



“Lanco Infratech Limited Earnings Conference Call”

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- Moderator** Ladies and gentlemen, good morning and welcome to the Lanco Infratech Q2 FY12 earnings conference call hosted by Kotak Securities Limited. As a reminder for the duration of this conference, all participant lines will be in the listen only mode. There will be an opportunity for you to ask questions at the end of today's presentation. If you should need assistance during the conference call, please signal an operator by pressing "*" and then "0" on your touchtone telephone. Please note that this conference is being recorded. At this time I would like to hand the conference over to Mr. Murtuza Arsiwalla from Kotak Securities Limited. Thank you and over to you, sir.
- Murtuza Arsiwalla** Good morning ladies and gentlemen. On behalf of Kotak Institutional Equities, I welcome you all to Lanco Infratech's Q2 FY12 earnings call. I will now hand over the floor to Mr. Suresh Kumar, CFO, Lanco Infratech for his opening remarks.
- Suresh Kumar** Good morning to everyone. Thank you Murtuza. We will start the call with an overview from my investor relations representatives, Saurav. And then I propose that we can have question and answers after that brief overview from Saurav. We will answer as many questions as we can on this call today. Thank you.
- Saurav** Good morning everybody. On behalf of Lanco I welcome you all to Q2 FY12 earnings call. I will just walk you through the results. The consolidated revenue before elimination grew by 29% on Y-O-Y basis from Rs. 25,803 million to 33,414 million primarily on account of increase in EPC revenue. During the quarter there was increase in elimination of inter-segment revenue by 170%. Consequently a margin drop in reported revenue, that is after elimination revenue. The EBITDA before elimination and before ForEx grew by 55% Y-O-Y up from 4677 million to 7230 million, that is margin of 21.5%. Reported loss stood at 2595 million primarily on account of ForEx losses and inter segment elimination. The profit after tax before ForEx elimination and exceptional income grew to 2530 million from Rs. 584 million in Q2 Fy11, that is a registering a growth of more than 400%. Company continued to report healthy growth in cash profits as well. Cash profits for the quarter grew by 96% from 2250 million to 4405 million. If we look at the segment performance, EPC revenues grew by 79% from 12,224 to 21,847 million. EBITDA from EPC stood at 4966 million that is margin of 23% which is quite healthy. ForEx loss of Rs. 739 million was charged in PL account.
- In power segment revenue was down from 26% from 13,420 million to 9947 million primarily due to lower power trading revenue. In power trading revenue there was down from 5804 million to 2500 million primarily on account of lower volumes and value. Power trading division traded 1546 million units. In the resources business revenue stood at 1380 million and EBITDA stood that negative 2188 million including a ForEx loss of Rs. 1676 million. In the property development business revenue stood at Rs. 175 million and EBITDA stood at negative 11 million.

On the other developments during the quarter the appeal filed by Lanco Power Project before Aptel, challenging the jurisdiction of HERC over PPA signed between Lanco and PTC has been dismissed and the case has been referred back to HERC for jurisdiction. One another development, we have synchronized unit two Anpara C in the month of September 2011. And Tanjore Power of Group Company won Golden Peacock Award for climate security. Now I will hand over to Mr. Suresh, our CFO for his comments.

Suresh Kumar

Thank you Saurav. Good morning again everyone. A couple of additions from my side to what Saurav has over viewed to you all. Clearly we are quite enthused with the performance of the business as a whole. Of course, we could have gained or done better in power excluding power trading, of course, but generally from an operation standpoint of view for the power business if you see it, clearly the numbers were driven down because of lower PLFs that we saw in Kondapalli-I because there was a maintenance shutdown in the month of September. Most part of September and I think 10 days of August as well as a result of which we saw drop in PLFs of Kondapalli as a whole but clearly if you see Unit 2 PLFs have been good. Similarly Amarkantak-I, our PLFs have been good, while Amarkantak-II PLFs have dragged down, obviously because there are some transmission, bottlenecks there in Amarkantak-II as we have been saying in the past. But clearly power could have done better but under the circumstances Kondapalli-I was anyway a maintenance shutdown so we could not do much about it. Since then the PLFs of Kondapalli-I and Kondapalli-II are doing well in this quarter and expected to well in the coming quarters as well. Amarkantak-II given the legal dispute that is going on between us and HERC, after the latest judgment of Aptel we are having discussions with all the concerned parties to see if we can settle this matter as soon as possible. Given the matter that it is going through the legal process there will be limitations on what could be an estimate of a timeline that we can give but clearly we are working hard towards a solution. Our intention has all along been to supply power to Haryana with an expectation that they will reimburse us tariff on the basis of CERC and not as per the PPA that we signed earlier. As you all may we collect the PPA has been terminated by us and now that the matter has been referred back to HERC for its jurisdiction on the matter, I guess there will be some arguments and discussions that will go on for the next couple of months. We do expect some clarity emerging over the next couple of quarters on this matter. But in the meantime we are continuing to supply power to Haryana. We are recovering tariff on the basis of the old PPA that we signed with PTC and PTC with Haryana. To that effect in this quarter of September we did not recognize the differential between the CERC revenue as well as the PPA revenue as we did in the June quarter and to that extent the numbers of power has been impacted. So generally while we could have done better in the power business it is on account of circumstances which were not in our control. But otherwise if you look at it from a cash profit generation on the year on year basis or on a quarter on quarter basis I think we are pretty much going in the direction where we should look at a substantial year on year growth in our cash profits which is what we have been regaining for quite a few quarters.

