LANCO Infratech Limited
Quarter One Earnings Conference Call- Financial Year 2008-2009
July 31, 2008

Management: Mr Suresh Kumar, Chief Financial Officer
Mr S Kasturi, General Manager, Investor Relations

Host: Mr Gaurav Pathak, Analyst, ICICI Securities

Moderator: Good afternoon ladies and gentlemen. I am Sandhya, the moderator, for this conference. Welcome to the LANCO conference call hosted by ICICI Securities. For the duration of the presentation, all participants' lines will be in the listen-only mode. After the presentation, the question and answer session will be conducted for participants connected to international bridge. After that, the question and answer session will be conducted for participants in India. I would like to hand over to Mr. Gaurav Pathak. Thank you and over to you sir.

Gaurav Pathak: Hi, I welcome all of you for the Lanco's Q1 FY '09 conference call. We have with us Mr. Kasturi and Mr. Suresh Kumar. Initially, we will pass over to Mr. Kasturi who will give the details about quarterly results. Thereon, Mr. Suresh Kumar, the Chief Financial Officer, will give the key highlights and the way forward for the company. Over to you Mr. Kasturi.

Kasturi S. A very good morning to all the participants in the call. I welcome you to this call especially to announce the financial results. I will briefly give the performance highlights on the financials and Mr. Suresh Kumar will be giving his views and on the performance and also he will be addressing some of the concerns which the analysts and investors have been expressing to us.
Before, I proceed with the discussion on the results, I would like to draw the attention regarding the development of the receipt of the letter of acceptance from the Maharashtra State Electricity Distribution Company for a 680 MW of power which they will be procuring from us. This has been a recent development just a day back and this again shows the competitive ability which we have in the winning of power projects and PPAs through the competitive process.

Now, on the results themselves. The results have been quite encouraging. Topline growth and in particular the construction and EPC growth has been quite encouraging. The gross revenues for the quarter was Rs. 9268 million against 5859 million for the same quarter in the previous year having a growth of almost 58%. The construction and EPC revenues have shown a growth of almost three times from the 1479 million in the previous year to 5182 million, that is a jump of 250%, and this has compared very well with the overall revenue for the construction and EPC in the previous year which was 13 billion.

Now, the rest of the segments also have recorded good revenue growth. The power generation has grown by 27%. Power trading had a small fall in the revenue, but in terms of volume, it has gone up. The real estate, of course, there was no revenue with the previous year's revenue only this year.

Coming to the margins and EBITDA, before I actually give you the EBITDA and the margins, I would again draw your attention to two issues. One is regarding the inter- segment elimination which we have started from the last quarter of the previous year and which is what we are continuing for this year also. A sum of rupees 842 million has been eliminated from the revenues with regard to the inter segment which we had booked. There is another issue regarding the EBITDA which is to be taken into consideration, which is the recognition of the translation losses in the foreign currency loans, which we have on our books. This amounts to a sum of 237 million, which is part of the other expenses, which is shown in the P&L which is published. So, both of these has to be taken into consideration while you actually calculate the EBITDA. Based on these, if you work out the EBITDA, it is 1853 million versus 1142 million in the previous quarter and that is a growth of 62%. The margins taking into account these would be 18.57% as compared to 19.31% in the previous year, which is more or less the same.

Now, specifically on the segments, the construction EPC margins have moved down to just about 17% from the 19% of the previous year, which is not bad at all. The margins in the power generation have dropped from 37% to 27%, but that is mainly on account of the use of naphtha in the Kondapalli power station which suppressed the margins there.

On the bottomline, the reported PAT has moved up by 19% from 496 million to 591 million, but once again, one should take into account some of the adjustments which I told you earlier, which is the foreign exchange translation losses on which our share in the bottomline is 136 million, and also a sum of 745 million which is what has been eliminated as share of the associates because of inter-company transactions. If you take these into consideration, you would see that the PAT growth has been quite encouraging despite the not so good performance in the real estate.

On the standalone performances, Kondapalli, ABAN, and Lanco Electric Utility have all performed quite well, and on the generation front, Kondapalli has been almost the same as in the previous year. The sales in Kondapalli had actually gone up by 41% while the EBITDA margin has slightly shown a reduction because of the use of naphtha there. At ABAN there has been a drop in the generation mainly because of the planned maintenance shutdown there. Therefore, the PLF was 70% against the 80% of last year. The EBITDA has again been less there, mainly on account of the reduced sales and also due to the translation losses. Lanco Electric Utility has shown an increase in volume from 600 million units in the previous year to 657 million units, but the turnover in terms of amountis less because of banking transactions. Lanco Hills of course is not comparable to the previous year, but the sales there has been 473 million with a bottomline of 74 million for the current quarter.

The order book now stands at 126 billion which is quite encouraging, and there will be growth in that order book as we place more orders during the next few years.

I now handover to Suresh for his views on the performance as well as other issues.

Suresh Kumar: Good morning all. At least from our side, there is more of optimism rather than pessimism in terms of our business outlook. Frankly like, if you look at the notional adjustment of the foreign exchange loss that has been booked in Kondapalli, ABAN, and to a little extent in the property segment as well, we do not look at a profit growth of only a 19% for this quarter compared to the previous quarter of last year, it is actually upwards of 50% for growth which is more or less in sync with the way we are growing within our group within the businesses that we are working in.

So, be that as it may, but I would like to take this opportunity to address some of the concerns or issues that we have been facing in terms of queries from various analyst and investors, and I will see how much I can cover and leave the rest for Q&A, but a little thought with the first concern that we have been faced with some of the investors where they feel that they have a question mark related to the growth of all our business verticals. While it is the general impression that there is a slowdown, in case of Lanco it is not. Clearly the base for that optimism is because the growth is coming internally. A lot of CAPEX spend is happening within the group, a spend over which the group has complete control. Financially closed significant amount of projects, a few more projects will get financially closed in the coming quarters, and therefore, growth in our view is not a question mark. We will definitely reach our targeted 9500 MW by calendar year 2012. We clearly are on path to reach our planned capacity of 15,000 MW by 2015. We do not see a concern in terms of our execution ability here. So, therefore like, it is business as usual. Of course, the environment is difficult, but I think we have enough cushion here within our business to grow, you know, upwards of 50% year-on-year growth that we are planning.

So, that is the first concern that I believe we should address, and moving on to the next one, availability of debt, cost of debt, are there pressures building there. Now, we clearly believe that whatever tightening conditions that RBI would pursue with a view to tame inflation, it would not be at the cost of, you know, access of credit to the infrastructure sector in specific. Given the fact that it is a priority sector, we do not believe that power specifically would be like squeezed of liquidity. It is all the more important for the government to ensure that these projects are funded otherwise it would just create more concerns in the market. Today, the deficits are running very high in terms of demand versus supply in the power sector. AP Government for example is facing acute shortage of power, ditto for Tamil Nadu, ditto for Karnataka. So, we believe that it would be rather impossible for anyone within the ministry or RBI to justify a squeeze for funding. We are not very concerned about availability of debt, but we have as a group significant undrawn, unutilized, uncommitted limit from the domestic financial institutions and therefore access to debt funding is not an issue today. Cost of course is going up in terms of cost of debt, but the approach that we are taking is for all the new projects that we are bidding, we are assuming that there is a higher cost of debt. In addition, typically the way we structure our loan agreements, there are reset clauses built in. We are not locked-in at a high cost of debt throughout the life of the project. At the same time, as and when a project is operational, there is an automatic 50 to 75 basis point reduction in interest rates, which would give us that cushion in a rising interest rate environment.

Moving on to the third concern about our ability to finance equity funding requirement of Lanco Infratech. We remain confident that we will be able to like fund our equity contributions out of internal accruals, not just out of the IPO proceeds that we had in the late 2006, but also out of internal accruals of EPC and construction business as well as internal accruals of the operating companies I and also the companies which are getting to operations this fiscal, next fiscal, and the fiscal after next. So, we remain confident. We are not stretched in terms of our financing ability. We also at the same time have a significant amount of debt absorption capacity. So, we will be flexible in our approach to financing, but we are not stretched. In terms of cost overrun for projects. Now, of course, it is a concern for projects which are going to come up in the future because every cost component has gone up, but how does it affect the existing projects which are under development. There is a good amount of balance that we have in our projects that are underdevelopment today, financially closed. We have been able to get into back-to-back contracts with equipment suppliers and with some of the other contractors at a fixed price and therefore, we are not largely affected by increase in cost of steel and cement over the last one and half to two years. Having said that, it does not mean that we are not exposed to cost overrun. It is definitely affecting the future projects, and therefore, we are building in those cost increases right away rather than, you know, waiting for cost to catch up with us. So, we are definitely looking at the new projects that are coming up for bidding. We are seeing our capital power, but at the same time we are also going up the revenue curve. We are maintaining a higher tariff structure, and therefore, the delta of the business is in a way protected, and we are being now conservative in our approach when we factor in our estimate of costing. So, from a cost overrun perspective, I would say the risks are limited, fair pressure, but given the fact that we have got into backpacking, we believe there is lower pressure of cost overrun affecting us significantly.

