"Lanco Infratech Limited Q3 FY11 Earnings Conference Call"

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Moderator Ladies and gentlemen good morning and welcome to the Q3 FY11 Earnings Conference Call of Lanco Infratech Limited hosted by IDFC Securities Limited. As a reminder, for the duration of this conference, all participants' lines will be in the listen-only mode and there will be an opportunity for you to ask questions at the end of today's presentation. If you should need any assistance during this conference call, please signal an operator by pressing '*' and then '0' on your touchtone telephone. Please note that this conference is being recorded.

At this time, I would like to hand the conference over to Mr. Shirish Rane of IDFC Securities Limited. Thank you and over to you sir.

Shirish Rane Good morning, everybody. Welcome to Lanco Infratech's Third Quarter Earnings Conference Call. We have today with us Mr. Suresh Kumar, CFO of Lanco Infratech. Along with him, we have Vibu and Saurabh. We will start the call with a brief remark by Suresh on the quarterly results which will be followed by question-and-answer session. Over to you, sir.

J. Suresh Kumar Thank you, Shirish and good morning everyone. Welcome to this conference call to discuss the Q3 earnings of Lanco Infratech. As you all have probably noticed strong growth in this quarter relative to what we have been seeing in the last couple of quarters. Clearly, Construction, EPC has come out with spectacular performance this quarter, more or less in line with how we are seeing the order book getting executed. So broadly numbers for the quarter are operating revenues are up about 60% to about 2900 Crores from a year-on-year base of 1830-odd Crores. Broadly, cash profits are actually down on a reported basis, but if you consider the elimination into the numbers, you will see a robust jump in cash profits. Similarly, profit after tax for the quarter is at 164 Crores vis-à-vis 106 Crores corresponding quarter previous year. Of course mind you that the bottom-line this quarter reflects the change in depreciation methodology that we made again this quarter and basically, more or less to like make our depreciation policy in line with all our peers like NTPC, Tata Power of the world, so we amended our depreciation policy back we move to straight line method of depreciation vis-à-vis the earlier quarters where we were following WDV methodology for depreciation.

If you dive into some broad numbers, if you see the revenue breakup this quarter, we saw a large elimination of intersegment revenue. We eliminated close to about 1350 Crores of intersegment revenue from our top-line of 2900 Crores and that is how we have shown a net revenue of close to about 1560 Crores, which is down about 3% on a year-on-year basis, but it is more of accounting treatment than actual impacts on cash flows or anything for that matter. Intersegment revenue elimination is more of accounting adjustment rather than any negative impacts on the cash flows.

Similarly, if you see the profit after tax, if you add up all the income that has been eliminated and the PAT that has been eliminated, you will actually see that our net margins are upwards of 15% on a consolidated basis.

If you look at the EBITDA margins adjusted for power trading revenue, EBITDA margins have actually gone up close to about 46% on a comparable basis. EBITDA margins at 46% vis-à-vis last year of 24%, so it shows an underlying growth in profitability parameters, particularly on the net margin side as well as on the EBITDA margin side, which actually gives you a good feel of where the profitability numbers are heading.

If you look at from a cash profit angle, as I said earlier, vis-a-vis 156 Crores of last year, this quarter, the cash profit is about 110 Crores, of course, you need to adjust for the elimination of profit, if you add that, you will actually see almost a 50% jump in cash profit on a year-on-year basis.

Moving on to certain balance sheet items, our net worth is close to about 4500 Crores. Our total debt including debt of associates is about 18,750 Crores, on a net debt basis our gearing is sub-4 and hopefully will remain there going forward.

If you look at by vertical basis, EBITDA margins this quarter for the Construction business stands at 19% vis-à-vis 18% of last year. Clearly, as we have been saying in all the previous conference calls we have been saying that Construction business would of course pickup from the quarter ending December given the way the project execution is happening on all the new projects, we do believe that the March quarter and the quarters thereafter would show a significant amount of ramp up in order book execution and therefore, that will reflect in significant improvements in the performances of the Construction division and the EPC division and thereby impacting margins positively both on the EBITDA side as well as on the net margin side.

Moving on to Power, it has not been a great quarter from a merchant angle point of view. If you see Amarkantak 1, Amarkantak 2 and Kondapalli 2, from a merchant angle while Amarkantak 1 has despite all the pressures in the market, it has realized about Rs. 4.10 per unit realization, but, of course, has suffered overall given that Unit 2 has been selling power in the UI market and it has not been participating in the bilateral market in anyway, so on a bundled basis, the average realization of Amarkantak as a whole dropped in this quarter on a quarter-on-quarter basis but certainly, if you see the next quarter and the June quarter as well, Amarkantak 1 as well as Kondapalli have tied up on a bilateral basis a significant amount of capacity and also the UI market is reasonably strong on a relative basis. So I think despite there being pressures in the quarter of December, particularly, on the merchant side, I think we more or less done a reasonably good job on the merchant side. But having said that still there was room for some upside, but, of course, there were limitations in the market.

If you look at it overall from a Power business angle, generally, I think our cash flow streams are improving on a quarter-on-quarter basis, on a year-on-year basis for sure and with new capacity coming in, we will see our cash flow streams from the Power business actually being much better than what it has been all along, so we do not believe that December quarter like what it was this time is likely to continue on a sustained basis, there, of course, exceptional events that happened in the quarter of September and December is not expected that such kind of events will continue on and off or on a sustained basis for the next couple of years, so there is certainly merit in having a portion of your portfolio exposed to the merchant market, it will give you those upside surely, but it is always better to de-risk your portfolio on an overall basis, so our approach therefore is still looking at tying up at least 75% of our capacity on a long-term basis and keep 25% open to take advantage of the short-term imbalances in the demand and supply market.

