



“Lanco Infratech Limited”

January 28, 2010



**MODERATORS: MR. SURESH KUMAR-LANCO INFRATECH
MR. GAURAV PATHAK-ICICI SECURITIES**



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Moderator: Ladies and gentlemen good morning, good evening and welcome to the Lanco Infratech Q3 FY10 results conference call hosted by ICICI Securities Limited. All participant lines will be in the listen only mode and the conference is expected to last for duration of one hour. 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 phone. Please note that this conference is being recorded. At this time I would like to hand the conference over to Mr. Gaurav Pathak from ICICI Securities. Thank you and over to you Sir.

Gaurav Pathak: I welcome everyone to the third quarter conference call of Lanco Infratech. We have with us Mr. Suresh Kumar, CFO of Lanco, who would be assisted on the call by the Investor Relations team, Mr. Vibhu and Saurabh. Over to you Sir.

Suresh Kumar: Hi Gaurav, thank you. Welcome all of you for this investor conference call. This is the quarter result of Q3 FY 2010. We have sent you all a media release, which talks about the numbers, certain few developments that have happened across the group, largely in the power sector. I presume that you all have gone through it but what I would like to highlight is more than looking at the year-on-year performance of the various business, it is better to focus on a sequential basis how the business has moved vis-à-vis September 2009 to December 2009 and what are the underlying currents that are going on. But if you look at it on a QoQ basis, the construction segment has done well, while we achieved 1,470 Crores in the last quarter, this quarter we achieved 1,313 Crores largely a reflection of a fact that most of the projects that we are doing are in their advanced stage of completion and therefore a QoQ build up would not be as relevant as much as the build up of the margin is relevant, so therefore despite the fact that our topline has not grown sequentially we at least are enthused with the fact that our EBITDA margins have grown well on a sequential basis and that is what I would encourage the analysts' community and the investor community to appreciate. If you look at the power segment on a quarter-on-quarter basis we have again a negative trend for the simple reason that last quarter and also the corresponding quarter a year back comprised of a huge power trading revenue, which was not there in the quarter on December because substantially off takes have reduced in the trading market, UI of course was weak, bilaterals were weak and therefore the trading segment showed a negative trend in volumes as well as in topline but nevertheless I would say December quarter has been an aberration in the power trading market. We have seen volumes come back into the market most of January; the expectation is that the March quarter will reverse the trend. Power of course in the corresponding quarter last year had a substantial naphtha-based generation largely at Kondapalli and that pushed up topline, of course bottom lines were pretty steady, so that way this quarter we did not have any significant virtually nil naphtha-based generation and therefore topline were down, definitely not at the cost of bottom lines. So you need to look at power revenues in that context. Property as we have been telling over the last three to four quarters not much of positiveness in the business in the sense that market has not yet revived in



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Hyderabad specifically. More so in the last couple of months given the events that have taken place over there on account of the bifurcation related controversies, whatever little sales happened in November have virtually dried up, so therefore it is actually reflecting in the numbers of the property business. The way we are looking at our business today is to focus on the next growth level, next growth plans and if you look at the order book position today we are sitting on a 20,902 odd Crores order book comprising largely of three new projects that are in construction mode to start with, Amarkantak III & IV we have already started work on the project. We have given advances to our equipment suppliers, engineering, the designs are in advanced stage of completion, you will probably see ground breaking in the next couple of months once the designs are finalized. Land is available for Amarkantak III & IV and therefore there is nothing stopping start of work at that project site for Amarkantak III & IV expansion, similarly Kondapalli Phase III of 732 MW that is 366 MW x 2 for which we have received order for almost 2,100 Crores on the EPC side, work has already started. We have also added Mahanadi (Vidharbha) project in the order book that is our project in Vidharbha in Maharashtra where we are looking at a 1,320 megawatt initiative, a greenfield one, again advances to suppliers have already been made, engineering designs are underway. So, we are looking at the next level of growth. We are seeing a good amount of visibility in adding to our order book another 5,600 odd Crores of order book from the Orissa project, which is going to happen perhaps this quarter and you will see construction activity beginning in all these projects as early as April'10. We are focused on the next level of growth and clearly for us power is going to be a core focus area and if you see most of the initiatives that we are taking within the group it is largely focussed on power and the EPC segment of the group's business.