Another key concern that came up in some of the reports that we have been seeing is and some of the interactions that we have been having with our analyst friends and investor friends, we have realized that there is a general feeling that power as a business cannot generate more than a 14% ROE, and what we believe is that is not the fact of a matter. The point is like there is definitely a huge pull for you to go on beyond a 14% ROE. There are upside, you can capture depending on the efficiency levels of the developer. We believe that we have access to those efficiencies in the form of better heat rate realizations, better auxiliary consumptions, better O&M, optimization of the expenditure of O&M, the optimization on the capital structure. Even in an environment like this, we have still not faced the situation where institutions are insisting on a 70:30 debt equity ratio, and we do not believe it is going to be a norm. Clearly the risk profile of power sector has changed than what it was in the early 2000 or the late 1990s. Institutions especially on the domestic side are comfortable with an 80:20 debt equity structure, and we do not believe that you know our ROEs would remain at the normative level of 14% ROE, and it is not a benchmark that we internally are used to. We prefer to look at higher ROEs and bid for projects which throw up higher ROEs, and we are not happy with a 14% ROE as well as a number. So, I would encourage you all to like look at this business not as a 14% ROE business, but definitely as a business that will throw up a much better ROE than what is being the norm.

The other concern that we came across from the investors is that Lanco bids always lower than its competitors. Why is it like that? Why there is this perception that Lanco bids lower? See bid to project is a function of what are the features of each project. I will give you an example. When we bid for two projects in MP and Haryana, we looked at the upside of the coal block that we have in Orissa, okay. We have been allocated two coal blocks which in the aggregate would enable our Orissa project to generate about 1000 MW of power. Now, if it so happens that Orissa project is able to supply power using the captive coal as an example and is ready to supply power at 2 rupees 34 paisa. Isn't there a huge upside? What is the point in bidding at 3 rupees, 4 rupees, 5 rupees, when even at 2 rupees 34 paisa, you are making a very superior ROE. So, it is not that in all cases we will be like lower by a margin. It is a function of what the project throws up. If there is a merchant play in Orissa, then there is always an arbitrage that we can capture in the overall project. So, I mean, we look at it in that way. What is the project generating on an overall basis, and we would like to protect ourselves in such a way that we have committed some part of the capacity on a long-term basis at a price which is value accretive or ROE accretive to the business and that is it. As long as it meets our benchmark of certain ROEs with any one project configuration. I think we are pretty okay with that, but that does not mean that we are aggressive in terms of a bid. If we were aggressive, by this time, we would have taken Haryana, we would have taken Punjab, and we would have perhaps taken UP as well, but I think we have taken a call that it is got to do with the project specific features, if they are attractive enough, and they are significant upsides that are available. We will look at a reasonable tariff, but if it is not, we will do the things those which we believe are right. So, that is our position on this particular concern.

The last concern which I thought I should talk about is margin. What is the sustainability of construction and EPC margin. Now, the way we would like to respond is, today we believe the margins are relatively protected because of the back-to-back contracts that we have entered into on the equipment side as well as on some subcontracting contracts that we have entered, downstream, and there is some pressure on the margins, but not so significant as it is going to worry us today, and we are there in this business for the long-term, and if there is a short-term aberration in the margins, it does not mean that those margin aberration is a cue for a years to come. We are also assuming higher cost today, and therefore, we are also going up on margin play there. It is not that the EPC margins that we were earlier bidding for, I mean, the sale, the revenue curve of the EPC order book is also going up, and while the cost is also going up, but the delta is definitely there. So, we believe that you would see construction and EPC business throwing up sustained margins over the next many years to come, and given the fact that, a lot of these growth of construction and EPC will be more internal than external, we are quite confident about the way our business is heading. So, I will stop here, but these are thoughts of optimism rather than pessimism on this front.

Moderator: Shall we go ahead with the question and answer session sir?

Gaurav Pathak: Yes Sandhya, please proceed.

Moderator: Thank you very much. At this moment, I would like to handover the proceedings to international moderator to conduct the Q&A for participants connected to the international bridge. After this, we will have a question and answer session for participants at the India bridge. Thank you and over to Ayesha.

International Moderator: Thank you Sandhya. We will now begin the question and answer session from participants connected to the international bridge. Please press 01 to ask a question. The first question is from Mr. Rohan Juneja.

Rohan Juneja: Hi guys. I really appreciate you are going through all those clarifications and breaking out in more details for us about the plans for the company. Just a couple of quick questions. Firstly, on the real estate side, can you please tell us what, you know, the company's aspirations are? Clearly, there is a marked slowdown in transaction volumes, you know, not really what you guys are seeing, but what your aspirations are? How you are going ahead with your construction schedule and you know what percentage of the overall business for the company is the real estate going to be?

Suresh Kumar: Yeah, real estate is definitely there for the long-term. Today, there is an issue more on the customer side. Customers are increasingly not making any commitment because of the state of their minds. They clearly feel that there is merit in waiting for some time because of the expectations are such they will get reduction in prices. So, all of them are sitting on the fence before making any commitment. We are facing pressure on the customer side in terms of if you go by the translations that we have been seeing over the last couple of months. So, therefore, the comfort levels that we have in the business is that we are about 60% booked out of the total available space that we have brought into the market. We are 60% booked, and therefore like, we are going ahead with our construction because ultimately if a customer sees the chances of delivery increasing, there is a good possibility that these customers would come back. That is the approach that we are taking. Hyderabad as the market has still not seen pricing pressure. We have not yet seen the likes of DLF or Unitech coming into the Hyderabad market and playing with realizations as yet, but we are conscious of sort of possibilities of that even happening some kind of time in the coming year, but as of now, it does not look like there is pricing pressure. The builders are holding on to their prices.

Rohan Juneja: No, but I mean, if you can think of the business two years down the road, right, which I mean obviously for the long run is what you guys are playing for, what percentage of your revenues you would say would come from construction versus power versus real estate, like how big a component is real estate going to be for you guys?

Suresh Kumar: If you look at the margins of real estate, they are higher. In terms of net margins, in terms of operating margins and are definitely higher in comparison to what EPC is throwing up or for that matter what power is throwing up. If you look at on a fully developed basis, you would probably see one source coming in from realty, one source coming in from power, and one source coming in from EPC by about 2010 -2011, but that is the function of the way the realty market is heading. Hopefully, by 2009-2010, the realty market would change course and we are looking forward to that, but if that happens and realty comes back positively, then you would see an equal split between the three businesses in terms of bottomline for sure. I cannot say about topline and as well I can't comment on the bottomline.

Rohan Juneja: Got it. That is helpful, and then you know, my last question is on, you know….I know you spoke about it during your last conference call about Dongfang. What are you hearing there, any new developments on, you know, or any updates that you can give us on Dong Fang side of the equation?

Suresh Kumar: Dongfang has come back. They have come back to us saying clearly that they are not seeing any delays in terms of delivery. Perhaps a months' delay in Nagarjuna, but other than that, there is no delay anywhere else. Anpara is on track in terms of delivery. Nagarjuna despite the one-month's delay or the one-and-a-half months' delay, we still focus on getting the project commissioned by December 2009. We had a three-month cushion in our execution cycle and therefore this one and a half months is getting absorbed in that cycle. So, we are pretty clear that the earthquake has not impacted any of our project timelines or for that matter the EPC timelines. I was amazed when I got feedback from our team which had visited China and Chengdu and Dongfang. Clearly, the kind of recovery that Dongfang has carried over there is remarkable, and it is in such a short interval. They would almost recover their two or three months, you know, the time period that they had lost because of this earthquake. We have no worries on that front at all. So, we are confidently marching ahead.

Rohan Juneja: Okay, thank you guys. I appreciate the comment.

Suresh Kumar: It was a pleasure.

International Moderator: Participants please press 01 to ask a question. Once again, participants to post a question, please press 01. At this moment, there are no further questions from participants at international bridge. I would like to handover the proceedings back to Sandhya.

Moderator: Thank you very much Ayesha. We will now begin the Q&A interactive session for India participants. Participants who wish to ask questions, please press *1 on your telephone keypad. On pressing *1, participants will get a chance to present their questions on a first in-line basis. Participants are requested to use only handsets while asking a question. To ask a question, kindly press *1 now. Our first question comes from Mr. Amit from Lotus India Investments. Over to you sir.

Mr. Amit: Good morning sir.

Suresh Kumar: Good morning Amit.

Mr. Amit: Sir, the first question is that this inter-segment revenues which we have reduced, what do these relate to?

Suresh Kumar: It relates to Amarkantak because it is a subsidiary. There are some contracts which EPC has done with Amarkantak. So, to that extent, the margin is eliminated as per AS 21 and 23.

Mr. Amit: Sorry sir, I did not get that. Margin is eliminated ………

Suresh Kumar: It is because of the accounting standard 21 and 23.

Mr. Amit: Okay. So, then this revenues from construction and EPC that we have booked in the latest results, those relate to third party?

Suresh Kumar: Not necessarily third party because contracts between the group are executed, also with company which is currently not a subsidiary, that will become subsidiary in the future. So, to that extent, it is the revenue earned from the subsidiary which will be rated. If it is not, then this even get eliminated. Then, so we structured our sales in subsidiary so that there is no significant elimination during the construction.