So I will stop here with one last point on Anpara T unit 2 synchronization. We synchronized the second unit on 30 September, this been we have been working on moving from oil firing to

coal firing. Over the weekend, that is on 12th, we achieved full load for Anpara unit 2 in the presence of the Chief Minister of Uttar Pradesh and now we will be preparing the plant and all the other ancillary facilities for achieving COD of both unit 1 and unit 2. Unit 1, for your information, the pre-heater got replaced. A pre-heater had got damaged in April got replaced in the early part of October. And now technically both the units have been installed and mechanically ready and we take each of the units, we prepare them for COD in this coming quarter. Going by the experience so far and the preparedness of the plant, a reasonable comfort at our end to achieve COD of Anpara Unit 1 and Unit 2 in this quarter ending December 2011. I will stop here and I will open the floor for questions and happy to answer as many of them in as much detail as I can. Thank you.

Moderator

Thank you so much Mr. Kumar. We will now begin with the question and answer session. We have the first question from the line of Atul Tiwari from Citigroup. Please go ahead.

Atul Tiwari

Sir I have a few questions. The first question is on this Aptel order. If I understand the judgment correctly what Aptel has said that HERC has power to decide on the PPA as well and the matter has been referred back to HERC only on the point of whether Chhattisgarh government can buy 35% power from you because apparently Chhattisgarh government was not heard before HERC. So in that scenario it does appear that the best case scenario now can be that only 35% of the power is sold to Chhattisgarh and remaining 55% you will have to sell to Haryana at low tariff, is that the right understanding?

Suresh Kumar

I will give you a backdrop of the HERC order which we appealed against to Aptel. The HERC order was on the basis that there is some existing PPA between Lanco and PTC and PTC and Haryana. That was the background in which the HERC order was passed. But before that, I think a week before the HERC order was passed after having heard all the parties we had already terminated the PPA between us and PTC. So now though it is not clear that what is going to be the position of HERC on this matter with regard to termination, clearly the fact that Aptel has referred the matter back to HERC for its consideration is only on the ground that Aptel has taken a view that HERC has jurisdiction. Now, it is only on the jurisdiction point that we had appealed to Aptel saying that HERC has no jurisdiction to pass an order against us. So it is only on the matter of jurisdiction that Aptel took a decision and has not decided on the merits or anything, it has pushed the matter back to HERC for consideration. Now when it takes into consideration the arrangement that we have with Chhattisgarh, legally speaking it also needs to take into consideration the fact that there is a PPA in existence or no and get into the merits of why the PPA has been terminated as well. I do not think they would be able to look at it only from a Chhattisgarh point of view in their order, they need to look at the new facts of the case as well which were not there at the point of time when the HERC order was passed. Of course, this is a legal situation which we are in today so I do not know nor would I want to guess how the courts would take a view on this. But we would obviously like to wait and see how our interactions happen on this matter. We need to say how Haryana ERC as well as Haryana Power look at the situation in the light of the order from Aptel. So there are a lot of possibility there so I do not want to confuse the situation but the facts of the case are that, at

the time HERC passed an order it was on the premise that PPA was not been terminated. Now the situation is different, PPA has since been terminated and there is this Aptel order requesting HERC to consider their implications for Chhattisgarh as well. So there are a lot of areas that need to be concluded before we get any finality on this. But we are engaging in constructive dialogue with all the stake holders concerned.

Atul Tiwari But my only point on which I wanted some kind of clarification was that now that it has been established HERC does have power to decide on this PPA and even if HERC takes a very constructive view and rules in your favor at best you can supply only 35% power to Chhattisgarh at higher tariff and the remaining 65% of the power you will have to supply at lower tariff.

Suresh Kumar As I suggested that is one possibility, there are other possibilities as well. I am not a legal expert, I am only guided by our legal council and what we understand is there are multiple possibilities in this matter.

Atul Tiwari My second question is on Udupi. When are we expecting to see the completion on the transmission line and any comments in that regard?

Suresh Kumar Clearly December it's not going to happen because the process is still on, construction work and our believe some clearances are yet to come in with regard to some stretches for which some final forest approvals have not yet come in place. While we are working towards the March quarter I still believe it is June quarter. We will stick to the June quarter timeline that we have been guiding in the last couple of months to a lot of people.

Atul Tiwari Finally, any color on Perdaman dispute? And when are we likely to see any kind of resolution, any sense on that, that is my last question.

Suresh Kumar The process has just begun and believe me the Australian court process is not short, it is long, just as it is in India. I do not see anything concrete coming out until maybe June 2012.

Moderator Thank you so much. Our next question is from the line of Harshad Shukla from Emkay Global. Please go ahead.

Amit My first question is that the difference between the CERC tariff and PPA tariff which you were recognizing Quarter 1, has that been reversed?

Suresh Kumar Quarter 1 is just about some 5 to 6 crores in June quarter. In the September quarter it was I remember from number of 50 or 55 crores. And we reversed almost 55 crores in this quarter. In absolute sense we raised from that but we did not account for that revenue till there is some clarity on the legal situation.