Moving on to some discussions on the bottom line numbers largely I would say on a QoQ basis, bottom line is more or less steady given the fact that there has been a higher provision on account of deferred tax liability in this quarter and which was not significant in September 2009 quarter. Adjusting for deferred tax, you can probably see bottom line more or less steady on a QoQ basis. Having said that generally what we like to say is construction as a business, you cannot actually look on a quarter-on-quarter basis, it is always important to see the numbers on a year-on-year basis, which is more relevant and I would say like we had a good quarter in June 2009, we had an equally good quarter in September 2009. We did see a good quarter in December in the form of margin expansions and therefore it is important for you all to look at what would be the numbers of the construction vertical at the end of the year rather than on a QoQ basis. So, if you look at the standalone numbers of Lanco Infratech, clearly for the nine months ending December 2009, we have made a profit after tax close to about 370 Crores, which on a comparative basis was somewhere around 150 a year back that was in December 2008. If you see the foundation of the construction business on a standalone basis there is substantial ramp up in topline, there is a substantial ramp up in bottom line and there is a very good trend movement in terms of the margins on the net margin basis. So we do not believe that an under performance this quarter is something to worry about, I would rather focus on what is the performance for the entire year of March 2010 and compare it to what was the entire performance of the construction business in



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March 2009. That is the way I would like to see the numbers on a QoQ basis. I did look at the power segment in some greater detail to understand why EBIT has fallen from 92 Crores last quarter to about 77 Crores this quarter, it is largely on account of the fact that ABAN Power, the PLF is down on a QoQ basis from approximately some 71 odd percent to about 66% in this quarter, largely on account of the fact that gas supply is short for ABAN plant despite the fact that there is a firm allocation from GAIL. We are of course fighting it out with the relevant authorities in GAIL to request them to like make sure that gas is available for this plant for the simple reason that this is perhaps the cheapest price at which TNEB buys power in the state of Tamilnadu and there is absolutely no reason to starve ABAN of its gas requirements. There are some pressures over there, pressures from other parties requesting for gas and it probably going to get sorted out very soon, so that is perhaps one reason why EBIT has fallen from 92 to 77 but I do not think it is a regular, it is one off situation this quarter because of gas shortages. We are hoping that situation will get rectified very soon. Having said that if you look at the operational data of the power business clearly we have seen a substantial jump in the number of units that we have generated in the power segment, from what I remember, it is almost like up 66% on a year-on-year basis, a large part of the contribution coming in from Amarkantak Unit 1, where we have for the period ended December 2009, if I remember right we have generated close to about 900 odd million units, which is quite a good thing, of course we have been selling in the UI market whatever we have generated in Amarkantak and all of you will be aware as to what kind of realizations one would expect if one sells in the UI market on an infirm basis and whatever we generated as a topline and surplus in Amarkantak we have utilized the same for repaying some of the loans that we had taken without delaying repayments and we have used the balance surplus as effectively as we could in keeping cost overruns under control, so that is how we have handled our situation in Amarkantak 1, clearly going forward if you look at the way Kondapalli has been operating for the last 45 days, I think the choice of technology has been absolutely on the dot, the GE machine is running extremely well. December month of course was more of a stabilization month and therefore you would not see so much of generation, 442 million units is what we generated for the month of December. There was a bit of backing down that we were seeing on a regular basis from the Southern Region Load Dispatch Centre, so there were lot of requests to back down and given the fact that UI prices were down in the night, we could not operate the plant on full load for most part of December. Whatever we could, we could generate about 440 odd million units. We were able to sell part of that generation to Rajasthan on a long-term basis. On a long-term basis I would say is more on long-term within the merchant market, so on a bilateral basis we could sell to Rajasthan at a reasonably good price and the rest we had to like pump in to the UI market, so on an average we could realize about 5 rupees 60 paise per unit, same is now improved in a sense that UI prices in the southern region have been good in the January month so far and of course our PPA with Rajasthan has been at a good price. The quarter looks good of Kondapalli Unit 2 on the merchant side of the business. Power trading was a weak quarter for the reason that all of you would probably be aware, there has been a substantial reduction in bilaterals in the short-term market during the months of November and December, October was reasonably good but there was volume wise reduction in December and



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that showed in the numbers of the power trading business in this quarter but I would say it is nothing alarming.