Mr. Amit: Okay and what is the share of……what is this minority interest that we have reduced? I mean, what does that relate to?

Suresh Kumar: It is 31% minority shareholder in Kondapalli, and share of Kondapalli profits which gets eliminated because it does not belong to the holding company. It belongs to the shareholders or the subsidiary. Similarly for ABAN, there is a 39% minority interest in ABAN and Genting Power and Aban Loyd who are the 39% shareholders of ABAN. So, here also we need to take the minority interest out to capture the proportionate share of the holding company……

Mr. Amit: And that is also the reason that the share of foreign exchange translation loss is 13.6 crores for us out of the 23.7 crores

Suresh Kumar: That is the 13.6 crores which is our share of the overall loss adjusted.

Mr. Amit: Okay and what about this update on the Amarkantak one which was supposed to have initially come in the first quarter?

Suresh Kumar: it is happening by September. By this quarter, you will see Amarkantak unit being commissioned.

Mr. Amit: Okay and when would we start booking revenues?

Suresh Kumar: First week of October…

Mr. Amit: From?

Suresh Kumar: First October.

Mr. Amit: First October?

Suresh Kumar: Yeah.

Mr. Amit: Okay, thank you sir.

Moderator: Thank you very much sir. Next question comes from Mr. Abhishek Puri from JM Financial. Over to you sir.

Abhishek Puri: Hi sir, how are you doing?

Suresh Kumar: Good Abhishek. How are you doing?

Abhishek Puri: I am fine sir. Sir, just wanted to understand on the capital employed for the construction segment, I mean we are seeing negative capital employed in the previous quarters and previous years as well. This year sir, what has changed significantly in that?

Suresh Kumar: Nothing significant, it will remain negative working capital, and it is known to all our investors.

Abhishek Puri: First time, we have reported positive capital employed in the construction segment?

Suresh Kumar: See what happens typically is in the construction business and EPC business, as and when the project progresses, you know, advances, there is a significant amount of retention money that gets retained by the clients. So, large portion of this increase in working capital is on account of that retention money. .I mean, if you look at the buffer, it is pretty high because of the retention money that is retained by the clients .

Abhishek Puri: But most of the projects as we understand are internal projects or is it because of the external projects?

Suresh Kumar: This will be there everywhere. Any construction business, say we are developing a very large project, by the time it reaches almost close to commissioning, we will see a good amount of debtor build up. It is nothing but retention money.

Abhishek Puri: Alright.

Suresh Kumar: Yeah, so, you can think like this. If there is a 2500 crores project which is almost getting commissioned and almost 2000 crores of billing is already made till date, okay. Almost 10% to 15% of that is getting retained. It is almost 300 crores out of the debtors will be nothing but retention money. It has gone up even more because of the retention money build up rather than anything else.

Abhishek Puri: Okay. Sir, my second question would be, can you share the tariff for your MSEDCL contract which you have signed?

Suresh Kumar: It is levelised 2 rupees 70 paisa.

Abhishek Puri: 2 rupees 75 paisa, and if I am not mistaken it will be supplied from the Orissa plant?

Suresh Kumar: No, no, not Orissa.

Abhishek Puri: Then?

Suresh Kumar: It will be from Chhattisgarh.

Abhishek Puri: From Chhattisgarh, where we have signed an MoU?

Suresh Kumar: Yeah

Abhishek Puri: Alright and the delivery period is 48 months?

Suresh Kumar: Yeah.

Abhishek Puri: Okay. That is all from my side sir. Thank you so much.

Suresh Kumar: Yeah.

Moderator: Thank you very much sir. Next question comes from Mr. Pranav Modi from Mata Securities. Over to you sir.

Pranav Modi: Good morning sir. This is Pranav Modi here. How are you doing sir?

Suresh Kumar: Good Pranav.

Pranav Modi: Yeah, sir my question is about that Vamshi hydro project, which where going to be under, you know, the estimated completion time was around Q1 FY '09?

Suresh Kumar: It is happening August end .

Pranav Modi: That would be also in September?

Suresh Kumar: August end.

Pranav Modi: Okay and how about Amarkantak II which was for Q3?

Suresh Kumar: Unit II is March 2009.

Pranav Modi: Okay. Okay sir, and when we see the construction and EPC and even in this real estate, so this 47 crores which we have recognized this time, what is that for. Is that for Lanco residential project, Lanco Hills that is?

Suresh Kumar: For Lanco Hills.

Pranav Modi: Okay, and what is your update on sir Signature Tower business and this Ocean Park and Lanco Horizon for Chennai?

Suresh Kumar: I don't think we want to discuss the markets, as this is not at all the correct environment for the real estate business.

Pranav Modi: Okay.

Suresh Kumar: It is kind of like that the existing project is in track and development activities are going on well there.

Pranav Modi: Okay.

Suresh Kumar: Rather than play with the markets now.

Pranav Modi: Okay, okay fine, and last question sir, we were planning for this commercial launch also for this hotels and all. So, how about that sir. What is the update on that?

Suresh Kumar: Well, environment is basically not good for hotels though we have signed up for the hotels with the hotel operators.

Pranav Modi: Okay.

Suresh Kumar: We are in Hyderabad in a big way. So, I would not like…..anyway hotel was put on hold now. We wanted to wait for the environment to improve..

Pranav Modi: Okay, okay.

Suresh Kumar: We are developing the SEZ part of the business.

Pranav Modi: Okay.

Suresh Kumar: As well as some parts of the non-SEZ .

Pranav Modi: Okay.

Suresh Kumar: Specifically like Signature Towers it is not yet time to start the developments.

Pranav Modi: Okay, okay.

Suresh Kumar: We will wait for some more years in the market before we start.

Pranav Modi: Okay. Fine, that is all sir from my side. Thank you very much.

Moderator: Thank you very much sir. Next question comes from Mr. Nishith from IDFC Investment. Over to you sir.

Mr. Nishith: Yeah sir. Just wanted to check on Amarkantak. It will be a merchant or you have a PPA in place?

Suresh Kumar: See, the position is that we terminated the PPA.

Mr. Nishith: Okay.

Suresh Kumar: But the position is also that the matter is before court. Matter will be heard by the MP court by the end of August. This is the position now and you know it is rather wait for what happens in the court.

Mr. Nishith: Okay, if the decision is not to happen say by end of August and if your power plant becomes operational, then what are we going to do?

Suresh Kumar: We have not yet taken a call, but certainly if there is no decision that takes place, it is up to MP because they are going through a crisis in terms of scarcity of power. We have to see how they take a call as to how they would like to approach the matter in the interim because they also have obligation to some of their customers. So, I think we will take a call. It is too early to talk about it right now.

Mr. Nishith: Okay and sir what is the levelised tariff as per PPA?

Suresh Kumar: It should be around 225 somewhere.

Mr. Nishith: Okay and sir one more question on your expansion plans in power. In terms of financial closure, we have achieved financial closure for how many megawatts excluding the Amarkantak?

Suresh Kumar: 600 MW out of 1320.

Mr. Nishith: Around 1300 megawatt?

Suresh Kumar: Out of 1320, we have got 600 MW expansion project planned.

Mr. Nishith: Okay.

Suresh Kumar: But if you look at the overall capacities 4600 MW capacity…..

Mr. Nishith: Okay.

Suresh Kumar: We will do another 5000 MW of financial closures.

Mr. Nishith: Okay, thank you sir.

Suresh Kumar: So, that will happen I would say in the next few quarters, that will be the March 2009 .

Mr. Nishith: Okay, thank you sir.

Moderator: Thank you very much sir. Next question comes from Mr. Rakesh from Lehman Brothers. Over to you sir.

Mr. Rakesh: Hello sir?

Suresh Kumar: Hi.

Mr. Rakesh: I have actually a couple of questions basically related to the EPC part. I was just trying to understand the pressure on EPC margin is coming from which particular end sir because you already have got back-to-back arrangement with the equipment suppliers?

Suresh Kumar: See, on certain parts of the balance of plants part of the contract.

Mr. Rakesh: Yes sir.

Suresh Kumar: So, if you have EPC split between BTG and balance of plant ….

Mr. Rakesh: Yes sir.

Suresh Kumar: ….there is some portion of the balance of plant that is still retained by Lanco Infratech as a contractor.

Mr. Rakesh: Yes sir.

Suresh Kumar: So, you will face pressures over there because of steel consumption there, structural fees, prices are up. So, there will be some steel pressures over there.

Mr. Rakesh: So, sir if we were to assume that almost 40% of the EPC business actually comes from BoP part and you have got a 2% reduction in the EPC margin, which basically means that on BoP part you are actually seeing a severe margin pressure. Is it correct to interpret?

Suresh Kumar: On account of steel yeah, but it is not so significant in cement.

Mr. Rakesh: Okay.

Suresh Kumar: The way we have approached steel is stocking steel in advance rather than, you know, buying as and when required. Take the example of Nagarjuna and you will see the benefits over the next couple of quarters. Nagarjuna is a project which has consumed huge amount of steel.

Mr. Rakesh: Yes sir.

Suresh Kumar: We do stocking of steel since January of this year.

Mr. Rakesh: Okay.