- Amit** If I remember correctly, April order in case of Amarkantak-I was that CERC did not have any jurisdiction over PPA between PTC and Lanco and similar is in the case of Haryana. How do you read these two orders? Are these two orders contradictory as per your view?
- Suresh Kumar** Honestly I do not the debate legality on this matter because there are a lot of arguments that we have on this matter which still justify our position. We still deserve a right on responding to the Aptel order and we still reserve the right to fight it out at a higher authority. So I think if you see not just Amarkantak-I, but if you see the other orders that have been passed by other tribunal judges as well, this order seems to be contrary to orders in the past. So we need to evaluate on a case to case basis because it is not necessary that the Amarkantak-I case fits to the 't' 22.55 or the case of Amarkantak-II or whether Amarkantak-II fits to the 't' with some other case, order that was passed in some other matter. So there are a lot of areas that one needs to connect before evaluating the position. It is a legal matter; there are multiple possibilities that could emerge because of this order as we are evaluating all of them from a legal standpoint view at the same time we are having a constructive dialogue to see if we can resolve on a mutually agreeable basis as we have been thinking in the past.
- Amit** Lastly my question is on Amarkantak coal supplies. You said that in June quarter in case of Amarkantak-II the difference was only 5 to 6 crores which is now 50 to 60 crores. So is that the coal cost has gone up significantly or are we using different mix?
- Suresh Kumar** If you see in the June quarter we had after selling power to Haryana in a very small quantity, in the sense that they were not ready to evacuate much of power in the June quarter. That is why the billing was, in quantitative terms, much less. Since then both Chhattisgarh and Haryana have been evacuating good amount of power out of what we are generating. So that would translate into a higher number this quarter of September. It is not the coal in my view because if you look at our coal mix it is largely 70% linkage coal and 40% re-auction coal between Amarkantak-I and 2. And I think Amarkantak-II re-auction coal is slightly higher because we did not get enough of coal linkage.. . So it should be I think 50:50 in the case of Amarkantak-II. But certainly the variable cost of Amarkantak-II is higher related to Amarkantak-I because at midst of linkage re-auction is different.
- Amit** So every supply for Amarkantak is 70:30 for 1 and 2 combined?
- Suresh Kumar** For linkage?
- Amit** Yes, linkage.
- Suresh Kumar** No, I think Amarkantak-I will be higher linkage, Amarkantak-II will be lower linkage.
- Amit** Average between the two, let us consider Amarkantak-II as 50:50.

- Suresh Kumar** It does not matter. It is not relevant because unit 1 is a separate unit from a profit and loss point of view and unit 2 is a separate unit.
- Amit** Where I am coming from I just wanted to check that in Amarkantak-I how much linkage coal we are getting supplies from Coal India?
- Suresh Kumar** Amarkantak-I we are almost getting 68% PLF based on linkage point.
- Amit** So combined both put together would be about 60:60 or so. Okay. And lastly sir, what are the merchant rates contracts which you have signed going forward for Amarkantak-I and Kondapalli-II.
- Suresh Kumar** Kondapalli and Amarkantak-I are about Rs. 4.
- Amit** This is for what period?
- Suresh Kumar** Amarkantak-I is up to June 2012 and Kondapalli I think Tamil Nadu we won a case on bid in Tamil Nadu which think it is a five year supply.
- Amit** For Kondapally 2?
- Suresh Kumar** Kondapally 2.
- Amit** And that is at for what rate.
- Suresh Kumar** We are also supplied to AP from Kondapalli-II which is close to about Rs. 4 something.
- Amit** The price that we have bid from Tamil Nadu for how much megawatt?
- Suresh Kumar** I think we have submitted a tender, the results are not yet out. But that is supposed to be a tender for supplying for five years.
- Amit** How many megawatts?
- Suresh Kumar** About 300 megawatts. I do not remember but I think 300 megawatts.
- Amit** Thank you very much and all the best.
- Moderator** Thank you so much. Our next question is from the line of Anirudh Gangahar from Nomura. Please go ahead.
- Anirudh Gangahar** Two queries please, one is on the notional loss of 2.8 billion. How much of that pertains to debt which is repayable over the next six months, that is by March 2012? The second thing is

could you just shed some more light on the production and the normalized profitability of Griffin during the quarter, thank you.

Suresh Kumar

Answer to your first point is virtually none in the sense that most of our Forex liability is going to crystallize over the next 3 to 4 years. If you see the break-up of the notional loss that we recognized in this quarter, almost 200 crores is from Griffin, which is mainly on account of swapping from Australian Dollar to US Dollar in the books of Griffin. Just for your information the Griffin books are in Australian Dollar terms, while we have taken US Dollar loan, in Griffin books it will be seen as an Australian Dollar liability. And when you swap from Australian to US, there translation gains are losses, that need to be recognized in the P&L account. So Griffin has taken a substantial chunk of that 280 crores of Forex MTM that we recognized. That loss since has been converted into a profit given the way Australian has moved appreciated versus the US Dollar again. So it is clearly notional and to give a straight answer all the liabilities for which we booked our losses our liabilities that will get crystallized over the next 3 to 4 years. So we are not as much perturbed with short term movements of the currency because almost the entire liabilities of ours are in a longer tenure rather than in the short term. So that is the first question. And the answer to your second question on what is the normalized profit number of Griffin, we need to see and appreciate that September quarter of Griffin was had a loss of production because of the weather pattern, it was raining and not much of production was possible and to that extent quarter numbers of September would be impacted as it would be impacted in September 2012 also as it impacted in September 2010 itself because of the weather related issues. And September quarter would normally be a quarter when you will hardly see any production. So that is the backdrop of the September quarter. On a normalized basis I still do believe that given the current revenue cost structure of Griffin within the operations, for a 12 month operation we will see marginally EBITDA positive kind of numbers but certainly we will see some \$20 million to \$30 million negative numbers at the PAT level. This is, of course, subject to changes because as you all may be aware we are having some discussions with the Blue Water power company to see if we can increase our commercials for the coal supply to Blue Water. We are quite hopeful that we would be able to get an increase in our realizations per ton basis, coal that we sell to Blue Water. We are definitely having quite a constructive dialogue with all the stakeholders concerns who was interested in some way with the Blue Water situation and we will get some clarity I guess in the next month to two months on where we stand on those commercial negotiations. Having said that we are having a very positive dialogue with all the stakeholders. If that commercial arrangement comes through then I think to that extent our EBITDAs would improve.

