the last unit the interval between the fifth and the sixth will be six months.

Seshan Balakrishnan

Fifth and the sixth will be six months.

Suresh Kumar

Yes. Overall about 54 months is what we will take to commission all the six units from January 2008. Is it clear?

Seshan Balakrishnan

Starts from January 2008. Okay, and the other related question is, could you quantify what is the IDC amount in rupees crores?

Suresh Kumar

It will take about 11.5% to 12% of the project cost.

Seshan Balakrishnan

Okay, and it is the entire Rs.16,000 crores and not Rs.13,000 crores.

Suresh Kumar

Yes.

Seshan Balakrishnan

Okay, thanks.

Moderator

Thank you very much sir. Next is Mr. Sumit Aggarwal from HSBC.

Sumit Aggarwal

Sir, just one question on your partner group. Can you just throw some light of what is this company all about and if I look at the revenues of the Globeleq say something like \$500 million and looking at a 51% equity investment, they would be requiring an investment of \$364 million. Can you just put some sense into it?

Suresh Kumar

Globeleq is an investment arm of Government of UK, it is part of the CDC Group. It operates worldwide close to about 3500 odd megawatts, balance sheet size is about \$2 billion, and it is the development arm of the CDC and in terms of its asset value, the estimated asset size is close to about \$2 billion. So, that is the kind of a size that we are talking on Globeleq.

Sumit Aggarwal

Sir, that means is Globeleq a financial investor?

Suresh Kumar

He is a developer and a financial investor. He owns about 3500 megawatts of capacity all over the globe.

Sumit Aggarwal

Okay, fine. Thanks a lot sir.

Suresh Kumar

Yes.

Moderator

Thank you very much sir. Next in line is Mr. Pradeep Kumar from ABN Amro.

Pradeep Kumar

Could you tell me what sort of equipment cost per megawatt you assume. So, if I have missed what sort of construction opportunities you have for your main company?

Suresh Kumar

Pradeep, basically like as we said, it is a Rs.13,000 crores total cost for the power project and we are talking about almost Rs.7000 crores out of that Rs.13,000 crores in terms of contracts to Lanco Infratech. So, our contract revenue from Sasan would be about Rs.7000 crores and the equipment cost is comparable with other peer groups.

Pradeep Kumar

It looks like this is \$15 million per megawatt. If you take as 4000 into \$15 million, that is Rs.6000 crores out of Rs.13,000 crores; so that Rs.7,000 you are taking as a construction opportunity.

Suresh Kumar

You are right, Pradeep.

Pradeep Kumar

And the second thing in terms of ROE calculation, how we bifurcate it say power tariff plus the income from the excess coal or something excess in this area.

Suresh Kumar

Currently, we have not built revenues from excess coal and from carbon credits. So, our ROEs vary like base case and we have not factored any of potential future upsides.

Pradeep Kumar

That 20% ROE is only from the power business you have achieved?

Suresh Kumar

No, it is overall at the project company levels and overall ROE 20% without factoring in other upsides.

Pradeep Kumar

Okay, thanks.

Moderator

Thank you very much sir. Next in line, we have Mr. Bajwa from Kotak Securities.

Bajwa

Good afternoon, Suresh. Congratulations on getting these figures.

Suresh Kumar

Thanks Bajwa.

Bajwa

Just wanted a quick check on what kind of auxiliary consumption does Dongfeng's equipment can get you?

Suresh Kumar

6.5%.

Bajwa

7.5%?

Suresh Kumar

6.5%.

Bajwa

Okay. And on the coal, the calorific value you have mentioned 4500. That should freeze up for all the three mines put together?

Suresh Kumar

Yes, all the three mines put together.

Bajwa

Okay, fine. Thanks a lot.

Suresh Kumar

Any time.

Moderator

Thank you very much sir. Next is a followup from Mr. Venkatesh of Citigroup.

Venkatesh

Sir, just wondering a few questions. First of all, will you be paying any electricity duty like other generators and what would it be? Would it be around 3% to 4% of sales? Secondly,

what is the commitment you have in terms of how much will you generate. Is there a commitment that you have to generate at least 80% PLF or at least 90% PLF. The third question is on Krishnapatnam, there is a general understanding now in the finance ministry that they want each of these projects to be executed by different parties. So, would this mean that you will move out of the fray from Krishnapatnam or will you continue bidding in Krishnapatnam. Between the third year to the fifteenth year, any one of these years, could you just give us idea of what is the PAT per kilowatt hour?