Suresh Kumar: And it is only going to reflect in margins in the next couple of quarters whether there is pressure indeed or not.

Mr. Rakesh: Okay.

Suresh Kumar: So, I would say like June quarter would not be a quarter to go by. You should look at more of what is happening in the third quarter and in the March quarter.

Mr. Rakesh: Okay sir, thank you. The second question actually pertains to your hedging policy in terms of foreign exchange. Is there any specific hedging policy which you follow?

Suresh Kumar: In companies like Kondapalli and ABAN, we were net foreign exchange owners because some of our tariff is denominated in dollars.

Mr. Rakesh: Yes sir.

Suresh Kumar: Therefore, we do not pursue a very active hedging policy because the natural hedge that we have. The only loss that we have taken notionally is because of the way rupee has moved up with the dollar. Otherwise like, you have no derivative losses…..

Mr. Rakesh: Okay.

Suresh Kumar: ….at all in our business.

Mr. Rakesh: Okay and in terms of the companies where you are actually commencing the projects, which is your Udupi and Anpara, the foreign exchange translation losses if there was any, is actually not in our books, is that correct?

Suresh Kumar: Yeah, it is not in our books, it is in the books of the SPV…..

Mr. Rakesh: Okay.

Suresh Kumar: ……..which would anyway get capitalized.

Mr. Rakesh: Okay and in terms of the equipment supply, I think most of your contracts with Dongfang are in dollar terms…..

Suresh Kumar: Yes.

Mr. Rakesh: So, in terms of that are you pursing any hedging or will there be a loss or gain appropriately in the books?

Suresh Kumar: It does not matter right because it will reflect in the SPVs, right?

Mr. Rakesh: Yes sir.

Suresh Kumar: So, it does not matter. See, from a loss it will not be a loss that will reflect into the P&L account. It will be a higher capital cost…..

Mr. Rakesh: Yes sir.

Suresh Kumar: ….but, you know, we would like to take it a bit easy in terms of the way we are heading. Just to give you an example, Nagarjuna…..

Mr. Rakesh: Yes sir.

Suresh Kumar: ……PPA provides for the entire rupee equivalent of dollar to be a pass-through in terms of cost.

Mr. Rakesh: Okay.

Suresh Kumar: So, we are not exposed in Nagarjuna in that way. We are exposed in Anpara….

Mr. Rakesh: Okay.

Suresh Kumar: ….but you know Anpara is in execution over the next two and half years….

Mr. Rakesh: Yeah.

Suresh Kumar: ….so we are not in a hurry like to hedge ourselves today because if you try to hedge today, it is extremely volatile.

Mr. Rakesh: Okay.

Suresh Kumar: We are not getting good rates in terms of hedging.

Mr. Rakesh: Okay.

Suresh Kumar: So, we will take it out over the next two and half years rather than rushing to hedging today.

Mr. Rakesh: Okay. Sir, if I understood it correctly, your contracts, all EPC contracts, have a back-to-back arrangement with the companies for which you are doing EPC in terms of foreign exchanges' gain or loss?

Suresh Kumar: Yes.

Mr. Rakesh: Okay, great. Thank you sir. That is all from my side.

Suresh Kumar: Thank you.

Moderator: Thank you very much sir. Next question comes from Mr. Gautam from B&K Securities. Over to you sir?

Mr. Gautam: Good morning sir.

Suresh Kumar: Good morning.

Mr. Gautam: Sir, what is the booked area in Lanco Hills project as on date?

Suresh Kumar: About 1100 apartments out of 1500.

Mr. Gautam: Okay and sir that translates into how many square feet sir?

Suresh Kumar: About 3 million square feet.

Mr. Gautam: Fine sir, and sir, what is the source of fuel in your Chhattisgarh Power Project?

Suresh Kumar: Coal.

Mr. Gautam: Okay and you have got coal linkages for the same?

Suresh Kumar: Yes.

Mr. Gautam: Okay and what is the size of this project sir?

Suresh Kumar: Amarkantak unit I is 300 MW.

Mr. Gautam: Sorry sir.

Suresh Kumar: Amarkantak unit I is 300 MW.

Mr. Gautam: Okay.

Suresh Kumar: The other unit is again 300 MW.

Mr. Gautam: Okay.

Suresh Kumar: And we are planning a brownfield expansion of that also.

Mr. Gautam: Fine sir. Thank you sir.

Suresh Kumar: Yeah.

Moderator: Thank you very much sir. Next question comes from Mr. _____ . Please go ahead sir.

Male Speaker: Hello? Hello? Hello?

Suresh Kumar: There is a lot of disturbance.

Male Speaker: Yes sir.

Suresh Kumar: Okay now, speak.

Male Speaker: Yes sir, good morning.

Suresh Kumar: Good morning.

Male Speaker: Sir, just wanted to know about this Forex loss of 13.6 crores, what is the total exposure in foreign currency?

Suresh Kumar: It should be somewhere around 40 million dollars of liability.

Male Speaker: 40 million dollars and this sum is utilized for construction business or if you can segregate it?

Suresh Kumar: No, it is nothing in construction, all in Kondapalli and ABAN.

Male Speaker: Kondapalli and ABAN, so in fact like our PBIT margin from construction are down from 16% to 13%....

Suresh Kumar: Yeah.

Male Speaker: So, this is whole and whole because of the increase in steel prices?

Suresh Kumar: Possibly.

Male Speaker: Okay sir, thank you.

Moderator: Thank you very much sir. Next in line, we have Mr. Murtuza from Kotak Securities. Over to you sir.

Mr. Murtuza: Yeah hi. Just wanted to clarify, you see the Forex loss which is there, so your EBITDA would be higher, the consolidated EBITDA would be higher by 237 million…..

Suresh Kumar: Right.

Mr. Muthuza: ……whereas the net profit after minority interest should be higher only by 136 million right?

Suresh Kumar: Perfect.

Mr. Murtuza: Okay. Another thing is sir, as far as the real estate margins go, they seem to have dropped also sequentially. So, what is the reason for that real estate margins and do we see a kind of varying trend quarter-on-quarter or they would be….?

Suresh Kumar: Just want to be conservative.

Mr. Murtuza: Okay, is there any specific reasons?

Suresh Kumar: Just want to be conservative, we do not want to be over enthusiastic about the way we are recognizing revenue in real estate….

Mr. Murtuza: Okay.

Suresh Kumar: …..because today downside pressures are more pronounced than the potential upsides. So, you rather like, set it on the cost decision.

Mr. Murtuza: Just correct me if I am wrong. The revenue booking and the cost side sir, it is not proportionate sort of…..it is you are booking more cost than you are booking revenues right now?

Suresh Kumar: Yes. See, typically, if you go by the margins, it should have been above 55% kind of PBT margins.

Mr. Murtuza: Okay.

Suresh Kumar: But, you know, we do not want to get caught sometime in the future in the next couple of quarters if something goes haywire.

Mr. Murtuza: Okay, so you are booking your cost and not booking revenues…..So, but going forward let us say what would you be expecting even on a conservative basis….we would maintain this margin or we would be improving that because then your revenues may be could be booked faster than your cost, because you are already booking your cost?

Suresh Kumar: In the environment that we are in today, I would rather like be happy to maintain these margins.

Mr. Murtuza: Okay, thank you so much sir.

Moderator: Thank you very much sir. Next question comes from Mr. Pankaj Sharma from UBS. Over to you sir.

Pankaj Sharma: Hi Suresh, hi Kasturi. Hello?

Suresh Kumar: Hi Pankaj.

Pankaj Sharma: Hi. I have two questions, one is on the real estate on your revenue recognition policy. Is it the percentage completion and the number of bookings and the percentage of bookings that you have made. Is it that?

Suresh Kumar: Yes and also agreement centered and also advance booking.

Pankaj Sharma: Okay. So, basically if you have 1100 apartments booked out of 1500 and you have let us say 20% construction which is complete, so you will book 20% into 1100 by 1500. That is the percentage you will book?

Suresh Kumar: No, no what we do is….there are three layers that we build into our approach. Our approach that we are taking is first threshold is 25% of the project cost, residential should have been incurred before you start recognizing revenues.

Pankaj Sharma: Okay, okay.

Suresh Kumar: ….which we achieved in March quarter.

Pankaj Sharma: Okay.

Suresh Kumar: Okay?

Pankaj Sharma: Okay.

Suresh Kumar: Now, the approach that we took is, first threshold is 25% of the cost….

Pankaj Sharma: Okay.

Suresh Kumar: Minimum to be incurred.

Pankaj Sharma: Right.

Suresh Kumar: Thereafter which, you have got recognizing revenues.

Pankaj Sharma: Okay.

Suresh Kumar: You recognize revenues only to the extent…a minimum 25% of the advance has been received …..

Pankaj Sharma: Okay.

Suresh Kumar: …..and you have got into an agreement.

Pankaj Sharma: Okay, okay.

Suresh Kumar: You have signed an agreement.

Pankaj Sharma: Okay, okay.

Suresh Kumar: This is the way we are currently structured even if the customer pays 25% advance, but does not enter into an agreement, we have an exit clause.

Pankaj Sharma: Okay, okay.

Suresh Kumar: So, we are trying to be as conservative as we can.

Pankaj Sharma: Right.