Moving on from Power, if you look at the Property business, EBITDA margin is negative 6% and we have not seen much of improvement in the Property business this quarter given the situation that is there in Hyderabad, but we do believe that at some point of time the markets will come back and may be at the right time we will consider our options on the Property side of the business. But, as of now, we are minimizing our capital employed in the Property business to the barest minimum.

Moving on, if you see, we have achieved the financial closures for Kondapalli 3 and Vidharbha, during the quarter-ended December, we announce CoD for Udupi as well as a small hydroproject called Upper Khauli in Himachal. We also won the Moser Baer EPC contract in addition to Koradi Balance of Plant (BOP) contract that we won earlier. We talked about the Griffin Coal acquisition which all of you are aware. And we recently emerged as a successful bidder for BOT road project in Uttar Pradesh. Besides that order book looks strong and we see good amount of visibility going forward for new orders to come and get added to the order book and that would reflect certainly on the numbers of the Construction business going forward. I will stop over here and would be happy to take questions from all investors.

Moderator Thank you very much sir. Our first question is from the line of Atul Tiwari.

Atul Tiwari Yeah, sir, I had a couple of questions. Sir, first on your Udupi Power project, in your press release, the company has made a small loss at PAT level, so I understand that now the depreciation is based on SLM right and you are getting full cost pass-through, so why is there a small loss, is it some one-off or?

J. Suresh Kumar See, what we did on a conservative basis, we accounted for the revenue on the basis of interim tariff that has been approved by Karnataka.

Atul Tiwari Okay, sir.

J. Suresh Kumar The interim tariff works out to Rs. 3.12 or something while actually speaking, the actual tariff would be some Rs. 3.60 to Rs. 3.70 as we speak now, so that 50 to 60 paisa we have not accounted for as yet as revenue.

Atul Tiwari Okay, so sir, will you start doing that from this quarter onwards or will it take some…?

J. Suresh Kumar Certainly, by the end of March, we will definitely like do that adjustment.

Atul Tiwari Yeah and sir the second unit should be close to commissioning. Do you have transmission line ready now?

J. Suresh Kumar No, transmission line is actually a bottleneck and in fact the unit is actually mechanically ready, we are awaiting permissions from the relevant authorities to like a back down on Unit 1, so that it allows us to like synchronize Unit 2, but there is a process involved there, so we are just waiting for the relevant approvals.

Atul Tiwari Okay, sir, when is the transmission line likely to be ready?

J. Suresh Kumar You should assume that it would go beyond July.

Atul Tiwari Okay sir. And sir my second question is a slightly broader question, you may have seen guidance cut in coal production volume by Coal India Limited, basically which implies that in FY12, they will be producing only 7 million tonnes of incremental coal, which can probably Power only 1500 Megawatts of capacity all over India and you yourself will be commissioning Anpara which is a 1200 Megawatt plant is on a Coal India linkage and plus next year probably Amarkantak DN 4, so just I was trying to understand in case you do not get coal from Coal India Limited, what are your options, how would you service the debt and how do you make the project profitable?

J. Suresh Kumar I think the problem of Coal India would not be as pronounced as it would be in the year fiscal '12 I would say because I am not seeing so much of stress in availability of coal in fiscal '12. I see more stress in fiscal '14 and onwards. Having said that I do not say that we will fire on 100% linkage coal, it certainly is not part of the plan, we do believe that there will be a blending involved; blending of linkage coal with e-auction coal and imported coal and that is how we will at least make sure that we are in the 80% to 85% PLF bracket. Certainly, there will be pressure on us in terms of variable cost, but I would believe that a good blend of linkage coal, e-auction coal and imported coal will at least ensure that our variable costs are under control.

Atul Tiwari Okay sir and specifically on Anpara, I believe that fuel costs are pass- through. Does your PPA allow for full pass-through of any quantity of imported coal at any price or is there a cap on that?

J. Suresh Kumar There is no such cap in the PPA, all it says is that whatever coal you procure as per the instructions of UP, that cost is a pass-through as long as everything is done on an arms length basis, it is not a problem at all.

Atul Tiwari Okay, so, in theory, you can run plant on 100% imported coal and if UP allows that it will be a pass-through at least in theory, right?

J. Suresh Kumar Yes. You also need to look at it in a different way, what is the other alternative that UP government has, will it procure power at Rs. 5 or Rs. 6 or it would be happy to like fire on Anpara and still get at Rs. 3.5.

Atul Tiwari Yeah and sir, in market, what kind of merchant rates are you seeing now? Because we have been seeing that now SEBs are asking even the lowest cost producers of Power like NTPC to back down their power plant because they simply cannot pay for the Power even at Rs. 2.5 or Rs. 2.6, so….

J. Suresh Kumar Why have they signed 1 lakh megawatts?

Atul Tiwari Yes.

J. Suresh Kumar I do not think it is such a big statement to make today. Honestly, like the way we are seeing SEBs coming back to the market, we do believe that there will be a reasonable price bump up for merchant players, we are not for the moment saying that look at price realization of Rs. 6, Rs. 7 at least in the summer month, so we do believe that on an overall average for the year basis, it is reasonable to assume Rs. 4-4.5 kind of realization and at that price points, it does not put much of a strain on SEBs at all. If SEBs starts buying at Rs. 8, Rs. 9, Rs. 10, Rs. 11, then that is where the pain points are. If you see 2009 and 2010, the bigger issues was because SEB started buying power at whatever price, whether it is Rs. 10, Rs. 11, Rs. 8, Rs. 9, there was no control over that. At least today there is a realization that beyond a certain price point it does not make sense for them to like to buy power from the merchant market. And mind you merchant market is just 10% of the overall market. On a weighted average basis, the purchase price of an SEB is much lower than Rs. 4, Rs. 4.5 that we are talking about, so I think there are broader issues and it is not necessarily through to say that if the merchant prices that are actually killing SEBs, it is not.