Suresh Kumar

Venkatesh, you ask too many questions in one question.

Venkatesh

No more questions, sir. This is it.

Suresh Kumar

You have many more?

Venkatesh

No. That is it, finished.

Suresh Kumar

Okay. First is no electricity duty. Second is 80% PLF is the base case, okay. Third is, there is no such documentary condition which says that we cannot bid for Krishnapatnam. There is no such policy statement that we are aware of that project awards will be split amongst various parties and will not be given to a single party.

Venkatesh

And the last one sir, between the third to the fifteenth year, which you said would be a peak tariff, some kind of average PAT per kilowatt hour that you are expecting?

Suresh Kumar

Say Rs.750 crores to Rs.950 crores per annum.

Venkatesh

Okay, sir. Thank you sir.

Suresh Kumar

Welcome.

Moderator

Thank you very much sir. Next is a followup from Mr. Karthikeyen of Stratcap Securities.

Karthikeyen

Sir, a couple of clarifications, if you please. First is, could you share with us the variable component in the tariff. You know there is an escalable component in fixed charge as well as variable charge. So, if you could give those details to us?

Suresh Kumar

It will vary year by year; so, rather than getting into those numbers, just assume a broadly 30 paise kind of a number for the variable cost, whether escalable or nonescalable. It would be simpler if you look at a 30 paise variable and a 90 paise fixed.

Karthikeyan

Fair enough, that point is well taken. It is just that there is an escalable component even in the energy cost which is why I just thought I will clarify. The other question I may ask you is in terms of third party sale are you allowed to sell surplus power to third parties and how exactly does it work out?

Suresh Kumar

It is not surplus power. It is basically surplus coal where we have an option, that is it.

Karthikeyan

Oh I see. And the entire capacity allocation, would it be determined by you, or would it be pre-determined? How exactly does it work now?

Suresh Kumar

Pre-determined under the PPA that we have signed with seven state governments, so the entire capacity will go to them.

Karthikeyan

Oh, I see. So, they would be entitled to any surplus that they intend to trade on. Thank you so much.

Suresh Kumar

You are welcome.

Moderator

Thank you very much sir. Next in line, we have Mr. Sudip Mishra from UTI Securities.

Sudip Mishra

Sir, my question is that your ROE is based at 20%. Is this based on a PLF of 90% or 80%.

Suresh Kumar

80%.

Sudip Mishra

I am sorry, I did not get you sir.

Suresh Kumar

No. We have assumed an 80% PLF based on which we have come to an ROE number of 20%. If there is an increase in PLF, it has that additional impact on the ROE.

Sudip Mishra

Does it mean that anything that you said, that is which we were earlier assuming that you will be operating the plant at 90% PLF, the 10% would it for the upside like your carbon credit and others, and sales of coal in the open market? So, that is a closer upside?

Suresh Kumar

Beyond 85%, there is an upside. There is no incentive that is there to operate higher than . . . between 80% to 85% is no grade incentive, but as soon as you cross the 85% PLF mark, the incentive kicks in.

Sudip Mishra

And that is not capturing this 20% ROE?

Suresh Kumar

No.

Sudip Mishra

So, there are three levels of incentives for you now.

Suresh Kumar

Yes.

Sudip Mishra

Okay. Thank you sir.

Moderator

Thank you very much sir. Next we have Mr. Nirbhay from Prabhudas Leeladhar.

Nirbhay

Hi, Mr. Suresh. Nirbhay from PL. I just wanted to ask one thing. What do you think would have gone wrong with the other players who have quoted a higher tariff than you? I am talking not about the NTPC and others who are far ahead in the race and as Mr. Madhusudhan Rao said that they might not be the serious players but what about Tata Power and others.

Suresh Kumar

I think the bids were close between us, Reliance, and Tata Power clearly and it is not that the huge differences between the L1, L2, and L3; it is a function of project cost estimates and perhaps the synergies that we have since we construct our own power projects. So,

that could have made the difference, but otherwise there is not a significant difference between the three bids. It is only like a bit of fine tuning on project costing.

Nirbhay

Okay. And was that this coal mine is 50 km away from your another power project was also one of the instrumental thing in you going for a slightly lower tariff?