These are major initiatives we taken in power. We have decided to transfer all our power investments to an intermediate power holding company, which will be a wholly owned subsidiary of Lanco Infratech to begin with. We want to approach this reorganization with a view to add shareholder value and we do believe that there is merit in consolidating the power business, power investments under one power holdco for the simple reason that there is an opportunity to create or optimize shareholder value or maximize shareholder value here and of course the intention is that at some point of time to get the power hold co listed but no decision has been taken as to timing, amount, quantum etc., etc. It is like very, very early days I would say but on the face of it is very clear that an asset owner gets better valuation and therefore this reorganization should eventually over a period of time create more shareholder value and that is the way we are approaching this reorganization and we are of course seeking the shareholders nod for transfer of all the investments that Lanco Infratech has in various power SPV into the only one sub co and the details will be there in that resolution, which we will take approval of the shareholders. I will actually stop over here and will be very happy to take questions from all of you.

Moderator: Thank you sir. Ladies and gentlemen, we will now begin with the question and answer session. The first question is from the line of Pankaj Sharma from UBS. Please go ahead.

Pankaj Sharma: Hi good morning Suresh. Suresh just two questions, one is that there is a discussion that a significant capacity of NTPC could become Merchant, close to about 1,000 megawatt or so and there are lots of capacities, which are being panned by other companies as well. Do you think that this could impact the market in general and there could be a significant decline in merchant prices?

Suresh Kumar: Look, one thing I am not clear on how much of merchant capacity NTPC is going to push into the market. From what I understand it is more prospective than retrospective whatever is being planned, somehow my read is despite the fact that the 1000 megawatts of NTPC would come into the market maybe today or tomorrow despite the fact, at least my read of the situation is it is going to be the merchant will be strong at least until 2012-2013 after which you are going to see capacity building up or the capacity that is being proposed as merchant coming into the merchant market around 2013-2014. I would say until 2012, until 2013 it should be good despite the fact that NTPC will come with this 1000 megawatt into the merchant market.

Pankaj Sharma: Another question would be in terms of your segmental contribution, of course power business has been growing rapidly and there are capacity additions, still in terms of profitability if you look at it is largely dependent on the construction business, by when would you see a significant



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contribution from power side that could be in a say 30-40% or at least 50%, by when you see that?

Suresh Kumar:

So clearly, I am seeing in FY 2011, starting from actually this quarter you would see reasonably good contribution from the power business. From March 2010 quarter surely because Kondapalli is 233 megawatts will be running on full load basis and given the environment in the merchant market you should see a good amount of visibility in this quarter itself. So therefore, my read is March 2011 will be a good year for power and going forward. You will see that equilibrium in terms of equal contributions between construction and power happening from fiscal 11. I do not see reason to believe otherwise.

Pankaj Sharma:

Right, so basically it means that whatever capacity you are adding in this year they would be operating at a very good PLF in the next year and that would help the power business contribution. Thanks Suresh.

Moderator:

Thank you Mr. Sharma. The next question is from the line of Rohan Juneja from Frontpoint Partners. Please go ahead.

Rohan Juneja:

Hi Suresh, can you just give us some clarity, I know obviously this has been spoken about in the past, it is just on Amarkantak and what is going on with the litigation issue there?