Anirudh Gangahar

Just one follow-up question on that, could you tell us what are we expecting in terms of the total production this year and what was the production in the September quarter since it was seasonally the weakest?

- Suresh Kumar** I do not think there was any great production in September quarter. It must be like 0.5 million tons in that quarter. But I think we will recover most of it in the coming quarters. But on a year basis you should assume it should be around 4 to 4.2 million tons production.
- Anirudh Gangahar** Thank you very much.
- Moderator** Thank you. Our next question is from the line of Abhishek Anand from JM Financial. Please go ahead.
- Shubhudeep** Good morning, this is Shubhudeep here. My first question is with regard to Udupi 1. As I understand that we are still selling power over there on a provisional tariff. So just wanted to understand what is the under recovery there for the current quarter and by when do we expect the final tariff to come in?
- Suresh Kumar** See, if you look at the position of Udupi, clearly the Karnataka government has notified in various notifications that they will pay us for the cumulative recoveries. As soon as CERC, Central Electricity Regulatory Commission, approves the project cost of Udupi unit 1 and unit 2, there is no doubt about whether Karnataka will pay or not because they have contractually at least clearly through government orders they have clearly ordinance that they will pay for it. Only the timing of the payment is soon after CERC approves the project cost. Now we are in the process of submitting our application to CERC with a updated cost of the project and, of course, CERC would take into consideration all the costs and confirm the project cost overall to enable Karnataka to pay the tariff as per CERC as well as pay the accumulated tariffs. In the meantime since the government had only agreed to pay an interim tariff of 'x', we are recognizing the differential to the extent it is recoverable in future, in the sense that it is only a formality of CERC approved project cost which will determine the actual tariff. We are recognizing revenue as per CERC and to that extent the delta is accumulating in our receivables and as we speak today the receivables that are pending on account of project cost not yet been approved, it is about 250 crores, this is a accumulated till date, since the COD of unit 1. And we believe that over the next six months once we get our CERC project cost approved this accumulated receivables up to September plus what is going to happen in December and March, all those accumulated receivables would be recovered sooner than later.
- Shubhudeep** Just a follow-up question, my query was that if we are recognizing revenues as per CERC tariffs then why are we looking at losses for the Udupi plant?
- Suresh Kumar** There will be some reasons, they will be in the month of August. August my PLFs were down because virtually August was a shut down. I had taken my maintenance shut down in August. So that is why my September quarter looked weak on an optical basis. We will, of course, recover it over a year or so, but also to be honest the PLFs of unit 1 has not peaked at 85% as yet. We are still in that 60-65% range of PLF. So obviously I will not be able to recover my entire fixed cost of unit 1 if I am earning at a 60-65% PLF. It would, of course, take some time for us to stabilize and we are also hampered by unit 2 not being able to generate power because

of the transmission bottleneck that we have there. You just need to be in the mind set of some operating challenges that we have there. That in a way explains the loss. My heat rate is pretty high with such low PLFs. So it would definitely impact us to that extent.

Shubhudeep Effectively what would be the coal cost per unit that you might be looking at or coal cost in general that we are looking at for this particular plant?

Suresh Kumar We are importing coal and landed cost is about \$130 a ton.

Shubhudeep Just one more question that was with regard to Anpara. Would we have to again wait for a tariff order for the regulator here?

Suresh Kumar It has all been approved. It was a case to bid, right?

Shubhudeep Exactly.

Suresh Kumar The only thing now is we are readying the plant for continuous loading as well as getting it ready for scheduling. So once we are able to prove that it can run on a continuous basis for days and days, then we will announce the COD for Anpara unit 1 and 2.

Shubhudeep As of now there have been not issues on the coal supply because I believe the responsibility was on Coal India to supply you the coal.

Suresh Kumar Yeah. For us fuel cost is a pass through, as long as we show availability of the plant and have enough stock of coal to demonstrate availability, I think we should be fine.

Shubhudeep The last question from my side would be, on a consolidated basis what would be the interest bearing debt as of now?

Suresh Kumar Between capitalization and P&L account?

Shubhudeep I think it should be around 1500. Sourav will pass it on to you.

Suresh Kumar Surely, not a problem. Thank you so much.

Moderator Thank you. Our next question is from the line of Deepak Agarwal from Merrill Lynch. Please go ahead.

Deepak Agarwal Just wanted to continue from the previous query on this Udipi. Now I understand since you are accumulating this as receivables but if this still recoverable despite the PLFs being so low or the heat rate being so high above the CERC norms because they will definitely compared it with the CERC normative parameters to ensure that you get a higher tariff recovery because of the accumulated losses?