Suresh Kumar: More so in a scenario like this.

Pankaj Sharma: Okay. So, when we talk about this booking of 1100 apartments, it means that 1100 apartments for which you have got 25% advances and you have entered into a contract with the customer, right?

Suresh Kumar: Yeah, yeah.

Pankaj Sharma: Okay, right. Thank you. Second is on power because we are seeing that long-term interest rates are going up, inflation is up, so basically the cost of equities should also go up and for to cutting expenses, so when we sign a long-term PPA with a state like MSEB at Rs. 2.70. So, does it make any difference in terms of your returns would you expect and should it change like whether the profit making of this particular project was X, it should go down because your costs have increased now more. Should it work like that?

Suresh Kumar: No, there is an upward bias to the delta that we are currently bidding for.

Pankaj Sharma: Okay.

Suresh Kumar: So, Maharashtra happens to be one such project where we looked at a higher ROE build up for that, right…..

Pankaj Sharma: Okay.

Suresh Kumar: …..and a better EPC margin I suppose. So, I think we are reasonably okay.

Pankaj Sharma: Okay, okay. Basically, the current increase in interest rate should not impact that much if at a particular position it will be done.

Suresh Kumar: No, in fact at higher rates of interest.

Pankaj Sharma: Okay, okay. Okay, thanks sir. Thank you very much.

Suresh Kumar: Thank you.

Moderator: Thank you very much sir. Next question comes from Mr. Aman Batra from Kotak. Over to you sir.

Aman Batra: Hi Suresh, Aman here.

Suresh Kumar: Aman, how are you doing.

Aman Batra: Fine sir.

Suresh Kumar: Hi.

Aman Batra: Just need some clarification on the real estate side again. Say, if we have sold around 3.2 million square feet at say close to say 4500 rupees per square feet, close to a revenue recognition of 14.4 billion should readily happen over the construction period. Okay, if you split it to say 12 quarters, which is three years, per quarter there has to be a booking of something like 1.2 billion rupees. So, where are we slipping in the three points that you had highlighted 25% of project cost incurred or 25% of advances or signs on agreement? So, where is the slippage happening because the revenue recognition is much, much lower than what it should be?

Suresh Kumar: It will be largely……it is typically wrong….there is no issue with construction.

Aman Batra: Okay.

Suresh Kumar: It is more on customers getting into agreements.

Aman Batra: Okay.

Suresh Kumar: That is where the concern is.

Aman Batra: Okay and how would it pan out as per your expectations over the next few quarters? Post construction, you were obviously doing?

Suresh Kumar: You know, Aman, personally, the way I am reading it, it is getting as unpredictable as a flow.

Aman Batra: Okay.

Suresh Kumar: So, we are just trying to meet, it could sound a bit soft, but you know, the situation is not as good as it was, may be like six to seven months back.

Aman Batra: Alright.

Suresh Kumar: So, I am being very upfront to all of you. It is really volatile, this situation.

Aman Batra: Okay. Sir, I was just trying to get a sense, whether it could impact because if customers are not signing agreements, would it impact the construction going forward as well?

Suresh Kumar: I do not think so. We are getting reasonable advances….

Aman Batra: Okay.

Suresh Kumar: So, I think we are okay. We are not worried.

Aman Batra: Okay and the launch of phase III, we should not expect any time soon, right?

Suresh Kumar: Yeah, yeah.

Aman Batra: Okay.

Suresh Kumar: Really soon.

Aman Batra: Thanks a lot.

Suresh Kumar: Yeah.

Moderator: Thank you very much sir. Next question comes from Mr. Jain of Voyager Capital. Over to you sir.

Jain: Good morning sir. Sir, just wanted to know where is the Forex loss actually factored into? Is it above EBITDA or below EBITDA and how much is the component. Is this finally restricted to 13.6 crores or we have something more than that?

Suresh Kumar: No, no, it is a one time hit that you have taken in this quarter.

Jain: Okay.

Suresh Kumar: So, as long as, rupee stays below or equal to 40 or 42, we will not make any more loss in the coming quarters.

Jain: Okay.

Suresh Kumar: In case, rupee goes to say 43, 44, then the difference between 42 -40 and probably 43 or 44…..

Jain: It will be reversed again?

Suresh Kumar: Yeah, it will be added to that notional loss.

Jain: Okay, okay and this loss you added into the company of the power, that is Kondapalli and ABAN revenue statement?

Suresh Kumar: Right.

Jain: Okay. Secondly, one thing, in construction segment, why are we seeing the dip in our margins. Is it essentially because of rising steel prices or also because of the, you know, it is our first quarter, thereby you do not operate at a full capacity or, you know, you do not……

Suresh Kumar: No, no, it is a combination of both, steel as well as general slowdown in the first quarter of this fiscal. Everyone would have finished full year budgets, not just internally but also externally.

Jain: Right.

Suresh Kumar: So, you will see all the clients completing their budgets for the previous year and by the time they start getting into the first quarter of this fiscal…..

Jain: Right.

Suresh Kumar: ……there will be other things that come into the picture like rains, etc, etc. So many people will cut down on mobilization.

Jain: Fine sir. Thanks.

Moderator: Thank you very much sir. Next question comes from Mr. Samad from Anand Rathi Securities. Over to you sir.

Mr. Samad: Yeah, good morning sir.

Suresh Kumar: Good morning.

Mr. Samad: Just a couple of clarifications with respect to the real estate business. Now, when we say 1100 out of the 1500 units are booked, you mean to say you have 1100 customers, right?

Suresh Kumar: Yeah.

Mr. Samad: So, how much had been the addition in this quarter?

Suresh Kumar: No addition.

Mr. Samad: Because last quarter, the customer standing was round about 1200 customers. So, actually, perhaps has it come down or cancellations have happened?

Suresh Kumar: No, no, it was not 1200 last quarter. Last I am sure would be not more than 1100.

Mr. Samad: Okay, I just had a thing from your con call last quarter and what is the pricing this time like, what are you selling your units at?

Suresh Kumar: We are holding the price range. Most of the builders in Hyderabad have been holding on to the price.

Mr. Samad: So, like at Lanco Hills, what is the current price going on?

Suresh Kumar: We are at 4850……

Mr. Samad: Sorry sir, I could not get that.

Suresh Kumar: 4850 is the price currently.

Mr. Samad: Alright.

Suresh Kumar: But we are not getting………

Mr. Samad: Hello?

Suresh Kumar: On an average, our realization today is about close to about 4700 to 4800 levels on an average.

Mr. Samad: Okay sir. Sure. Thanks. That is it from my side.

Suresh Kumar: Yeah.

Moderator: Thank you very much sir. Next question comes from Mr. Aditya from HSBC Mutual Fund. Over to you sir.

Mr. Aditya: Good morning sir. Hello?

Moderator: Mr. Aditya, your lines are open, you can go ahead with your questions.

Mr. Aditya: Sir, just as a philosophy as a whole, what kind of ROE we are looking from the entire portfolio of power projects we have and going forward also. Hello?

Moderator: Sorry for the interruption Mr. Aditya, your voice is a bit feeble. Can you please speak louder?

Mr. Aditya: Good morning sir. Hello?

Suresh Kumar: Are you outside?

Mr. Aditya: Sir, as a philosophy as a whole, we are looking for what kind of ROE from the current portfolio of power projects which we have?

Suresh Kumar: See, may be around 20% ROE levels……

Mr. Aditya: Around sir?

Suresh Kumar: Around 20% ROE levels.

Mr. Aditya: Around 20% and are we not comfortable with merchant or what is the mix we have been looking towards

Suresh Kumar: We are looking 75% on a long-term basis, 25% on a merchant basis, that is the philosophy.

Mr. Aditya: ……you have Dongfang and even though we have fixed price contracts with them, are these guys coming back and asking for a higher price?

Suresh Kumar:

Mr. Aditya: Sir, your voice is breaking sir….

Suresh Kumar: Sorry, are you somewhere outside or you are in a room somewhere?

Mr. Aditya: No, no, I am on a landline sir.

Suresh Kumar: No….what we are saying is that the pressure is there in terms of equipment price ever since like the steel price have hit some of the manufactures. There is also pressure on price because of earthquake. So, clearly like pricing pressures are there on the equipment side as well as on the contracting side, but there are adequate cushions as we are improving our tariff curve as well. You know, we are still looking at tariff structures where they will be upwards of 2 rupees 75 paisa to 2 rupees 80 paisa per unit on an levelised basis from what it was earlier.

Mr. Aditya: That is right, but like for example, Dongfang is asking for what kind of freight hike. Are they requesting for…I guess, last time you had indicated that they are asking for 5 to 6…price hike.

Suresh Kumar: See, we can not disclose those numbers, but I would say there is an increase

Mr. Aditya: Hello?

Moderator: Hello Mr. Aditya, your voice is a bit feeble. We are not able to hear you.

Mr. Aditya: My question has been answered. Thank you.

Moderator: Thank you very much. Next question comes from Mr. Rakesh from Lehman Brothers. Over to you sir.

Mr. Rakesh: Yeah, hello sir. One more question, just wanted to know what is the portion of real estate in the EPC this time.

Suresh Kumar: I am not ready to tell.