Suresh Kumar:

Well Rohan, the mediator has submitted his report, there is clearly an approach that the mediator has taken in trying to resolve between all the parties concerned. To a large extent, there has been a bit of inclination from both Lanco and PTC to push through a settlement, unfortunately MPPTC has been holding back on a mediated settlement, despite various proposals that have come from Lanco as well as PTC, despite various meetings the mediator could not arrive at a mediated settlement and submitted a report accordingly to the supreme court. The matter is coming up for hearing on February 1, which is this coming Monday. I would not know like how Supreme Court would react to the report that the mediator has submitted but you know I think we have tried everything possible to push through a settlement to the extent what we could offer. It is unfortunate that MPPTC has not yet agreed to the various proposals that either Lanco or PTC has given. So my feeling is lets wait until Monday, let us understand what Supreme Court has to say on the matter and then we should get some clarity, I would rather say it is absolutely subjudice for us to talk about the nitty-grittys' here, but I think it is important for you all to be aware that we have made various proposals just as PTC has made various proposals to settle the matter but there have been some contentious issues that MPPTC could not resolve and therefore there is a bit of stalemate but we will get clarity once the matter is discussed at the Supreme Court level.

Rohan Juneja:

Obviously we will know better on Monday but can you just give us some clarity on cash flows from that project if possible?



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Suresh Kumar: You may have to infer it for the simple reason that we cannot disclose those numbers for the moment but you should note the fact that we have generated close to 483 million units this quarter and typically UI has been an average this quarter at around 3.5 to 4 rupees per unit, so you should assume that 400 million units has generated to the topline or revenue to the tune of four times that. If you go by that inference I cannot give you details but certainly you are clever enough to figure out.

Rohan Juneja: Fair enough thank you.

Moderator: Thank you Mr. Juneja. The next question is from the line of Atul Tiwari from Citigroup. Please go ahead.

Atul Tiwari: Hello Sir, thanks for the opportunity to ask the question. There were a couple of questions, these three new orders that you have taken Amarkantak, Kondapalli and Mahanadi any indications regarding the timeline of execution as to how many years it will take to execute this and what will be those years where peak execution will be achieved?

Suresh Kumar: If you look at Kondapalli we already started work on the project on December 1st, so you go by a cycle of two years for a gas fired power plant, I would say not later than March 12 or for that matter December 11 for both the units of Kondapalli and typically gas fired plant takes about 24-25 months at the max. If you look at Amarkantak III & IV typically in a supercritical power plant given the fact that it will be the first supercritical power plant for us in the group it is in cycle of about 3.5 year, so it is about 40 months I would say, 42-44 months kind of execution periods of supercritical plants, assuming that ground breaking for Amarkantak III & IV as well as Mahanadi happens in April 10, you take about 42 months from there for executing these projects of both Mahanadi as well as Amarkantak III& IV.

Atul Tiwari: Okay Sir, the second question is on the margin, the strong margin that we are seeing in the construction business to what extent you would attribute these margins to the fact that the project, which are currently ramped up already are coming to an end and hence the margin booking is strong, going head as the new projects pick up and the older projects are completed would we see the margins coming off a bit?

Suresh Kumar: No I would say, I would say like you can maintain these kind of margins going forward. If you look at Lanco's history 2008, 2009, 2010 margins have moved way from our 19- 20% EBITDA margin to as low as 15%, against 20% norm, so I think on a historical basis we have been used to be a 20% EBITDA margin company and I would say like it should stabilize around those levels. Of course 2009 has been an aberration and if it happens again, then there will be a hit on the margins.