Atul Tiwari Okay. And sir what are the prices that you are selling currently from Kondapalli and Amarkantak 1, at least for this quarter if you have some idea, what should be.

J. Suresh Kumar They range from 4.25, 4.30 to 5.5.

Atul Tiwari Okay, so on an average around 4.25, is that?

J. Suresh Kumar We will see because we have some exposure to UI market also and UI markets have also been pretty positive in the last couple of weeks I guess, so it is a function of how the UI market also performs. So, we will wait it out right up to March, we will see how it is moving and then we will probably give you a more concrete answer, but certainly prices are looking up, but it is not going to be like Rs. 6-7 kind of pricing.

Atul Tiwari Okay sir, and sir my last question is on Amarkantak 2, how long you will continue to sell in UI, is there any update on the PPA?

J. Suresh Kumar See, on the PPA, we are still awaiting clarification from the ERC order in terms of how they want us to deal with the Unit 2 power generation. We are in dialogue with the Regulatory Commission as well as PTC and Haryana. We will get some clarity may be in a week or so.

Atul Tiwari Okay sir, thank you sir, thanks.

Moderator Thank you, our next question is from the line of Abhishek Anand from JM Financial, please go ahead.

Abhishek Anand Yeah, good morning, sir.

J. Suresh Kumar Good morning.

Abhishek Anand Yeah, just a couple of questions from my side. Based on the figures we have I believe that Amarkantak 2 is still a loss making unit?

J. Suresh Kumar Not to my knowledge, it is not.

Abhishek Anand It is not? So, on an average….

J. Suresh Kumar I think what you all need to be aware is during the quarter of December, e-auction prices actually fell down compared to what it was in September quarter, because lot of volumes were pushed into the e-auction market by Coal India and it actually pushed down the e-auction pricing. So, I think there is a reduction in variable cost also for Unit 1 and Unit 2. And certainly like Unit 2 despite selling it at lowest possible realization in the UI market, it has still generated a bottom line profit, some 16 Crores or 17 Crores, if I remember right.

Abhishek Anand Okay and the second will be on the EBITDA front, we have an unallocated loss of 764 million. Could you just give us the details of that, in segmental consolidated?

J. Suresh Kumar Okay, it is basically expenditure not related to any of the segments, because it is not locatable, it is just an expense item.

Abhishek Anand Some more details on that sir?

J. Suresh Kumar May be some Admin expenses, corporate expenses and all which are not directly allocatable to the various business units, that is being adjusted as a single item.

Abhishek Anand Okay and sir the last question from my side will be your debt to equity at present is at 4. Sir, do you have any covalence on your credit lines that we should be aware of?

J. Suresh Kumar No, we are well within our credit lines over there.

Abhishek Anand And any particular covalence we have on our credit lines?

J. Suresh Kumar Normally, credit lines apply on a standalone basis, they do not cover consolidated for the simple reason that most of the debt that is sitting at the SPV level is nonrecourse project finance debt secured by assets, so it is normally not a policy for lenders to put restrictions on consolidated debt of the parent. They are concerned more with the debt exposure that they have towards a particular project.

Abhishek Anand Okay, fine, sir. That will be all from my side. Thank you.

Moderator Thank you. Our next question is from the line of Parag Gupta from Morgan Stanley, please go ahead.

Parag Gupta Hi, good morning, Suresh. Just couple of questions from my side, firstly, when are you expecting the Anpara units to come on line?

J. Suresh Kumar See, we are looking at synchronizing Anpara Unit 1 this month or early next month. When I say synchronization it is more of normal parlance. We are looking at CoD around April and that is the current plan for Unit 1. We are not seeing much of a bottlenecks there except may be some keeping issues related to commissioning which we may normally face, but other than that, unit is mechanically ready, that is from last bits here and there, which we are fine tuning, so we are just taking our time just to make sure that we do not rush the synchronization process unnecessarily, so Unit 1 this month or early March, Unit 2 is April synchronization, that is the current plan.

Parag Gupta Right, secondly, as far as third quarter merchant sales are concerned, was there any quantity that was being supplied in the power exchanges or in the UI markets from Amarkantak 1 and Kondapalli 2, or was it also bilateral contracts?

J. Suresh Kumar There were some UI trades in all the three units, I think Vibu will give you those details.

Parag Gupta Right and lastly, just to understand you know your debt equity for the standalone company sometime in 2012, 2013 is expected to go in excess of 2:1. Do you think you are going to be looking at some form of equity dilution may be over the next 18 to 24 months?

J. Suresh Kumar See, our read is 2:1 is not such a big deal from a debt equity angle for us, but given our growth plans, given the need for us to infuse equity into our new projects that we want to bring into our portfolio, I do believe that certainly in the timeframe there will be an IPO, but as we speak there is no such actions that we have taken, we have not even transferred our investments to a holding company, the power investment, so we are still not even there in terms of basic action step. My read is certainly, given our growth plans and more so after the Griffin Asset acquisition and the possibility of a good amount of CapEx that is going into this asset, I do believe that within this timeframe we should do an IPO of the Power business, it is a matter of timing though what is the right time to do it. That is still an open ended question. But certainly, we are conscious of the fact that in the short-term the gearing ratios would look optically on a consolidated basis high, but we do not believe that is a big concern today at all.