- Suresh Kumar** Whatever I am selling to Karnataka, I should get my CERC tariff. They may not give me my heat rate losses or anything but at least whatever I am selling I should get my variable cost as fixed cost.
- Deepak Agarwal** Yeah, that should get but that extent out of 250 crores losses some losses could be attributed to a lower PLF versus what is actually there in the PPA.
- Suresh Kumar** See, what we are saying is, the previous question was what is the receivable on account of the fact that CERC has not yet approved the project cost. So receivable is whatever I am selling to Karnataka needs to be paid as per CERC, forget about heat rate and all, that is the separate adjustment. At least my variable cost should come in my cost and what I sold to them has to come, based on the normative heat rate of CERC. So whether my actual heat rate is instead of say, 2400 if it is 2600, maybe I will not be reimbursed for that extra heat rate that I have had on my plant. But at least as per CERC I should get my normative heat rate in the tariff.
- Deepak Agarwal** Secondly, on the ENC side there is a significant reduction in order book for solar. So how is the progress on the solar business happening, both on the utility side as well as on the EPC side?
- Suresh Kumar** Well, if you look at the split of the order book I think a good chunk of that order book is from solar thermal and there is a small chunk coming in from PVs. Now solar thermal work is not yet started because there were some issues around land and all that but the real execution of the order book is happening on the PV side of the order book. So we ourselves are today about 20 megawatts of operating assets predominant only in the form of PV so we have 20 megawatts running.
- Deepak Agarwal** This is for the Gujarat where you are installing 35 megawatts?
- Suresh Kumar** Correct. So out of the 35 megawatts 20 megawatts is now operational as we speak today and that is reduced order book quarter-on-quarter basis for solar specifically whereas the real chunk of that order executive is going to happen once the solar thermal project start their construction activity not only for Lanco but couple of external clients that we have in that order book.
- Deepak Agarwal** How is the Mahagenco order progressing because they are due for 4th Quarter delivery on the solar thing?
- Suresh Kumar** It is March 2013, not 2012.
- Deepak Agarwal** For the Maharashtra 75 megawatt order?
- Suresh Kumar** That's PV, that is not solar thermal.
- Deepak Agarwal** Yeah that's PV, yes.

- Suresh Kumar** We have some issues on land, I believe. Suddenly the government has taken a view that they would like to change the location of that project so we are still awaiting the instructions from Maharashtra government on the site. So that process is on from Maharashtra side. Our responsibility begins from the time we are given possession of the land. It is a pure EPC contract for us.
- Deepak Agarwal** So basically it will move from FY12 to FY13 then in that case in terms of execution?
- Suresh Kumar** Possible, but you know if you give a land today technically speaking, I can deliver something in the next four months, may not be the entire quantity of capacity, I can deliver something.
- Deepak Agarwal** Secondly, what is the status on the financial close for this 100 megawatt solar thermal plant and when is it expected to commission? Because earlier timelines was that about end FY13, now that there a land issues so is there any delay in the timelines also?
- Suresh Kumar** We are not responsible in a big way for that because so many are there issues that we have, it's on land related matters. But from a financial closure point of view all the projects has been financially closed. It is only that we need to go through the process of the land acquisition which is taking long. I think we should have a solution around the land front soon, then we can start work.
- Deepak Agarwal** Likely COD would be around? How much time will it take to construct because solar thermal of fairly large capacities.....
- Suresh Kumar** It will take you about two years. So maybe around September. 18 months is what they say normally but say September 2013. But we have started much work, we have gone only some minimum amounts from our vendors. The expenditure is not a begun. Some expenditure has begun which is still a small component related to the overall.
- Deepak Agarwal** Last thing on the parent company numbers. Why there is a substantial jump in the ForEx debt on the parent company?
- Suresh Kumar** Actually parent company there is much of ForEx debt. It is only the buyers credit portfolio that we have which I remember is about \$100 million to \$110 million of buyers credit that we are sitting but a major chunk of your ForEx is sitting in Griffin as well as in the project companies.
- Deepak Agarwal** No, actually I was referring in the Annual Report, it is mentioned that that ForEx debt has increased from less than 10 crores to close to 500 crores for the parent company.
- Suresh Kumar** That is what I said, we are sitting on \$100 million of buyers credit in Lanco Infratech parent for the EPC business.
- Deepak Agarwal** Buyers credit is part of the secured loans.

- Suresh Kumar** In Lanco Infratech it will be part of unsecured, if I remember right.
- Deepak Agarwal** Actually that is what, in the accounts it is mentioned is a part of secured loans.
- Suresh Kumar** Because these are all L/C backed buyers credits.
- Deepak Agarwal** Thanks, that is it from my side.
- Moderator** Thank you. Our next question from the line of Abhishek Puri from Deutsche Bank. Please go ahead.
- Abhishek Puri** Two questions from my side, one regarding this Amarkantak coal supplies. How have we seen the coal supplies for the first unit? Are they still incrementally coming or government is willing to cut as per their announcements which have been coming that for the merchant plants coal supplies will be cut?
- Suresh Kumar** I thought this was a long settled matter, I do not think they have taken as such view for Amarkantak-I. So we are continuing to get our coal and if I remember right it is almost 70:30 mix between linkage coal and e-auction coal for Amarkantak-I.
- Abhishek Puri** As regards Amarkantak-II you said the costing is a little bit higher. What will be the ratio that will be there at this point in time?
- Suresh Kumar** If I remember right it is 50% of linkage coal and 50% e-auction coal plus my PLFs are anyway low because of transmission bottlenecks there. But on an 85% basis as of today it should be 50% linkage and 50% e-auction. If we have a situation where we have a PPA with Haryana and a PPA with Chhattisgarh for the entire capacity split in the ratio of 65:35, and we are able to resolve this issue of tariff with Haryana, then I think the linkage proportion will increase similar to Amarkantak-I.
- Abhishek Puri** These transmission bottlenecks as you have mentioned this is only for evacuation to Haryana or project is in Chhattisgarh, so evacuation to Chhattisgarh should not be an issue?
- Suresh Kumar** The issue is you need to create an independent evacuation infrastructure for evacuating the power for this project. That responsibility is of PTC as per the PPA.
- Abhishek Puri** PTC?
- Suresh Kumar** PTC is responsible for evacuating, for building the evacuation infrastructure. PTC meaning, PTC is contractually responsible to ensure that infrastructure is available whether it's done with Power Grid or XYZ that is the call of PTC. But the responsibility of evacuation is that of PTC.
- Abhishek Puri** Have they not booked enough open access infrastructure?