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- Atul Tiwari:** Okay Sir, so obviously the current strong margins are not linked to the completion of projects. Will that be a fair statement to make, it is a SPV kind of affair?
- Suresh Kumar:** I would say so.
- Atul Tiwari:** These orders, are they at the fixed price from the SPVs or is there a price variation clause?
- Suresh Kumar:** Construction as a business, you cannot plan for everything. You will see some surprises in construction, so obviously there could be some scope changes, which would trigger a claim on the developer. Contractually it is fixed for some scope changes, which are billable actually to the client.
- Atul Tiwari:** Sir, but apart from the scope changes, if there is a sharp variation in the price of steel and cement etc., is there a provision for pass through of cost say beyond a particular limit.
- Suresh Kumar:** Just look at it like this. We talk like this because the contractor happens to be my related party. Look at it slightly differently, had I given the contract to a third party, the third party is not able to construct the project at a profit, he is facing severe cost pressures, what will he do if I do not agree to his request for cost push on, he is going to stop the project if I do not give it to him, so who suffers in the process, it is not the contractor, it is more like the developer who actually sees the delay in project execution because my interest during construction is much more than what I would like to pay the contractor for a little bit of cost push, so it is a business call we take and move on in life.
- Atul Tiwari:** Okay sir. Thanks a lot for answering my questions.
- Moderator:** Thank you Mr. Tiwari. The next question is from the line of Ankush Mahajan from KC Securities. Please go ahead.
- Ankush Mahajan:** Can you provide the gas prices for the Kondapalli II. At what price are you getting from Reliance?
- Suresh Kumar:** \$4.20 at the wellhead plus the transmission and the marketing margin, which works out to about \$5.20 per MMBTU.
- Ankush Mahajan:** Thank you Sir.
- Moderator:** Thank you Mr. Mahajan. The next question is from the line of Manish Saraogi from DSP Merrill Lynch. Please go ahead.
- Manish Saraogi:** Hi, I had this one question on Kondapalli. If you can throw some light on your Kondapalli-I performance because there seems to be a quarter-on-quarter decline in sales and profits as well?



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- Suresh Kumar:** Not in Kondapalli, maybe in ABAN, more in ABAN.
- Manish Saraogi:** Okay, because if I just compare your.....
- Suresh Kumar:** Don't look at it like that. Manish, talk to Saurabh. Saurabh will get back to you Manish.
- Manish Saraogi:** No problems. Thanks.
- Moderator:** Thank you Mr. Saraogi. The next question is from the line of Shankar K. from Edelweiss Capital
- Suresh Kumar:** Manish, the PLF was down this quarter because of backing down, I mean AP Government was getting in the night at Re.1 and Rs.1.50, so they told us to back down heavily in Kondapalli Unit I, so the PLF was down in this quarter compared to September 2009. September was 91% and this time it is 83-84%.
- Manish Saraogi:** Okay, perfect. Thanks a lot.
- K. Shankar:** Just wanted to get some insight on your pipeline projects and especially how do you see fiscal 2011 and fiscal 2012 in terms of commission broadly?
- Suresh Kumar:** Fiscal 2011, we should be at 4000 megawatt operating capacity, fiscal 2012, we will be steady at 4000 odd, fiscal 2013 will be at 4800, early part of fiscal 2013, that is April 2013, you will see us at 4800 odd megawatts and after that given the fact that Amarkantak III and IV, Kondapalli and Mahanadi and Babandh, we will start work from April 2010 onwards, you will see by about fiscal 2014 almost 4000 odd megawatts of Amarkantak, Babandh and Maharashtra coming through by FY 2014, so that is how it is going to shape-up, you will probably see us at around 10,000 odd megawatts by FY 2014 given the current execution schedule that we have in mind.
- K. Shankar:** Because Babandh and Amarkantak III & IV and now Kondapalli, they are yet to get financially closed. When do you think because you had guided that by H2 this fiscal it should have got done?
- Suresh Kumar:** See, Babandh, we already got sanctions from ICICI Bank, the balance syndication is happening are going to the respective boards or first fortnight of February, then you will see by February end, you will see financial closures, at least sanctions in place for Babandh project, similarly Amarkantak is going to the PFC Board this month after which it will go to the respective banks and you will see that happening by March 2010. Kondapalli has got its sanctions from Axis Bank and it is a brown field expansion, so existing vendors will be happy to lend further to the project, so that way, there is so much of cash flow that Kondapalli is sitting on it can afford to delay its financial closure as well, so I think there is a lot of flexibility in the system for us to at least take a call that you do not have to wait for financial closure.