Suresh Kumar

Not necessarily, because we have coal linkages for our Anpara project. So, the fact that this coal mine is 50 km away from Anpara really did not matter. What really mattered is like how close it is to the existing project site of Sasan.

Nirbhay

And just one last thing. How competent we are that we will be able to achieve this commencement of the project by four and half years after the plans of closure. Is not that a very aggressive timing that we are looking for?

Suresh Kumar

No, it is not very aggressive as we see it. It is achievable because we are going to commission the first unit in 36 months from the date of financial closure, equipment supply is clearly committed and Dongfeng is not a small equipment supplier. He has a capacity of about close to 20,000 megawatts per annum and so far the experience that we have had with Dongfeng for our Amarkantak project has been extremely positive. So, we are pretty fine with the execution time length that we envisage for this project.

Nirbhay

Thanks a lot and all the best.

Moderator

Thank you very much sir. Next in line we have Mr. Krishnan from CLSA.

Krishnan

Hello sir. You had mentioned earlier in the call that one of the big advantages you had in terms of reducing IDC was the fact that you were getting very early supplies from Dongfeng. And you mentioned also that the first unit will come in about six months. Could you give us some idea if you get enquiries from the other suppliers, what would be the timeframe of supply and in terms of cost, will they be substantially higher?

Madhusudhan Rao

Suresh, you want me to answer this?

Suresh Kumar

You can take it, Madhusudhan.

Madhusudhan Rao

I think, other than Dongfeng, who is the main boiler and turbine supplier, we do not see a problem of meeting the schedule for other equipments because it is much ahead and well within the schedule.

Krishnan

So, in terms of the main boiler-turbine package, it was not very different in terms of schedule as compared to what you would have got from somebody else.

Madhusudhan Rao

Yes, I think, the Chinese have a huge manufacturing capacity, the schedule of Chinese is much aggressive compared to other suppliers.

Krishnan

Could you just give us some idea of how much longer the next best supplier would have taken?

Madhusudhan Rao

As against 36 months, you can see some of the suppliers as high as about 55 months.

Krishnan

55 months, even for the first unit?

Madhusudhan Rao

Yes, first unit, and six months for every unit.

Krishnan

And how in terms of cost too would this have been substantially cheaper?

Madhusudhan Rao

Basically, I was telling the IDC for this project depending upon the aggressive schedule as for RFP where you will be anywhere from 12% to 18% definitely of the project cost.

Krishnan

Thank you sir.

Madhusudhan Rao

Thanks.

Moderator

Thank you very much sir. Next in line is Mr. Rajesh Panjwani from CLFA.

Rajesh Panjwani

Good afternoon sir. Sir, one clarification. The Rs 160 billion project cost, does it include the IDC or not?

Suresh Kumar

Yes, it does.

Rajesh Panjwani

It does include.

Suresh Kumar

It does, it does.

Rajesh Panjwani

And sir, the other thing was apart from this Rs.3.2 billion of bank guarantee which you will be providing, you said that that is only the Lanco's contribution, it does not include what will come from Globeleq.

Suresh Kumar

That is overall.

Rajesh Panjwani

That is overall? So, your portion would be half of that, right?

Suresh Kumar

Yes.

Rajesh Panjwani

Okay. The other thing was that are there any other penalties apart from this bank guarantee if the project is delayed or not completed in time?

Madhusudhan Rao

There are some penalties in the RFP. We do not remember exactly . . .

Suresh Kumar

Sorry, Madhusudhan, it is about Rs.10,000 per megawatt per day of delay.

Rajesh Panjwani

Per day of delay.

Suresh Kumar

Yes.

Rajesh Panjwani

Okay. Thanks.

Moderator

Thank you very much sir. Next in line is a followup from Mr. Krishnan of SSKI.

Krishnan

Hello.

Suresh Kumar

Yes, Krishnan.

Krishnan

I might be wrong with the numbers, but I just want to clarify. If I understand rightly, 1.2 is the total levelized tariff of which roughly you said the levelized variable charge is 30 paise. So, we are left with 90 paise of fixed charge. Assuming a debt equity ratio of 75:25, okay you had mentioned 80:20, but I have taken 75:25, I might stand corrected to that extent. I have roughly worked out Rs.800 crores of equity and on that I have just taken around 20% ROE which you have mentioned. So, that comes to around a levelized charge of 28 paise and on your Rs.12,000 crores of debt I have assumed a 9.75% cost which is what your chairman mentioned in the beginning, and that initially is left with 42 paise of the interest. So, the total cost comes up to around Rs.1.01. This can be corrected to the extent that I have taken a 75:25 instead of 80:20.