Mr. Rakesh: Okay, thank you sir.

Moderator: Thank you very much sir. Next in line, we have Mr. Youhan from Dolat Capital. Over to you sir.

Mr. Youhan: Yeah, hi, Youhan from Dolat Capital. Actually, just a couple of clarification sir. First is just I wanted to understand this reclassification that is done in the segmental, within infrastructure what exactly do you recognize?

Suresh Kumar: Infrastructure includes roads.

Mr. Youhan: Sorry, it includes?

Suresh Kumar: Roads.

Mr. Youhan: Okay, no, because there is….

Suresh Kumar: No revenue

Mr. Youhan: Sir, you are breaking up sir.

Suresh Kumar: There is no revenue on infrastructure.

Mr. Youhan: Right.

Suresh Kumar: It is capital employed in each sector which is nothing but the road projects that we are executing.

Mr. Youhan: So, going forward, if I understand correctly, you will have all your road, cash contracts, or BOT projects, or the port project, whichever infrastructure project is classified here.

Suresh Kumar: Yeah.

Mr. Youhan: Fine sir, and the EPC portion of that per se or at least the construction revenues will come in the construction segment or will it be part of the infrastructure.

Suresh Kumar: It will be part of the construction segment.

Mr. Youhan: Okay, okay. So, once the entire construction portion is complete, the revenue thereafter, once the project is on-stream, that will be rectified going forward in this….

Suresh Kumar: During the execution of the projects, the revenue of infrastructure related project will be captured in the construction segment in the revenue side.

Mr. Youhan: Right.

Suresh Kumar: On the capital employed side, whatever is the capital work in progress will appear in the infrastructure development.

Mr. Youhan: Okay.

Suresh Kumar: That is how it will appear.

Mr. Youhan: Fair enough, and sir, is there any correlation in the sense between the….I mean, as of now between the construction revenues and the property development revenues in that sense?

Suresh Kumar: No, not necessary because it is not that we are doing the entire construction as there are other contractors at the site.

Mr. Youhan: Okay.

Suresh Kumar: So, it is not necessarily relatable.

Mr. Youhan: Okay, but property development will, the revenue that is recognized there will also include your developer's margins?

Suresh Kumar: No. It will only include the construction.

Mr. Youhan: Only the construction, and the developer's margin, when will that be recognized sir?

Suresh Kumar: It has been recognized no?

Mr. Youhan: It is being recognized. Okay, okay fine. Sir, on the revenue recognition policy, I just wanted to clarify one small thing there. You said 3.2 million square feet has been booked so far in Lanco Hills. Now, what portion of that satisfies or complies with your recognition policy across all three criteria.

Suresh Kumar: Can you simplify your question please, if you don't mind?

Mr. Youhan: Yeah, sure, 3.2 million square feet has been booked so far in Lanco Hills. Now, as per your revenue recognition policy while you have standard of 3 separate criteria which must be met, how much of the 3.2 million satisfies all those 3 criteria.

Suresh Kumar: You need to look at it on a weighted average basis.

Mr. Youhan: Okay.

Suresh Kumar: I would say not more than…I will also give you my numbers for that. Why don’t you get in touch with Kasturi.

Mr. Youhan: Okay.

Suresh Kumar: He will give you a breakup of that.

Mr. Youhan: Fair enough, no issues, and just continuing with that, for advance payments, which have been made, the 25% that has been received, if the customer does cancel, that amount is non-refundable?

Suresh Kumar: It is refundable, that is the thing. It will be refundable, we will just retain a token amount of 25,000 rupees.

Mr. Youhan: Okay, okay.

Suresh Kumar: Which is why as a policy we are taking a call that look it is not just if you pay advances for it, if you want to make sure that there is an agreement between the developer and the customer, the purchase agreement.

Mr. Youhan: Okay, sir, once the agreement is signed, the purchase agreement is signed, then it is non-refundable you are saying, right?

Suresh Kumar: Yeah.

Mr. Youhan: Okay, okay, fine. Sir, just one….

Suresh Kumar: No, but you know, we have seen a situation where customer has paid 40% advance, 45% advance and still not got into agreement.

Mr. Youhan: Right, but there again you have to….

Suresh Kumar: It was very discreet kind of a thing, customers are not focused on agreement, and there is a limit up to which we can push.

Mr. Youhan: Okay, but there again, if he cancels, you have to refund the full amount, but you will keep back a certain token amount.

Suresh Kumar: Yes, but you know, I am not seeing cancellations happening amongst those customers who pay 45% or 40%. It is just a matter of time by when they will enter into agreements.

Mr. Youhan: Okay, okay.

Suresh Kumar: These are not customers who are dependent on bank loan, so it should not affect them in any way.

Mr. Youhan: Right, fair enough. One question on line item, I think, your employee expenses, what would the reason for an offtake there this quarter.

Suresh Kumar: It is general industry trend where compensation levels in construction and infrastructure space has seen more than 25% growth on the inflation side, and therefore, as an overall percentage, it is well within our limits. So, it is normal in the industry now, especially for industries like construction and infrastructure, where we face an acute shortage of talented, talent pool.

Mr. Youhan: Right, and what is the number of employees currently in the organization sir?

Suresh Kumar: We are almost 4000 now.

Mr. Youhan: 4000 employees, okay, on the books, right.

Suresh Kumar: Yeah, on the books. Another I would say 11,000 to 12,000 casual laborers at various sites.

Mr. Youhan: Okay, okay. Sir, one last question on Amarkantak, the BTG again is by Dongfang?

Suresh Kumar: Yeah.

Mr. Youhan: Okay, and I assume now since it is being commissioned in September, that testing is going on right now?

Suresh Kumar: Yes sir.

Mr. Youhan: Okay, what is your feedback on it sir, performance wise?

Suresh Kumar: No major surprises, no negative surprises. We are quite happy with the progress till date.

Mr. Youhan: Okay, fair enough. That is all from me, thanks a lot and all the best.

Suresh Kumar: Thank you very much.

Moderator: Thank you very much sir. Next question comes from Mr. Vishal Sharma from BNP Paribas. Over to you sir.

Vishal Sharma: Yes, going back to real estate, you have recorded a 9 million loss last year. What was that portion that has been capitalized?

Suresh Kumar: No, what typically happens is, it just gets carried forward on development cost, and what is recognized as revenue is amount that is not carried forward as development cost. That is all. So, just for example, if you typically be general administration expenses, which typically are period expenses rather than project expenses. I would say it was a little early, nothing about the administrative salaries, etc., which are directly not related to project development.

Vishal Sharma: Okay, and do you see any order bookings during this quarter?

Suresh Kumar: I wish I have seen them.

Vishal Sharma: So, in that case, the difference between the order book, that is 130 was there sequentially at the end of March, and 126 at the end of June, roughly about 4 million, but revenues that were recognized was about 5.1 million. Is there something that was recognized out of the order book or what was that?

Mr. Kasturi: You are talking of order or what the EPC business?

Vishal Sharma: Yes.

Suresh Kumar: I would encourage you to like talk to Kasturi offline.

Vishal Sharma: Alright.

Suresh Kumar: Because I am not able to relate.

Vishal Sharma: Okay, and in terms of average unit price in your power trading business have seen a quite a decline if you just take it in terms of number of units and what the revenue was recorded, was there any reason for that, and do you see that trend continuing.

Suresh Kumar: Don’t go by that because lot of banking transactions have happened, which would, you know, not give you the right picture, but I know for a fact that today trades are happening at 9 rupees, 9.50 rupees, 11 rupees in the trading market. So, I cannot believe that there is a drop in terms of per unit realization. There is only an upward trend to that trading cycle.

Vishal Sharma: Okay.

Suresh Kumar: Because there will be some banking units that will be part of volumes. So, you do not go by that number. See, typically in banking transactions, it does not show in the turnover. It is just a barter, I mean if I sell 100 units and say the seller is say West Bengal and the buyer is MP, two months down the line, MP will give back those units consumed back to the West Bengal. It does not go through the spinovers, does not go through the topline. It is just settled in quantity. So, while the volumes will be high, for that period, the volumes has growth, the turnover will be exactly perhaps 50% of the total volume. So, that may not be the basis for you to analyze your per unit realization.

Vishal Sharma: Okay, so basically, let us say if I took 50% of your volume share, and I should be getting close to your average cost per price?

Suresh Kumar: Correct, right.

Vishal Sharma: Okay and what was the provisioning of income tax that was recognized in that business where you mentioned that, that was the main reason for declining profits? If you can quantify that?

Suresh Kumar: Just about some 60 lakhs or something of tax.

Vishal Sharma: Okay, and how much of generation was through naphtha at Kondapalli?

Suresh Kumar: In this quarter not much, but we started from July.

Vishal Sharma: Because you quoted higher naphtha as a reason for margin decline, higher usage of naphtha?

Suresh Kumar: We did for some time during the month of May.

Vishal Sharma: So, let us say if I were to take a 100% or may be 50%, 60%, or 70% was through naphtha or…..

Suresh Kumar: It will not be so much, it should be around 20% to 30%, not more than that. I will give you the numbers…

Vishal Sharma: Alright, okay.