Parag Gupta Got it. Just one last question to you to understand the restructuring whenever you do hive off your power SPVs into a power Hold Co, how would the Griffin asset be held, would it be a step down subsidiary of the power hold co or would it be within the Lanco Infratech?

J. Suresh Kumar No decision has been taken but I think logic would tell is to keep it out of power for now because I do not know how investors perceive an ownership in a coal business for a power company to own a coal business but somehow I feel that these are two different businesses altogether and therefore it is better to keep them separate, that is at least my first gut read. But as I said we have not decided on the modalities of what we should transfer to which wholly-owned subsidiary, but at the end of it, it will remain within Lanco Infratech given that Griffin will be a subsidiary of Lanco Infratech and so will the Power business or the Power Hold. Co., both will be anyway housed in a wholly-owned subsidiary of Lanco Infratech, it is only a function whether it will be a subsidiary of the Power Hold. Co or not is still an open question. I honestly do not have an answer, but the first gut view is they should be separate.

Parag Gupta Sure, thank you.

Moderator Thank you. Our next question is from the line of Murtuza Arsiwalla from Kotak Securities, please go ahead.

Murtuza Arsiwalla Hi, Suresh, couple of questions, one is again on the unallocated loss of about 760 million, that number was a lower amount if you look at any other prior periods, is there any one-off or this should be considered as a recurring kind of corporate expense, which would be there. Second question is on the 2.4 Billion of the tax impact which is there because of the depreciation write-back and change in depreciation policy, would it be possible to give the breakup between how much is for the quarter, for the nine months and for the prior year? And the third question is on the Construction business what I noticed was that for the similar revenue bids, the EBIT in the standalone is about 3 Billion whereas that in the consolidated it is about 3.5 Billion, so if you could explain that difference and also the negative capital employed which I believe would be some advances which would have come from one of the SPVs?

J. Suresh Kumar See, unallocated expense is more or less in line with the way business has also grown, in a sense that we are moving from a different platform in 2010 to a different platform in 2012. It may not be like a linear equation although my revenue is flattish for the year. I would have definitely incurred cost in taking employees to gear up for the future execution plan. Good amount of expenditure that will be clubbed in the corporate, a lot of business development expenditure would have come into this quarter because of various business development initiatives that we have taken on various fronts, so there will certainly be cost which we anyway need to charge, so I do not think it is out of the ordinary, it is more or less in line with our overall business plan and of course the volumes that we are doing today. But we will certainly give you broad details of what is the breakup of that, unallocated expenditure, that should give you enough clarity that it is nothing out of the ordinary. Your second question was on…?

Murtuza Arsiwalla The tax part, the tax 2.4 Billion for the depreciation, change in depreciation policy.

J. Suresh Kumar So, we will get the breakup on a quarter-on-quarter basis from Vibu and Saurabh. If you look at the other question on why is my EBIT higher than standalone, because we are doing EPC business, for example, on the solar side, we are doing some EPC business to separate subsidiaries as well and not just only through Lanco Infratech division, I am consolidating all the EPC revenues across the group and that is where you are seeing a broader jump in my overall EBIT.

Murtuza Arsiwalla Okay, but that is the structure may be putting let us say the solar EPC outside in a separate subsidiary, does that offer any structural advantages or it is just the way you want to put your different businesses in silos**?**

J. Suresh Kumar It is better create accountability across businesses, it is better to like house them along with core businesses rather than mix it up, otherwise there will always be an accountability issue there, so the way we structure it is, is the overall, not just standalone, but there will also be other subsidiaries that will add to your overall EPC margins.

Murtuza Arsiwalla Sure and the negative capital employed would be lots of advances coming in from the new projects which have been set up?

J. Suresh Kumar That is right.

Murtuza Arsiwalla Okay, thanks so much, Suresh.

J. Suresh Kumar Yeah.

Moderator Thank you, our next question is from the line of Anirudh Gangahar from Nomura Securities, please go ahead.

Anirudh Gangahar Yeah, thank you for the opportunity, a few questions; one could you please give us a breakdown of what proportion of your capacity, if any, has been tied up bilaterally for this quarter and next quarter? Second would be if you can dwell up on the timelines for your upcoming projects on road and even the Budhil project? And the third would be on account of Coal India supplies. Would Anpara be impacted by anyway because of the guidance of Coal India Limited? Or is there a separate dedicated line considering it was a case 2 project? And on your PLF 4 Kondapalli continues to be at 45% in January, is there a gas shortage we have? Thank you.

J. Suresh Kumar Let's start with the last part first. PLF of January, Kondapalli were now, I think, a 12 day maintenance shutdown for Unit I that is why the PLF of Kondapalli 1 was down. Generally speaking, it is not because of gas. Gas, of course, there is a reduction but not a quantum reduction to result and say a very low PLF. I think, what Reliance today doing is, they are giving 90% of their guaranteed quantity, which will in line with the agreement and that should perhaps suffice PLF of somewhere around 75% to 80%, if I remember right. So it will not impact either Unit I or Unit II from a PLF point of view. Of course, the PLF is definitely down from what we thought we could achieve. We earlier thought we can achieve a 90% PLF, but now it looks more like an 80% PLF kind of a scenario. That is the answer to your last question. You will get a breakup from Vibu about how much is the tie up on a bilateral basis, for all the merchant units. But broadly, I can tell you is, it will be around 70-odd per cent will be tied up on a bilateral basis, broadly. That is the way the numbers are looking, but I can request Vibu to give you more details there.

Anirudh Gangahar Okay, on the coal supply for Anpara, is that subject to the somewhat weak guidance by Coal India?