Suresh Kumar

Sorry, how do you get Rs.800 crores of equity?

Krishnan

Rs.800 crores is basically, off your Rs.4000 crores is the equity; so, I have taken 25 as the equity, if it is 20 it is reduced to that extent. So, Rs.16,000 crores out of which let us say 20 is equity, so you are left with Rs.3200 crores, and out of Rs.3200 crores, I have taken 20% as return on equity. So, Rs.800 crores is roughly the return on equity, not equity.

Suresh Kumar

Okay, okay.

Krishnan

I just sort of working backwards and I saw your total cost including interest on debt for the first year comes to around Rs.1.01 and then basically on repayment slightly the interest reduces because after six months of moratorium period the interest reduces.

Suresh Kumar

But it is moratorium six months from the last unit.

Krishnan

Correct. I am taking from the commercial date of operation as 54 months from January 2008. So, I am taking the first full year of operation.

Suresh Kumar

Yes, but there the tariff will be higher in that year.

Krishnan

Yes, and you have mentioned some where that the first two years tariff was slightly lower as what I saw it actually.

Madhusudhan

Suresh, I will answer. What you need to see is this is a 25-year tariff. If you take the actual depreciation and the interest defined on the equity returns, the first year will be the highest compared to the 25-year period and what we are saying is the levelized tariff was 90 paise. This is based on a 25-year period. If you compute your calculations for a 25-year basis, you will see a number of 90 paise, that way your figure will be much less than 90, if you take the O&M cost, if you add to this it will come to 90, because the O&M is a small portion compared to the fixed cost, but the bulk of the fixed cost is based on equity rate and based on interest outflow.

Krishnan

Okay. Thanks

Suresh Kumar

Thanks.

Moderator

Thank you very much sir. Participants who wish to ask questions may please press *1. Next in line, we have Mr. Krishnakant from Economic Times.

Krishnakant

Sir, just one question. If you take NTPC as a benchmark, how will your operating cost be different from them?

Suresh Kumar

We will be owning our captive coal blocks. So, to that extent, the costing will not be comparable with NTPC because they do not own the coal block in this case. Since we own the coal block, a major part of the cost will not be reflected.

Krishnakant

But then, I was looking at NTPC in last year, coal accounted for some 82% of the net sales. So, in case of you how much will it account for . . .

Madhusudhan Rao

Suresh, I will answer. Basically, this project needs to be evaluated by itself because our NTPCs working is based on CRC guidelines and on the basis that they are getting coal from Coal India or one of their subsidiaries. And the quality of coal keeps varying and sometimes it is a very long transportation cost as long as even 1000 km. So, I think the best thing to evaluate this project is within this project specifics and for that reason I was telling we believe that NTPC's quote is not a serious quote and if we want to take a reference of the costing, you need to look at the in this bid which is Reliance and all get Rs.1.29.

Krishnakant

Okay. So, what you say is that your costing is very realistic and on the ground as per your view.

Madhusudhan Rao

For this project, our cost is realistic and the returns that we are talking about. And the difference between the top three players is basically the total project costing we are able to structure and the Lanco strength is we got very good quote from our BTG supplier and on the balance of plan side, we ourselves are contractors and we are able to do it at a much lower cost.

Krishnakant

So, compared to say buying from BEHL, how much you are saving by buying from your Chinese partner?

Madhusudhan Rao

I do not think BEHL, if they are doing a little bit, they will be doing it for the first time in the supercritical technology. So, they just try to bid for the first time in India to this project with NTPC. I am not sure about their costing.

Krishnakant

But, what kind of saving that you would get? Because, you have earlier worked with them as well. So, on a comparable basis, how much do you save by buying from Chinese partners?

Madhusudhan Rao

Much more cheaper, for the reason Chinese have a different strategy for exports and we get benefit of that.

Krishnakant

Okay. Thanks a lot sir.

Madhusudhan Rao

Thanks.