Suresh Kumar: …..but even a 20% number is so significant because in terms of topline it is really huge…..I mean what is the cost of naphtha today. If you fire a naphtha, cost per unit is about 10.50 rupees to 11.50 rupees. That is the generation cost, and if you actually sell it, you add your margin in the sellers, nothing less than 12.50 to 13 rupees, and compared to that, if you are doing gas, you will realize 2 rupees 30 paisa, and their cost will be like somewhere around 1 rupees 60 paisa somewhere. So, that is the kind of , you know…..it is almost 10 times, gas versus naphtha. Even if you do

20% during the quarter, 20% you do naphtha, it blows out your turnover to such a high level that your margins get completely depressed.

Vishal Sharma: What kind of interest rates are you assuming for your bids?

Suresh Kumar: , Of late, we simply have got into closure for projects at 11.25% to 11.50% during the construction period,

Vishal Sharma: Sir, what kind of projects?

Suresh Kumar: The hydro projects that we are developing in Uttaranchal and the road projects that we are doing in Bangalore. We have not yet financially closed the large power projects. So, we are waiting it out, but Kondapalli for example, we have done it at 11.25%.

Vishal Sharma: The expansion you mean?

Suresh Kumar: Yeah.

Vishal Sharma: Okay, all rupee dominated loan right?

Suresh Kumar: Yeah, currently rupee, but there is a plan to get into dollar debt as well because we are net foreign exchange earners in Kondapalli.

Vishal Sharma: Okay and could you update us on what is the status of Nagarjuna and Anpara?

Suresh Kumar: Any specific on Nagarjuna, Anpara that you want us to address?

Vishal Sharma: No, I was just looking at what is the stage at which it is at, at this point of time?

Suresh Kumar: Okay. Nagarjuna progress is good. Anpara progress is good. I would say it is good because whatever we planned…sometime June we have achieved. So, it is going as per the schedule today. So, there were some concerns amongst investors that the earthquake of that Dongfang facilities would affect Nagarjuna and Anpara, but bottomline is that it is not going to be affected in any way significant. We are well within our timeline there, and we are on course to achieve our commissioning schedule in December 2009 for Nagarjuna and September 2010 for Anpara.

Vishal Sharma: Was there any increase in scope of contract at Teesta VI project?

Suresh Kumar: No, not to our knowledge.

Vishal Sharma: The order book and the breakdown that we have seen, sequentially, it has gone up?

Suresh Kumar: We will look at the numbers, and let you know.

Vishal Sharma: Alright okay. So, now, seeing this order book has fallen down and most of your growth is coming internally, what other projects are online or on paper that you think that will flow to this order book, if you can quantify like a rough magnitude?

Suresh Kumar: Okay, we have good chances to get Amarkantak unit III and IV, which is 1320 MW capacity expansion. We have a reasonable chance that we will get the Babandh 2640 MW expansion. So, put together, these two projects is almost 3 to 3.5 billion dollar contract in terms of EPC. Potentially, we will have visibility of port project which will come up for contracting in fiscal 2010. So, that is another 3 billion dollar project. So, there is a reasonable visibility in getting or bagging the contract as well. So, if you look at the capital spend that we plan in the next seven to eight years, if you want to reach 15 GW of capacity by 2015, that itself is like potential 15 billion dollar kind of a CAPEX and even if you take 80% of that as EPC, that is almost 12 billion dollars visibility out of which you already have 6 billion dollars now in this fiscal, current and what we will be getting in the next couple of quarters….We see a good visibility. That is the strength of our business. I mean it really does not matter so much as to what is happening amongst our external clients. We have enough to keep ourselves busy for the next seven to eight years.

Vishal Sharma: About financing, you mentioned that, you are not seeing any challenges or big challenges in getting the availability as such?

Suresh Kumar: Yeah.

Vishal Sharma: Does that apply to your real estate as well because I feel that you know the residential portion is mostly self-financed?

Suresh Kumar: Yes.

Vishal Sharma: But what about the commercial portion, the SEZs and non-SEZs?

Suresh Kumar: I am already sitting on 300 million dollars of liquidity, 110 is already there in my books today and I got another 190 odd million dollars which I have access to in terms of funding requirements. So, we are pretty okay on real estate. We can weather this period for the next one and a half to two years without worrying about availability of finance.

Vishal Sharma: What is the cost of that debt,?

Suresh Kumar: Around, it is ranging between 11.75% to 12.25%, that is the range.

Vishal Sharma: Alright, thank you very much.

Suresh Kumar: Welcome.

Moderator: Thank you very much sir. Next question comes from Mr. Pankaj from UBS. Over to you sir.

Pankaj Sharma: Yeah, hi. Another followup question, what is the status on Lanco Energy Teesta which is a 500 megawatt hydro project.

Suresh Kumar: Work has started.

Pankaj Sharma: Okay. And when do you expect to complete it?

Suresh Kumar: …May 2012.

Pankaj Sharma Okay, okay, okay. And approximately what percentage of work has been completed?

Suresh Kumar: Early stages.

Pankaj Sharma Okay, early.

Suresh Kumar: Very early.

Pankaj Sharma Okay, thanks, thanks.

Moderator: Thank you very much sir. Next in line, we have Ms. Monica from Quantum Securities. Over to you ma'am.

Ms. Monica: Hi sir. Sir, the reason stated for reduction in generation in Aban Power Plant was in account of some scheduled maintenance shutdown. Sir, does this happen every year?

Suresh Kumar: Of course.

Ms. Monica: Sorry sir.

Suresh Kumar: Of course it happens every year.

Ms. Monica: Sir, then it should happen like the same period last year also.

Suresh Kumar: Not necessarily.

Ms. Monica: Okay. So…I mean, it doesn't happen necessarily in the first quarter?

Suresh Kumar: Not necessarily.

Ms. Monica: Okay. And sir, like last time I spoke to you people, you said that you make around 4 paisa per unit in trading.

Suresh Kumar: Yeah.

Ms. Monica: You still stand by it?

Suresh Kumar: Yeah.

Ms. Monica: Sorry…

Suresh Kumar: We stand by it.

Ms. Monica: Okay. Sir, in the order book, there are some orders of infrastructure projects of about 727 crores, sir what do these relate to?

Suresh Kumar: Road projects.

Ms. Monica: Sorry sir…

Suresh Kumar: Road projects.

Ms. Monica: Sir, road projects are stated separately, as in 907 crores. Hello…Sir, your voice is not clear sir.

Suresh Kumar: It is the property projects.

Ms. Monica: Property projects? Hello…

Suresh Kumar: It is the property projects.

Ms. Monica: Okay sir. Sir, one more thing, for the transmission line projects, last quarter, the orders were about 960 million and this quarter it is around 1221 million. So, this is just an addition or any of the orders…

Suresh Kumar: We won some projects.

Ms. Monica: You have won some projects, so any of the orders have been executed?

Suresh Kumar: No, under execution.

Ms. Monica: This quarter sir, what worth of orders have been executed?

Suresh Kumar: cuurently we have 126 billionof order book and we will execute it now over the next 12 to 18 months.

Ms. Monica: 15 months?

Suresh Kumar: 12 to 18 months.

Ms. Monica: 12 to 18 months, okay. Thank you sir, that’s it from my side.

Moderator: Thank you very much ma'am. Next question comes from Mr. Rahul from Lucky Securities. Over to you sir.

Mr. Rahul: Yeah. Sir, if you could just brief us on the status of the Orissa project 2640, I am sorry if I am repeating that question, 2640 megawatts.

Suresh Kumar: We are working on the development plan. We tied up on 1600 megawatts of capacity.

Mr. Rahul: Okay.

Suresh Kumar: We have got coal linkages for almost 2300 megawatts of capacity.

Mr. Rahul: 2300?

Suresh Kumar: Yeah.

Mr. Rahul: Okay.

Suresh Kumar: 2300 megawatt.

Mr. Rahul: Okay.

Suresh Kumar: So, land has been identified for the project, and we are going through the land acquisition process and all that.

Mr. Rahul: So, do we still stand by the commissioning by about March 2012 or something or before that?

Suresh Kumar: No, certainly it won't be March 2012. Definitely by calendar year 2012, we will complete the entire project.

Mr. Rahul: Okay, okay.

Suresh Kumar: Yeah.

Mr. Rahul: Okay. Thank you, thank you very much.

Moderator: Thank you very much sir. Next question comes from Mr. Shashi Kiran from Edelweiss Securities. Over to you sir. Hello Mr. Shashi Kiran, you can go ahead with your questions. As there is no response, we will move on for the next question. Next is a followup question from Mr. Youhan from Dolat Capital. Over to you sir.

Mr. Youhan: Yeah. Sir, just to clarify, two more questions. One is your tax rate, 25.3, now going forward I would assume this would be much lower, right sir?

Suresh Kumar: Yeah, hopefully.

Mr. Youhan: Okay, but is there kind of some indication you can give me what would be the effective tax rate as of FY09 full?

Suresh Kumar: Youhan, I don't want to get into this…

Mr. Youhan: Okay. No, no issues, but 25.3 is on the upper side we could see as the projects get commissioned or lowering of tax rate, that is the…

Suresh Kumar: We are working towards optimizing on the tax.