J. Suresh Kumar My read is coal that Anpara will get from northern coal fields and there are not many takers for coal from northern coal fields. And our expectation is given that this coal mine is dedicated for UP's requirement and given that Anpara will be giving UP almost the cheapest power that they could possibly get, we are not seeing much of a downside over there. Did that answer your question?

Anirudh Gangahar Yeah, basic reason you are not too perturbed with the risk of shortage of coal as far as Anpara is concerned?

J. Suresh Kumar Predominantly, because northern coal is more or less a dedicated coal mines for Anpara C, A, and B very few takers over there for ….

Anirudh Gangahar Okay, and lastly, Suresh, if you can just tell us the road project was supposed to be beginning sometime in December-January and so was your other 70 MW Hydro projects as well, any timelines on that as well, please?

J. Suresh Kumar: You are talking about April, so without holding me to it, let us look at the quarter of June.

Anirudh Gangahar For both for roads as well as the Hydro project?

J. Suresh Kumar: Yeah.

Anirudh Gangahar Okay, thank you so much.

Moderator: Thank you. Our next question is from the line of Sumit Kishor from JP Morgan. Please go ahead.

Sumit Kishor: Hi, Suresh. Good morning. I have a few questions; the first one is on the accounting for intersegment revenue. Our understanding is that Lanco follows (AS)23 and EPC revenue for a subsidy is completely knocked off and shown as intersegment revenue and EPC revenue for associates is not deleted but proportionate share of profits need to be knocked off. Just wanted to understand, what is the status of Anpara and Udupi in the balance sheet, are they still associates, especially Udupi, where a unit has been commissioned and Babandh which is under construction, has it been structured as a associate?

J. Suresh Kumar: Well, if you look at Anpara and Udupi, they are still associates, despite the fact that Udupi is operational for Unit I. What we have consolidated for Udupi is only our share of 15 crores loss in our numbers. We do believe that until Unit 2 is announced in terms of CoD, we will not convert Udupi into a wholly-owned subsidiary, so we will continue with that treatment as far as Udupi is concerned, as we have done in December quarter. If you look at Anpara, as soon as Unit II CoD is done, we will convert it into a wholly-owned subsidiary, which is in the first quarter of fiscal '12.

Sumit Kishor: And Babandh?

J. Suresh Kumar: Babandh, if I remember right, is an associate today.

Sumit Kishor: Okay. Coming back to the sharp increase in the intersegment revenue, then what would explain that?

J. Suresh Kumar: The largest contributors of turnover this quarter was Kondapalli and Amarkantak. That is why we have to eliminate most of the profit that we earned. We did not book much of turnover from Babandh I think this quarter.

Sumit Kishor: Okay, my second question is the shift back to the straight line method from WDV. There are two of the advantages, Suresh, you had mentioned were, one, in the long-term you expect the cost of generation to be lower if you use WDV and you expect to save on the tax front, so why the change now?

J. Suresh Kumar: I think the way others are approaching their depreciation policy, and the exception of one or two players who are following WDV methodology, we felt generally market was at least from an optical standpoint of you, it was being perceived that our depreciation policy is slightly aggressive, and therefore, at least optically speaking, our PE multiples look relatively higher as compared to our peers, so I think it was more of a perception than anything else, and honestly, we did not want to complicate our numbers by showing different numbers under different methodology, so the communication was getting very dispersed, rather than get into this communication game, we thought it is better to just streamline it across, make it comparable and even though it results in some tax outflows, so be it.

Sumit Kishor: Okay, my next question is based on the total CapEx and debt numbers for the Babandh project at the end of FY11, reported in your press release. It appears that almost 11.8 billion of equity has been invested in the project out of the total about 14 billion requirement. So there has been a sharp spurt in the equity invested in the project in the December quarter. What is the nature of this equity investment and you have invested the entire equity upfront it seems?

J. Suresh Kumar: Yeah, this includes Babandh 3 and 4, which we have given advances to the equipment suppliers also as part of the eight projects that we put orders for Habin. Babandh expansion is part of that list. And to that extent; there will be an increase in equity. In Babandh, we have not put so much of equity; we just put about 500 crores of equity in Unit 1 and 300 crores in Phase II.

Sumit Kishor: Okay, I was just subtracting the CapEx and the debt numbers. Okay. I will get back to you separately on this. My last question is, has there been any upward revision in project cost since the beginning of FY 11 in a big way for either Udupi, Anpara or any of your other under construction projects?

J. Suresh Kumar: No, we have not increased project cost.

Sumit Kishor: Okay, so they remain same as what they were at the beginning of the financial year?

J. Suresh Kumar: Yeah.

Sumit Kishor: Okay, that's all from me. Thanks, Suresh.

Moderator Thank you. Our next question is from the line of Jeff Evans from Macquarie. Please go ahead.

Jeff Evans: Good morning guys. If you could just provide a little bit more color around Amarkantak Unit II, could stop selling to you, I know you explained it before, but I didn't get any further clarity. Also other schedule shut downs that might be occurring this quarter? And lastly, in the last quarter you mentioned that merchant realization will be 4.50 after this quarter, what went wrong?

J. Suresh Kumar: I never said that, for December quarter we will achieve 4.50.

Jeff Evans: I was noted that you locked in merchant 4.50 for the next 6 months, is that incorrect?

Management: 4.50 for couple of months, we have opened on December, so if you see Amarkantak, we specifically said out of 600 MW odd, 300 of Amarkantak is tied up at 4.15 plus, that was October and November. In December, we maintained that was open end. December was all in UI which has dread down the average price to 4.10 in Amarkantak. It is the month of December which has dread down the prices.

Jeff Evans: Right, you are in January as well I believe, there are not?

Management: Yes, but January if you see, January realization in the UI spot has been much better than what it was in December.