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- K. Shankar:** My objective was to ask from the other necessary clearances, because nowadays lot of.....
- Suresh Kumar:** If you look at Amarkantak III & IV, we have everything in place. Environmental in place, we have land in place, we have water in place, we have the EPC contract in place, we have the orders in place, we have linkage for 660 megawatts in place, linkage for the second unit will be considered by Standing Linkage Committee as and when it meets, and the linkage does not stop you from starting work on the project, now if you look at Kondapalli on a similar basis, everything is there except the gas agreement and that is a policy related matter.
- K. Shankar:** That was what my concern is because quite a few developers have announced in gas based projects, that is Reliance seems to be indicating there is not enough amount of gas or not able to get it across the water so on and so forth, so just trying to understand.
- Suresh Kumar:** I think the government policy is quite clear on the matter, your project is ready for commissioning, come to us 60 days in advance, we will look at your request for gas and the way things are doing, at least we are not seeing much of a downside on availability of gas. It is just a matter of clarity on the policy, anyway we feel, when you look at Kondapalli expansion that we did second phase, we did not have gas when we started the project, we got gas closer to commissioning and that is the comfort that we have here too, so Kondapalli is not an issue, Amarkantak is not an issue at all, Babandh of course, we are going through the process of land acquisition. We have all other approvals in place, so come March 2010 we will have enough land to start work on the project, so that is the plan we are basing ourselves on. Vidharbha is also in the process of land acquisition and as and when land is available, we will start work. There is a bit of risk that we are taking, but I would say it is a calculated risk.
- K. Shankar:** I will come back later with some more questions. Thanks.
- Moderator:** The next question is from the line of Salil Desai from IDFC SSKI. Please go ahead.
- Salil Desai:** Sir, one question was on Udupi's commissioning. Are we in schedule for that?
- Suresh Kumar:** Yes, in the month of March you will see us synchronizing Unit-I of Udupi.
- Salil Desai:** Because specifically we had heard something about the evacuation systems being slightly delayed?
- Suresh Kumar:** It was in Unit-II only and it was just delayed by about a month.
- Salil Desai:** Alright, so other than that we should be on time for doing that...?
- Suresh Kumar:** Not a big deal.



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- Salil Desai:** Sir, the second is any details on the Mahanadi plant, how are you looking at sourcing fuel?
- Suresh Kumar:** Mahanadi is certainly a linkage coal we would like to push for and whether linkage coal allocations are there are not, ultimately India has to definitely depend on imported coal, so whatever we are doing across our coal projects, there will be an element of blending that we will have to keep in mind because it is not possible for us to expect that we will get the entire linkage quantity, so we are gearing up for a possibility that we may have to import coal and blend it along with domestic linkage coal and make sure that the plant is running at 80-85% PLF for a long time, so that is the approach we are taking but to answer your question in specific, there will be a substantial amount of linkage coal which will feed the project in Maharashtra and we will of course supplement our sources by importing coal as well.
- Salil Desai:** Sir any view of where we will be selling power or is it still early?
- Suresh Kumar:** Almost 55-60% of that power generated at Vidharbha will be sold to Maharashtra under a long term PPA that we signed with Maharashtra.
- Salil Desai:** This is as in you will be bidding for a phase-1...?
- Suresh Kumar:** We bid for phase 1 and we signed the PPA as well and we are feeding that PPA out of Vidharbha.
- Salil Desai:** Alright, thank you very much.
- Moderator:** Thank you Mr. Desai. The next question is from the line of Shashikiran Rao of Standard Chartered. Please go ahead.
- Shashikiran Rao:** Thanks for taking my question. My question is regarding the road projects. When are we likely to get commissioned and start getting roll revenues from those projects?
- Suresh Kumar:** July 2010 the first project and August 2010, the second one.
- Shashikiran Rao:** Are you on track for completion of this?
- Suresh Kumar:** Yes.
- Shashikiran Rao:** Regarding the Babandh project, you had been facing land acquisition issues for quite some time. What are these issues and have they been resolved right now?
- Suresh Kumar:** We are just going through the law of the land over there, going through section 6 right now, actually we have completed section 6 process, we are going through that process of acquisition through government and we actually got good amount of success over there. We already



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acquired about 350 acres, we need to acquire another 150 more just to make sure that phase I of the project is ready for commencement of work, so it is not as bad as you are imagining.

Shashikiran Rao: Okay, but the total land required for first unit would it be around 1500 acres?

Suresh Kumar: Come again?

Shashikiran Rao: What would be the total land required for commissioning the first unit?