Mr. Youhan: Okay. And sir, just one more thing, I mean about six months to a year back, there were, you know, there were indications from the Lanco management that you would or you'll were actively pursuing assets, especially coal assets, overseas coal assets, I am wondering if that is still on, if you'll are still actively looking at overseas assets and what is your, you know, thoughts on the status of the position of, you know, the industry as of now.

Suresh Kumar: We are actively looking at coal assets in other parts of the world, specifically if there are offerings there. We have zeroed in on couple of options. We are working towards something concrete over there. We got into some MoUs, but MoU is not enough, so we are working towards making something definitive. So, we will announce as soon as we reach that level for certain projects.

Mr. Youhan: Okay. And would this be primarily for getting the coal into India or would you be also looking at setting up coal power projects overseas?

Suresh Kumar: The first priority is to see if we can bring that coal all the way.

Mr. Youhan: Okay.

Suresh Kumar: That is number one priority. Then second is if it makes more sense to integrate that coal mine with power capacity in that region, then we will look at it, but today if we see the opportunity, the opportunity is here…

Mr. Youhan: Okay.

Suresh Kumar: …rather than there.

Mr. Youhan: Okay. And…so what about the valuations that are, I mean how feasible is it at this stage?

Suresh Kumar: There is lot of frenzy on valuation, but we would like to get into assets which are reasonable in terms of valuation and also like we will protect our upsides in many ways. We would rather be like a bit conservative when we acquire assets.

Mr. Youhan: Okay. But is the process being delayed because of negotiations on the valuation front or is it for some other reason?

Suresh Kumar: Not necessarily. It is hard to come by assets which are like the sellers are willing to sell.

Mr. Youhan: Okay.

Suresh Kumar: It is not that many license owners are willing to come to the table and discuss. They feel upsides are there even in future, so rather wait, and buyers are getting a bit conservative when they want to approach acquiring such as this. These are not happening as they used to happen once upon a time.

Mr. Youhan: Okay. And just one last question on that point is since you are developing the port in Kerala, it would be more feasible to look at assets more on the western side, that means Mozambique in Africa. Is that something which…is that similar kind of thinking or are you 'll also looking on…

Suresh Kumar: No, it doesn't make sense. It doesn't make sense to look at Kerala as a base for coal imports, so definitely we will not.

Mr. Youhan: Okay. So, you'll are looking both on, you know, on the South East Asian side as well as on the African and other parts…

Suresh Kumar: Yeah.

Mr. Youhan: Okay, sounds good. Thanks for the perspective, thanks.

Moderator: Thank you very much sir. Next question comes from Mr. Shashi Kiran from Edelweiss Securities. Over to you sir.

Shashi Kiran: Sir, just a small clarification required. You said that we have around 3 million square feet which we have booked, which is, I was given to understand this is largely for delivery by September 09 or December 09, that gives us around four to five quarters and going by the track record, it is largely around 65% of that cost is what is the normal cost of booking and since you have indicated your first threshold of completing 25% of the project cost book revenues, is it possible to indicate what percentage of cost has been incurred so far and that can be assigned to these 3 million square feet?

Suresh Kumar: Kasturi, please give it to him. Kasturi will give it to you.

Shashi Kiran: Okay. And secondly since you likely…you mentioned that there is some kind of a volatility in the property prices and hence you are staying put and the entire developer lobby has largely taken a stance that they will not cut prices because the market is still not in a kind of strength, what is the kind of a horizon by which time you are likely to take a call basically on the property because since the delivery has to happen by the next four or five quarters. So, by when can we expect something on that stance, some greater clarity on that because over the next one or two quarters…

Suresh Kumar: Definitely.

Shashi Kiran: …the scenario doesn't look so great.

Suresh Kumar: Yeah, definitely we will get to know in the next couple of quarters how we are reacting to the market.

Shashi Kiran: Okay. So, but basically largely I think so the guidance earlier was we were likely to see somewhere around close to rough-cut number or something like around 200-250 odd crores of profits coming from realty business in FY09.

Suresh Kumar: Right.

Shashi Kiran: So, should we think it is not possible at all this time to that extent in FY09 now?

Suresh Kumar: Yeah, I would…see, I hope to do it, but right now, the situation doesn't look like it will be.

Shashi Kiran: Okay, but largely the other guidance continues to remain that whatever on the EPC and the power front, that would likely largely remain.

Suresh Kumar: Yeah, they remain.

Shashi Kiran: Okay. So, basically excluding realtylike earlier you had given a guidance, profit guidance of somewhere around 800 odd crores which included or which had very marginal component of real estate. So, should we continue to go with that?

Suresh Kumar: How much did you assume for real estate?

Shashi Kiran: Okay, 880 was…800 odd was assuming real estate, so around 200-250 of that is what the guidance will now.

Suresh Kumar: I would rather not get drawn into this discussion, it has been a year..

Shashi Kiran: Okay.

Suresh Kumar: I can only say that realty is pressure…

Shashi Kiran: Okay.

Suresh Kumar: …and after that, it is your call, how ever you want to approach it.

Shashi Kiran: Okay. Thanks a lot sir.

Suresh Kumar: Yeah.

Moderator: Thank you very much sir. Next is a followup question from Mr. Vishal Sharma from BNP Paribas. Over to you sir.

Vishal Sharma: Yes, thank you. Can you give us some…can you throw some light on the imported coal cost and the agreement between you on Nagarjuna plant…

Suresh Kumar: Yeah.

Vishal Sharma: …you and the Glencores of the world.

Suresh Kumar: Yeah.

Vishal Sharma: See, we are absolutely well protected under those agreements between the suppliers and all. We are today in a sweet spot as far as the agreements are concerned and definitely like those agreements are binding contract. We are not at the downside. We are actually like quite happy that we entered into those contracts well in time and today Nagarjuna Projects is the beneficiary because of what we did on the contract. So, I think we would like to say that we are sitting pretty as far as Nagarjuna project is concerned, more so given the fact that we have no exposure on fuel cost at all. So, we are relatively insulated from whatever is happening in the international coal market, completely insulated I would say.

Vishal Sharma: Okay. And given the coal prices, what is the confidence that, you know, a third party will be honoring the agreement?

Suresh Kumar: Well, there are very strong liquidated damages clauses which are built into agreement, which would definitely prevent them from dishonoring their agreements, and we are dealing with parties of international repute here. We are talking about Glencore which is supposed to be the largest coal trader in the world. We are talking of PT Adaro which is like one of the largest coal mining companies in the world. So, we are dealing with suppliers who have immense credibility in the market. So, I don't see a downside to that at all.

Vishal Sharma: Alright. Slight different stuff, on the port project, I know High Court gave a clean chit for you'll to continue, have you heard anything of Zoom going to the Supreme Court or something.

Suresh Kumar: Well, it is basically their call if they want to go to Supreme Court. Right now, it is with the Division Bench. It is early stages, I don't think they can go to Supreme Court until and unless the Division Bench decides or orders against Zoom. So, it is early stages I would say, and we have seen how Supreme Court reacts to such kind of petition. We don't…we are not worried so much about what will happen at the Supreme Court level if at all it goes to Supreme Court.

Vishal Sharma: When can you expect a financial closure on this project sir?

Suresh Kumar: We are not expecting financial closure before March 2010.

Vishal Sharma: Okay, okay. Alright, thank you.

Moderator: Thank you very much sir. Participants who wish to ask questions may kindly press *1 on their telephone keypad. I repeat, participants who wish to ask questions may kindly press *1 on their telephone keypad. Next question comes from Mr. Shashi Kiran from Edelweiss Securities. Over to you sir.

Shashi Kiran: Sir, just a followup question on that coal pricing which you just spelt out. There has been some kind of reports emanating from Indonesia where the government is planning to reconsider those fixed price kind of contracts. I have been given to understand Lanco had, for a short period of time, over medium term, at a fixed price and then after that it was indexed for inflation or it was based on an index. So, do you think something of that can also impact your pricing to some extent, at what price you can off-take coal from Indonesia?

Suresh Kumar: No, no, we are not seeing any pressures there.

Shashi Kiran: No, not a question of pressure because it seems there is going to be a ruling in Indonesia where that regulator…those fixed price contracts are going to…need to be renegotiated because the government is feeling short change.

Suresh Kumar: See, it is early stages. Let's take a call once they take that call.

Shashi Kiran: Okay. But are you safeguarded in terms of your agreement with them and in case of something like that happens, do you have a backup out here or a penalty out there or something of that sort

Suresh Kumar: Lot of other penalties will come into the picture.

Shashi Kiran: Okay. Okay, thanks.

Moderator: Thank you very much sir. At this moment, there are no further questions from the participants. I would like to hand over the floor back to Mr. Gaurav Pathak for final remarks.

Gaurav Pathak: Yeah, I thank everyone for participating in this call. The call has been quite good. Thanks for the management and thanks for the participants for their good remarks. Thanks everyone. Have a good day. Bye.

Moderator: Thank you very much sir.

Suresh Kumar: Thank you everyone.

Moderator: Thank you sir.

Moderator: Ladies and gentleman, thank you for choosing WebEx conferencing service. That concludes this conference call. Thank you for your participation. You may now disconnect your lines. Thank you.