Jeff Evans: So what we are able to realize from UI for this Q4?

J. Suresh Kumar: We will not give you that guidance, Jeff, for the simple reason that part of the capacity is open, not the entire capacity is being tied up on a bilateral basis. Vibu will give you the breakup but my broad number is 70% is tied up today on a bilateral basis, 30% is kept open and we don't know how the UI market would perform and therefore giving you a guidance may not make any sense but I think, what you should assume is at least on the 70% that we have tied up, the broad range is about Rs. 4.30-5 kind of range.

Jeff Evans: Sure. Amarkantak Unit II?

J. Suresh Kumar: It remains UI, because we don't want to get into a situation where it can impact any of our ongoing discussions with PTC and Haryana, we just want to continue to sell it in the UI market.

Jeff Evans: So can you give some guidance around that as far as timelines for selling UI because I just had zero clarity on how long that could be? So what's your view?

J. Suresh Kumar: We have been waiting for quite a length of time for the order from Haryana. So you assume that through the quarter it will be UI.

Jeff Evans: And for FY 12?

J. Suresh Kumar: See, it is a delicate discussion that is going on between us and PTC and Haryana. It will be difficult to give you a clear forecast on that front, because it is subject to all the discussions that are ongoing and there is no point talking about fiscal 12 now. Let us complete our discussions with Haryana and PTC first.

Jeff Evans: Sure, any other scheduled shutdown for this Q4?

J. Suresh Kumar: I don't think so, and neither would we want to get it into any schedule shutdowns now given that prices are pretty strong.

Jeff Evans: I guess so for this quarter, for the next quarterly results, we can assume no schedule shutdowns…?

J. Suresh Kumar: No scheduled shutdowns clearly, but I cannot talk about unscheduled shutdowns. But I think given our experience, we have taken advantage of a soft market and we went for shutdowns at the right time so that we are able to run the equipment through the peak season.

Jeff Evans: Sure, just lastly, Amarkantak fuel supply currently, what proportion you are getting from the auction and what proportion from the linkage?

J. Suresh Kumar: Almost 70/30.

Jeff Evans: With no change?

J. Suresh Kumar: No change and there is hardly any imported coal.

Jeff Evans: All right. Thank you.

Moderator: Thank you. Our next question is from the line of Pankaj Sharma from UBS Securities. Please go ahead.

Pankaj Sharma: Hi, good morning, Suresh. Just two questions; one is on the performance of machines in Amarkantak, what are the current heat rates you are experiencing and has there been problem in terms of performance of the machines as such? And also the second question would be, in terms of your guideline for commissioning of the 4700 megawatt which is under construction, the three, the coal-based plants and one Kondapalli, has there been slow down in terms of construction activity at Kondapalli, because there is a lot of negative news in terms of availability of gas infusion?

J. Suresh Kumar: Okay, if you look at heat rates, they are in the various plants, of course, some are 300 MW, some are 600 MW trails, heat rates at least for Lanco Power is about 2400 gross for Unit I. Unit II is higher because of PLF being down, Unit II is about 20 times (50:04), but my only caution to you is do not look at the heat rates on a month-on-month basis or a quarter-on-quarter basis, you should look at it overall for the year, because there are a lot of variables that go into heat rate calculation.

Pankaj Sharma: Okay, so, on a yearly basis how much it should be, about 2350 or so?

J. Suresh Kumar: Yeah, 2350, 2380 is normal benchmark. If you try to do that in Unit II of Amarkantak most of the credit (50:36) is linked to how the UI is performing, you may end up like going overboard or under-board. It is the mindful of how you want to approach heat rate.

Pankaj Sharma: Okay. So again, on UI, do you think that because next 3 to 6 months time we would see some of the states going for election, do you think that the outlook for UI should be better and also for the merchant should see a significant improvement versus last six months, the second-quarter and the third-quarter financial year '11?

J. Suresh Kumar: Surely. You are already seeing it, and you are also seeing a good amount of demand coming from state on tendering for power. You also are seeing states actually tying up for 2 years, 3 years kind of requirement also rather than the typical 25-year requirement. So everyone knows that the next 2 to 3 years are going to be crucial from their procurement point of view. So there has been a change in approach that SCBs are taking nowadays. At the same time they are conscious that they need to deliver power to the people who need power. There are a lot of pulls and pressures that are coming from various quarters. So it is not going to be a buyers market only, it is going to be a sellers markets too. It is only a function of how reasonable both sides are in procuring and selling power.

Pankaj Sharma: Okay and on the construction activity for Kondapalli expansion?

J. Suresh Kumar: Kondapalli expansion, as I see the way things are going, there is absolutely no let up on our side with regard to slowing down of Kondapalli 2, despite this question mark over gas. Our read is it should be resolved. You will get some gas, whether it is Reliance or ONGC or someone else is a question of time, but having invested in the plant, we do believe that there is scope to get some gas, not completely, but certainly, we are looking at other options of sourcing gas as well. We will take it as it comes, but absolutely, no let up on construction at all.

Pankaj Sharma: Okay, thank you sir.

Moderator: Thank you. Our next question is from the line of Rakesh Vyas from HDFC Mutual Fund. Please go ahead.

Rakesh Vyas: Hi, Suresh. Good morning. Suresh, just wanted to understand on this Anpara project, although the coal supply will be from NCL, I believe NCL is unlikely to increase the production significantly because you will need close to 6 million tonnes in FY 12, so in case the coal supplies are not available from Coal India and UP do not want you to procure imported coal because then power becomes expensive, could that lead to some problem in the profitability of the project? I'm just trying to understand that.