- Suresh Kumar** But they are not booking the corridor, first they need to build the corridor in the first place. So that corridor is not yet ready.
- Abhishek Puri** Is it this independent line up to Haryana or you are talking about independent line up to a basic corridor pooling station?
- Suresh Kumar** To the pooling station of Power Grid. So that is not yet in place.
- Abhishek Puri** So if the work has not started so we will continue to see a lower CLS in this plant for a longer term in that case?
- Suresh Kumar** Work has started but ending also has to happen. That is the reason why we terminated the PPA because of obligations not being met.
- Abhishek Puri** But now the PPA has been terminated with PTC, are they still going ahead with the transmission line construction?
- Suresh Kumar** What will you do if you already started spending you have no choice but to complete it.
- Abhishek Puri** If I understand it correctly PTC will not invest into infrastructure management so is there any efficiently who is building this path?
- Suresh Kumar** It is PTC who is doing it, it was basically Power Grid, given the contract to Power Grid to install it on Power Grid's books.
- Abhishek Puri** My next question just one clarification, the eliminated profits in this quarter has been 273 crores which is higher than the EBITDA which we have eliminated of 245 crores. What will be the reason for it?
- Suresh Kumar** But EBITDA will be higher in standalone?
- Abhishek Puri** The EBITDA is clear, I am saying PAT is higher.
- Suresh Kumar** I think it is better if you sit with Vibhu and Saurav, they will explain it.
- Abhishek Puri** I will talk to them. What happened to our power trading profitability in this quarter? It is down very sharply. Any specific reason?
- Suresh Kumar** I can explain that. The issue is they are receivables that are accumulating in most of the utility companies including that of Lanco. So power trading is not getting its recoveries from its main customers like PTC and I think Tamil Nadu as well who are the two main customers of Power Trading.
- Abhishek Puri** Tamil Nadu and which other state?

- Suresh Kumar** A little coming from PTC as well but largely Tamil Nadu and UP. So largely the bottom-line will be down because of interest cost on the power trading norm, for the working capital that it had to draw to pay its customers from whom they have bought power. This actually happened in the month of September, not in August or for that matter July. The thing started from September. Now the recoveries have begun, Tamil Nadu has started paying, UP has started paying. So hopefully the situation will get corrected over December quarter and March quarter once SEBs start clearing all the receivables out. Our trading norm is more on account of interest cost than anything else.
- Abhishek Puri** Why was PTC stopping payments? That is a little weird.
- Suresh Kumar** UP SEB owes significant amount of funds to PTC, just as Tamil Nadu owes a significant amount of funds to various utility companies in Tamil Nadu as well as Kondapalli. Lot of companies are actually sitting on receivables as of today and the bigger delays are coming from states like UP and Tamil Nadu. Karnataka and AP are reasonably okay but I think Tamil Nadu and UP are currently piling-on on their payables.
- Abhishek Puri** Like you said they have started repaying from the current month onwards?
- Suresh Kumar** In small-small tranches I am saying.
- Abhishek Puri** That maybe next two quarters you will get that sorted out.
- Suresh Kumar** Because some SEBs have started increasing tariffs so now they are getting short term funding from AFCs of the world or ECs of the world and banks as well because more or less in the month of July and August most of the banks had held back on their funding to SEBs and all. So unless they increase tariffs there was clearly an embargo on further financing. Since then they have made some moves to increase tariffs and improve operations and improve the cash generations in their SEBs. So there is some positive movement hopefully it will gather momentum and they will get their fundings from various lenders. My read is by December-March quarter you should see the normalization of the cycle.
- Abhishek Puri** Just last thing on this Australian carbon tax. How soon it will start hitting our numbers and what will be the Dollar per ton impact in your view?
- Suresh Kumar** My read is carbon taxes are also from July 2012, the implementation, but if you look at it from an overall coal cost per ton, it will be I think about 50 cents or something, we still also have an ability to pass on these costs to our ultimate customers.
- Abhishek Puri** That is not your existing contracts?
- Suresh Kumar** I am not seeing much of an impact, if at all that is an impact it would be about \$50 or something per ton of coal produced.