Moderator

Thank you very much sir. Next in line, we have Mr. Simon Powell from CLSA.

Simon Powell

Gentleman, congratulations on your win. I just have one question in terms of Dongfeng as your supplier. Can you tell me did they bid in rupees or in **RmB**, and if it was in RmB what assumptions have you made for the RmB going forward?

Madhusudhan Rao

Yes, they have bid in terms of dollars; it was in U.S. dollars.

Simon Powell

Okay, that is fine. Thank you.

Moderator

Thank you very much sir. Next in line, we have Mr. Sudhir Kedia from ASK-Raymond James.

Sudhir Kedia

Good afternoon sir. Sir, I have a couple of questions. Sir, what would be the landed cost of coal including taxes and royalty and transportation?

Madhusudhan Rao

We are looking at a levelized coal cost about Rs.550.

Sudhir Kedia

But, just somebody asked you and you said that the royalty and transportation are extra allowable.

Madhusudhan Rao

Yes, on Rs.550 you have take about Rs.85 and some Rs.7, about Rs.92 plus transport, all put together about another Rs.100 on Rs.550.

Sudhir Kedia

So, that will be Rs.650.

Madhusudhan Rao

Yes, say about Rs.650, yes.

Sudhir Kedia

That is it sir. Thank you.

Madhusudhan Rao

Thank you.

Moderator

Thank you very much sir. Next in line, we have Mr. Suhas from UBS.

Suhas

All followup question in reference to something you mentioned about the different export strategy followed by Chinese equipment. Could you please elaborate on that?

Madhusudhan Rao

Basically, Chinese manufacturing capacity is about **60,000 megawatts** a year and the Chinese generation capacity is reaching a saturation limit. They have a strategy from what we know that about 25% of the capacity they want to export to get themselves registered outside the country. For some reason, the country's off take has reduced so they have an avenue to sell outside. And we have compared for our previous project, the prices they are giving to India are much cheaper compared to the prices they are supplying in the domestic market.

Suhas

Okay, great. Thank you very much.

Madhusudhan Rao

Thanks.

Moderator

Thank you very much sir. Participants who wish to ask questions, may please press *1. Next is a followup from Mr. Simon Powell of CLSA.

Simon Powell

Gentleman, just a followup question on Dongfeng. Do you believe that there is anything in the Indian legislature that could potentially prevent you from buying this equipment from Dongfeng? I guess I am eluding to some kind of antidumping policy, you have hinted that the Chinese are prepared to sell you this equipment at quite a low price compared to what they are selling at domestically in China.

Madhusudhan

I think it is a very tough question to answer, but with all the knowledge we have on the anti-dumping duty, there is no readymade supplier of supercritical technology in India. At the time being BHEL is the only turbine manufacturer has never supplied a supercritical. For our project I do not think anyone will quality to register antidumping duty on an import.

Simon Powell

Thank you sir.

Madhusudhan

Thanks.

Moderator

Thank you very much sir. Next is a followup from Mr. Karthikeyen of Stratcap Securities.

Karthikeyen

Sir, just continuing on the Dongfeng question. Supposing the price that they have quoted for you escalates because of input cost pressures going ahead, how exactly do you hedge against that? Could you give us some additional color on the nature of agreement you have with them?

Madhusudhan Rao

I think it is a firm contract which was quoted by them, and it is firm on the dollar basis and we have evaluated the dollar risk in our model.

Karthikeyen

Does it mean, the order has already been placed?

Madhusudhan Rao

No, it is firm for about some period of time within the financial closure period.

Karthikeyen

Oh, I see. It is within the financial closure of the period. This is for all the units or is it only for the first unit, sir?

Madhusudhan Rao

Yes, all the units.

Karthikeyen

Okay. Thank you again sir.

Madhusudhan Rao

Thanks.

Moderator

Thank you very much sir. Participants who wish to ask questions may please press *1. At this moment, there are no further questions from participants. I would like to handover the floor back to Mr. J. Suresh Kumar for final remarks.

Suresh Kumar

Thank you one and all for participating in this conference call. We are happy to take questions offline and feel free to call us in case you need any clarifications. Thanks once again and thanks for your support.

Moderator

Ladies and gentlemen, thank you for choosing Web-X conferencing service. That concludes this conference call. Thank you for your participation. You may now disconnect your lines. Thank you and have a nice evening.

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