J. Suresh Kumar: As long as my plant is available they have to give me my fixed cost, whatever I bid they have to give me. They cannot tell me that I will not give you coal, you cannot procure this coal and all that and it is slightly theoretical I would say.

Rakesh Vyas: No, Suresh, the question I am asking is because Roza currently is suffering a similar problem, where they are not getting adequate supply.

J. Suresh Kumar: You should see Roza tariff versus Anpara tariff. You should see Roza tariff and compare it to Anpara tariff too and see where you are. You show me a project which is delivering power to you at a fixed cost of Re 1.

Rakesh Vyas: No, no, I understand, that is true, but my problem is on the variable charge, not on the fixed charge and therefore…

J. Suresh Kumar: So much will be variable charge. What is the problem with UP today? UP has a huge demand for power. Will UP then start buying power at Rs 6-7 from the market or rather let allow Lanco to import coal and sell it at Rs 3.5 overall?

Rakesh Vyas: Okay. But Suresh, the issue is, if at all, they allow you to procure imported coal; they might have option not to procure at all and be in the power shutdown mode?

J. Suresh Kumar: Only question is at what cost, what is the alternative for them? Alternative for them is buy power at Rs. 6.

Rakesh Vyas: Not to buy at all, which is what UP is doing currently.

J. Suresh Kumar: The problem is it is not as easy as we speak. It is not as easy. You have to supply power to the industry, you cannot tell them, no, I will not give you power. It does not work that way. I wish it was so easy. It is not so easy. We cannot deprive industry of its requirement of power. Simple thing they are the ones who are actually like giving cash flow to the SCBs. And if you don't supply power to them on a consistent basis, why do you think there will be a customer who is with you forever. They would not be your long-term customer. You have to take care of long-term customers who are paying you. Otherwise, the entire structure of the SCB will be at risk, if you just push away customers who are actually paying. It does not work that way in real life.

Rakesh Vyas: Suresh, the concern which I have is primarily because the situation which currently exist in UP is severe short of power, as you rightly mentioned. So the last quarter, NTPC highlighted that UP asked them to back down because the marginal cost was Rs 2.6. Roza, they are not allowing to use imported coal which basically means that there is some reluctant by….

J. Suresh Kumar: Back down not because of that, they were told to back down because they were getting UI at 25 Paisa, 30 paisa, 40 paisa. There was no need for them to buy power from NTPC at Rs 2.5 or from Roza at Rs 3. They were getting UI at 30 paisa, 40 paisa, so it does not make commercial sense it is a total commercial decision for them to tell everyone to back down. Why do you think Unit II of Amarkantak ran at 60% PLF? What was the UI rate in the quarter of December? At least in the month of December in Western region it was less than Rs. 2. So, why Western region would buy power at Rs 4 when they are getting relaxed at Rs. 2? It doesn't make any sense. So backing down is nothing to do with the cost of that genco, it has got to do with the commercials of what alternative power is there at what price.

Rakesh Vyas: Sure. My question, Suresh is, that fourth-quarter and first-quarter, which most probably going to be a high tariff quarter. You would still see high utilization level for Anpara in next year, but could there be issues in the second and third quarter when the UI as well as merchant market is soft and therefore there is issue on the availability?

J. Suresh Kumar: No, India has as a repeat fantastic monsoons, like what it happened in fiscal ‘11, I am sure your second and third quarter would be soft, you will come back the cycle and that is what will happen if you are in the merchant market. You have to see your realizations on a YoY basis rather on a QoQ basis. So you will probably see this phenomena happening, if, I would say, monsoon is a repeat of last year, last year meaning fiscal 11 monsoon repeat itself in fiscal ‘12, fiscal ‘13, fiscal ‘14. Whether it will happen or not, I do not know but going by whatever I have seen in the last 10 to 15 years, monsoon has not been as consistent as one would wanted to be, and given the way climate conditions are changing, it is a bit premature to predict what is going to happen during the monsoon season. My suggestion is rather than get into subjects where at least I am not competent, I can only give you all a reasonable feel that if you will assume realization of 4 to 4.5 on an average for the year, I think you will not be far away from the true position or the actual position, and I do not see merchant prices as the only contributor through SCB’s losses. There are other reasons why SCBs are making losses, it is not only because of merchant.

Rakesh Vyas: Okay, and on this fuel supply for Amarkantak, you mentioned 70/30 as the linkage and e-auction. Is this true for both units?

J. Suresh Kumar: Yeah, actually for both units, and in fact, December quarter, you actually see e-auction pricing actually coming down.

Rakesh Vyas: Okay and how are we seeing it now, sir?

J. Suresh Kumar: They still remain soft.

Rakesh Vyas: Okay, great. That's it, thank you.

Moderator: Thank you. Our next question is from the line of Vijay Bhupati from Spark Capital. Please go ahead.

Vijay Bhupati Hi, Suresh. My question more pertains to your recent acquisition. In fact, we will get more details as we went along. Now I just wanted to know have you broken on the debt component which we are taking in, and when is it within coal mine likely to get consolidated, and could you give a color on what kind of revenues or profits we could expect from that entity?

J. Suresh Kumar: I think we will complete the acquisition end of this month and I think from 1st of March in all likelihood, Griffin should be consolidated with Lanco Infratech. In terms of the way forward, the numbers and all, we are still in the process of finalizing the budgets in discussion with the management there. Give us some time. As we speak, there is an observer team that has got on board. As soon as we consummate the deal the entire management will integrate with the management over there. We just need to dive deep into some operating issues there and come back with the concrete plan on what are the expectations for the fiscal '12 in terms of numbers and all. So give us time until then. We are still in the process of integrating. It will take at least a month for us to integrate into the way things are happening, working over there or operating over there. My read is we will give more clarity in the month of April as to what is the plan for Griffin. In terms of debt equity, of course, we will be as prudent as we can, we will minimize as much as we can the course to debt in regard to this acquisition. Given that this is an operating asset would also give us some comfort in terms of operating cash flows are available for us to meet some of the obligations that we have taken at the acquisition entity level. So we will fine tune it, but certainly, we will be as prudent as we can on this matter.