- Abhishek Puri** Thank you so much and all the very best.
- Moderator** Thank you. Our next question from the line of Pankaj Sharma from UBS Securities. Please go ahead.
- Pankaj Sharma** Good morning Suresh. Just one very small question. What was the cost of coal you bought at linkage and e-auction for Amarkantak units.
- Suresh Kumar** It's gone out actually e-auction costing. More or less reached the cost of imported cost on calorific value basis.
- Pankaj Sharma** Like Rs. 500 per ton or so?
- Suresh Kumar** Approximately, we are not seeing on a calorie basis. We are not seeing much of a difference between e-auction coal and imported coal per K cal basis.
- Pankaj Sharma** What was the price of linkage based coal?
- Suresh Kumar** It will be much lower, significantly lower.
- Pankaj Sharma** Thanks very much.
- Suresh Kumar** You can get those details if you want from Saurav.
- Moderator** Thank you so much. Our next question from the line of Darshan Dodia from ICICI Direct. Please go ahead.
- Darshan Dodia** One question is, what is your debtors days in the power business excluding the power trading issues which you have which you just mentioned recently. What were the debtors days in Q2 FY11?
- Suresh Kumar** Q1 was not that much receivables. Q2 I think between Kondapalli-II and Amarkantak-I, we were sitting on approximately 300 crores odd of receivables between Kondapalli-II and Amarkantak-I. In Udupi we will be sitting on a big chunk because it is a combination of various things. It is receivables which are due because the CERC project cost is not yet been approved. So to that extent there is approximately a 250 crores receivables sitting there which is accumulating and we will be paid as soon as the project cost is approved by CERC. So I do not say that is overdue. It is due. It is not overdue. We will be sitting on about 200 crores of accumulated receivables. Still Amarkantak-I for so we will be sitting at 500 crores of receivables.
- Darshan Dodia** If I look at on a Y-O-Y basis are you saying a significant jump in your receivables?

- Suresh Kumar** On a Y-O-Y I think it will normalize because the cycle is just getting back to normal from October onwards. It is a cycle which will more or less normalized by March, outer limit of June. We are seeing some of the SEBs has started increasing their tariffs by some large numbers almost 20-25% kind of levels easing tariff. They started paying, they are getting financing from banks and PFC and RACs of the world. So I think we should see the situation improving by the time we discuss Q3 of fiscal 2012 in January or February sometime.
- Darshan Dodia** Could you please explain the exceptional items of 49 crores which you had booked in this quarter which says that one of the subsidiaries has issued additional shares to other company. So what is that and which is the subsidiary?
- Suresh Kumar** It's pure accounting thing. When in the last quarter Vidarbha was a subsidiary. A few eliminated some profit of Vidarbha on the basis that it was a subsidiary until last quarter. In this quarter Vidarbha ceased to become a subsidiary, it became an associate. So from an accounting stand point of view whatever you had eliminated earlier needs to be written-back. So it was nothing but that write-back entry. So the way you need to see it is, you need to see the overall elimination of 273 crores that we had, in that figure you net off 49, that is this exceptional item. So my net elimination from my inter-company profits will be some 220 crores odd. That is the way you need to read it. It is more of an accounting than anything else.
- Darshan Dodia** My last question is, since there is some media reports stating that the government is restricting its gas based supply to the merchant power plants. Do you have an arrangement of implying on RLNG if your off-takers agree to that in one of your power plants at Kondapalli?
- Suresh Kumar** It is possible but if we are getting supplies of RLNG then we will consider it provided we are able to recover that cost through merchant sales. I do not think on a standalone 100% LNG would work, in the current context because the cost of generation would be high and tariffs would be much higher than say, Rs. 4.50 per unit. I do not think it will be viable on 100% LNG-based plant. It can survive if it is a mix between LNG and domestic gas. But on a weighted average basis your variable cost is low. So it will work on a combination basis but not on standalone 100% basis.
- Darshan Dodia** What is the PLF which you had recorded in the month of October for Kondapalli-I and 2., if you can share those details?
- Suresh Kumar** I think it was somewhere around the 80% for October for the units.
- Darshan Dodia** For both of units. Okay fine, thank you sir.
- Moderator** Thank you. Our next question from the line of Harshad Shukla from Emkay Global. Please go ahead.

- Harshad Shukla** It is a follow-up question. You said that in case of Udupi the landed cost of coal is about \$130 per ton. Is that the supply is coming from PTA ADARO which was the earlier contract we had signed?
- Suresh Kumar** Its is not just ADARO it is also gone through GENCO.
- Harshad Shukla** Is it approved by the Karnataka Electricity Regulatory Commission. You have to get approved the coal cost or is it that you just pass through it?
- Suresh Kumar** They have approved the pass-through coal cost in various notifications and then the overall project cost needs to be approved by CERC to enable us to recover our entire cost, fixed cost and variable.
- Harshad Shukla** So basically whatever coal cost you are having is being passed through. There is no loss on the account?
- Suresh Kumar** From a building point of view we are recovering it. From a cash point of view it recover the difference between my actual CERC cost and the interim tariff that they had approved about a year back.
- Harshad Shukla** In case of power trading you said that there are some delays now, so are you working some late payment surcharge also because of that or no?
- Suresh Kumar** We will get late payment surcharge as a trading arm.
- Harshad Shukla** But you have not booked it as of now?
- Suresh Kumar** We have not booked it.
- Harshad Shukla** Lastly, sorry to get back on the same matter of PTC and Haryana. You said that you have actually communicated the PPA with PTC now on the ground that transmission line is not available and it was the responsibility of PTC. So as and when the order is out by Haryana Electricity Regulatory Commission, will the onus be on PTC to supply that power of it would be on Lanco, because now PTC is the party which has done PPA with Haryana Board and you have a valid reason that PTC was not able to supply you or construct the evacuation facility and, therefore, you have terminated the PPA. So how do you view this thing? Is the PTC a party in the eyes of Haryana Electricity Regulatory Commission or it is directly with Lanco?
- Suresh Kumar** In PTC and Haryana there is absolutely no issue because they are parties to that agreement in Haryana. The jurisdiction issue will not be there in that matter. So PTC and Haryana Power are responsible ultimately and come under the jurisdiction of Haryana ERC. There is no question of doubt over there. The doubt is whether Lanco which has an agreement with PTC. PTC in turn has an agreement with Haryana. Whether Lanco comes under the jurisdiction of Haryana or not, that is where the issue is.