Vijay Bhupati: Just one further question on the acquisition itself. I understand the requirement for the coal mine etc., but how exactly do you think you will be able to pull out a loss making entity which went into bankruptcy proceedings, what do you think will be the change that it will make it profitable?

J. Suresh Kumar: I think if you see the history of Griffin, large part of losses are in fact attributable for not taking decisions in a timely manner, particularly, on matters that involved CapEx or for that matter, matters that involved working capital investment. So I think we recognize that there are inefficiencies in the way the Griffin mine was operated, particularly, on the mining cost front. We do believe that with the minor investment in CapEx, you can bring about significant efficiencies in the cash cost of mining. I think our endeavor would be to put in that minimum operating CapEx, which will at least improve efficiencies on the operating parameters, and that of course will create a long-term value. So I think the bigger problem of the past was capital was not being allocated for improving operating efficiencies. We understand that as a true reason why the mine has performed the way it has performed over the last couple of years. So we are focusing on that and we are quite excited that we have some very realistic plans to improve efficiencies and the management over there is pretty much conscious that they will be able to bring about those efficiencies. I think, you will get more clarity in April, I would say.

Vijay Bhupati: Okay and just moving on to your EPC segment revenues, the elimination was upwards of about 1300 crores, and I assume that should entirely be from both Kondapalli and Amarkantak. Could I have the breakup between the two entities on this EPC revenue, which was eliminated?

J. Suresh Kumar: You can be in touch with Vibu, he will tell you that.

Vijay Bhupati: Okay, and just one more question, on your depreciation policy change, now, across the power projects which you have, is it consistent across the power projects you have or there is still an inconsistency in the depreciation policy overall?

J. Suresh Kumar: No, I think it is consistent across now. It will be SLM across.

Vijay Bhupati: Okay. Because when you made the changes it was only for the development projects, is it? Or only these three projects which you have reverted back to WDV?

J. Suresh Kumar: No, last March '10, we reverted WDV for Amarkantak I, II and Kondapalli II, whereas Kondapalli I and Aban were all on SLM. Amarkantak I, II and Kondapalli II opted for WDV, and the thought process then was all future projects to be on WDV. Now, we have reverted back to the earlier methodology of SLM for all projects.

Vijay Bhupati: Okay. And just my final question would be on the rates on the merchant power margin, and are you planning to enter into any long-term arrangements for say, 6 months or 1 year or how are the current contracts going through?

J. Suresh Kumar: No, I think most of the bilaterals are happening until June…

Vijay Bhupati: That is about 4-5 months horizon.

J. Suresh Kumar: Yeah, some bilaterals are more than that but most of the SCBs are looking at until June, and depending on the market prevailing around May, they would like to take a call on tying up further. Most of the contracts are until June.

Vijay Bhupati: Okay. Thanks. Just one last question from my side. There were some rumors that PSE might pick up a stake in Amarkantak, stuff like that, we were hearing, would you want to comment on that?

J. Suresh Kumar: See, honestly, I do not know where this news item has come. We are not aware of any intention on the part of **PSE** to convert its debt into equity. My read is I would rather not comment, since you drowse the topic, we are not saying that there is no option to convert, there is an option in the loan governance, but the question is at what price and market price would be a benchmark, then would they convert or not is a question. Historically, we have seen most of the commercial banks do not have this policy of converting debt into equity until and unless there is an event of default. But there is no such event of default that we have seen. And I would be quite surprised if commercial banks exercise this option, I mean why would they give up 13% interest-bearing loans, why would they convert that into equity which perhaps would not give them dividend as well? So I'm just looking at the logic for conversion rather than anything else. But we have not been called upon by any of the banks; none of them have given any formal intentions of converting debt into equity, so I don't know, what is the purpose behind this news item.

J. Suresh Kumar: Okay, thanks a lot

Shirish Rane: Can we have the last question please?

Moderator: Our last question is from the line of Shashi Kiranrao form Standard Chartered. Please go ahead.

Shashi Kiranrao: Suresh, I just wanted to ask what is status on the road project, has the CapEx that was scheduled for this project been invested in the project already?

J. Suresh Kumar: I think there is some more CapEx left in the second project. In the first project it is more or less over.

Shashi Kiranrao: Okay, and will they be commissioned at the same time or would you be commissioning them separately?

J. Suresh Kumar: There will be a lag of 1 or 2 months.

Shashi Kiranrao: Okay. And would you begin dwelling on those projects in the first quarter of next year, or would there be a gap lag between commissioning of the projects and then…?

J. Suresh Kumar: We will start collecting tolls from the first quarter of fiscal '12, but not for the entire quarter in one project.

Shashi Kiranrao: Okay, fair enough. Thanks a lot

Moderator: Thanks you. Ladies and gentlemen that was the last question. I would now like to hand the floor over to Mr. Shirish Rane for closing comments.

Shirish Rane: Thank you everybody for participating in the call and a special thank you to Suresh and team for joining the conference call. Thank you.

J. Suresh Kumar: Thank you. Thank you, everyone for joining in. Bye-bye.

Moderator: Thank you. On behalf of IDFC Securities Ltd. that concludes this conference call. Thank you for joining us and you may now disconnect your lines. Thank you.