- Harshad Shukla** Appellate tribunal has said that this PPA will come under....
- Suresh Kumar** That is the view so we need to look at it legally.
- Harshad Shukla** So whether there will be consideration of this fact that the location of facility was not ready and PTC was not having that ready, therefore, PPA can be terminated. Is that a contention also?
- Suresh Kumar** The fact is that we terminated. This is of various grounds including this ground. So we will see how it is seen by the courts.
- Harshad Shukla** Thank you.
- Murtuza Arsiwalla** Can we have the last question now please?
- Moderator** Sure, sir. We would have the last question from the line of Shankar K from Edelweiss. Please go ahead.
- Shankar K** Thanks Suresh, for taking my questions. Two directional ones. One basically on the company. Now you have reversed the subsidiary to an associate as far as Vidarbha is concerned, Baban is already an associate. Now that leaves only Amarkantak 3 and 4. Will that also be going forward converted into an associate.
- Suresh Kumar** No, it will not. You see the principle is different for Amarkantak. Amarkantak already has two operating assets and has a Brownfield expansion going in the form of Amarkantak 3 and 4. Clearly for associate, I will not be able to consolidate the operating resources 1 and 2. So where we have a project on, has only a under construction and has no operational units. We have with (**inaudible**) of in then associates until construction and thereafter taking a call that is what we have done in Anpara and other places.
- Shankar K** The second thing what you mentioned is there has been this embargo kind of stuff by RBI telling banks and largely on the industry saying that do not release any further loss funding related working capital because these guys are greeding and we need to cap it tight. And they notice there has been a knee-jerk reaction in terms of the increase in the tariff and parallelly they have already started delaying payments. So they are trying to restrict or optimize on their cash as much as possible delaying payment to debtors, delaying payment to creditors all of that. Now basically directionally RBI does not want to increase any further exposure in terms of quantum of money.
- Suresh Kumar** It is not the RBI, it is more of the lending institutions themselves.
- Shankar K** Where they are deployed of the RBI.
- Suresh Kumar** No, why deployed of the RBI, why will RBI come into it?

- Shankar K** RBI is saying let us cap it. Let us not have any further incremental loan.
- Suresh Kumar** It is the respective banks own commercial consideration which has caused all this and significant pressure from Ministry of Power and Ministry of Finance. RBI is nothing to do with this. It is more of ensuring that there is discipline in the system with regard to selling power on a subsidized basis and making sure that SEBs are responsible in financially managing their operations in a better way rather than borrowing and funding losses.
- Shankar K** Even if you believe that, what my large question was, as of fiscal 2010 itself you found most of these guys, the under recoveries as close as Rs. 1 per unit, I am talking about the big guys who are significantly contributing. And like you yourself mentioned that 20-25% hike is what these guys have taken. That will be roughly around Rs. 0.50 to Rs. 0.60 odd. Now this Rs. 1 gap is as way back in fiscal 2010 itself when the cost pressures were not there. With Rs. 0.50 hike when it's a significant 2x kind of a cost increase, this will be like a drop in the ocean types.
- Suresh Kumar** I appreciate but if you see at the ground level it is not that it is going to happen once in a year or once in two years, this increase. There is already talk of a second round of increase in Delhi, for example, only a talk. There was one increase in September, there is another increase that is being discussed around December and my read is you are going to see these actions actually gaining momentum. The Supreme Court is getting involved. They are pushing for some more fiscal discipline at the SEB level. So I think for me, the honest reader, it is a survival now for them. If they do not get their act together then the ones who are going to suffer are them on a relative basis.
- Shankar K** Broadly you think so this tariff hikes and with an every year tariff hikes something like this can get resolved?
- Suresh Kumar** It has to be that way only, otherwise it will be a very hard landing. If you want to increase tariffs in one shot and you are about a 60-70% increase in tariff, they won. That will be more of a very hard landing for a lot people so it will be done in a very calibrated manner I believe over the next two years or so with intervals of six months so that the shock is not immediate. It is just over a period of time. But clearly directionally speaking tariff are going to go out. SEB has recognized that they need to increase tariffs to sustain.
- Shankar K** Thanks a lot Suresh for that.
- Moderator** Thank you. As I see that there are no further questions I would now like to hand the call over to Mr. Suresh Kumar for closing comments. Please go ahead, sir.
- Suresh Kumar** Thank you everyone for participating on this call and patiently listening to our answers to all your questions. We do hope that we have clarified. If there are any clarifications that you need beyond what we have given, I would suggest that you speak to our investor relations people,



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Vibhu as well as Saurav and we will be very happy to address and clarify whatever are the questions. Enjoy, bye, take care.

Moderator

Thank you so much. On behalf of Kotak Securities Limited that concludes this conference. Thank you for joining us and you may now disconnect your lines. Thank you.