Suresh Kumar: Frankly not more than 500 acres.

Shashikiran Rao: 500 acres. Fine.

Suresh Kumar: Have you gone to our Udupi plant anytime?

Shashikiran Rao: No, but I know the land there, not visited the plant.

Suresh Kumar: You should. Saurabh, you need to organize a plant visit. We optimized as much as we can on the plant design and we are somehow managing to build a plant in the least amount of land that we need, so there is a bit of optimization that we are doing, but more land the better always, so we can always do brown field expansions, 500 acres should be enough for Babandh.

Shashikiran Rao: Just as an insight, what is the land area that you have in Udupi?

Suresh Kumar: Udupi, we have almost 700 odd acres.

Shashikiran Rao: that is pretty sufficient I would say.

Suresh Kumar: More than enough.

Shashikiran Rao: Thanks a lot Mr. Suresh.

Moderator: Thank you Mr. Rao. The next question is from the line of Ashwani Sharma from Network Stock broking. Please go ahead.

Ashwani Sharma: Good morning Suresh. Any update on CBM blocks that we were bidding for?

Suresh Kumar: It has gone in to some controversy, so many players were interested post bid, which they did bid and won, but it has gone in to a loop actually?

Ashwani Sharma: How are we going to do about it, like how are we going to award it?



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- Suresh Kumar:** There is nothing much that we can do. Government drives it, so they have to take a call. We have questioned the cancellation and they are still figuring it out how to deal with it?
- Ashwani Sharma:** Okay, alright, thanks.
- Moderator:** Thank you Mr. Sharma. The next question is from the line of Abhinav Vora from Enam Securities. Please go ahead
- Abhinav Vora:** Just on Amarkantak, first of all Kondapalli your realization you were saying is Rs. 5.6 whereas the exchange prices this quarter was hovering around 2.5 and even the UI so just want an explanation of how you had arrived at 5.6 in that case?
- Suresh Kumar:** We do not sell through exchange at all. We hardly sold anything of Kondapalli through exchange, so very miniscule volume we routed through the exchange, we have good bilateral pipeline as well as some part of capacity is there in the UI market and UI market is not all that bad in southern region, that way I think on an average we made 5.6.
- Abhinav Vora:** It was UI and what was your average realization on the bilateral market?
- Suresh Kumar:** I do not have to give you that detail.
- Abhinav Vora:** Second question is that, you are significantly debiting your capital expenditure, you PAT and reducing your capital expenditure, so is not that a disadvantage position where for the tax benefit purposes, so what is your view on that? By capitalizing and reducing your CapEx significantly?
- Suresh Kumar:** I do not have a view.
- Abhinav Vora:** Thank you.
- Moderator:** Thank you Mr. Vora. The next question is from the line of Rakesh Vyas from HDFC Mutual Fund. Please go ahead.
- Rakesh Vyas:** Hi Suresh, good morning. Just had couple of questions. First on Amarkantak, just wanted to know has there been any fuel supply issues lately over there?
- Suresh Kumar:** Not for Amarkantak-I. The issue is basically not just for Amarkantak. It is generally an issue for all IPP developers. Coal India is not agreeing to give more than 70% of its committed volume under the FSA or under the letter of assurance. It is not just an issue for one developer. It is generally an issue for the entire industry. It is a situation where there is no option. That is the reason why we are looking at supplementing our coal requirements through the open markets as well as through imports.



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- Rakesh Vyas:** But in case even half of the capacity goes through the earlier PPA, then is there a pass through provision over there in terms of variable cost. I am just trying to understand as to how things will probably work out?
- Suresh Kumar:** Basically under CRC it will be a pass through.
- Rakesh Vyas:** So you are primarily looking at CRC agreement now with MP or was that one of the option that was deliberated?
- Suresh Kumar:** One of the many options, so like we are discussing with MP and we are of course waiting for what happens at the Supreme Court level on February 1 when the matter comes up for hearing.
- Rakesh Vyas:** What I was trying to understand Suresh is that given that UI market you said was somewhere around 3.5 to 4 rupees, even selling at those prices for Amarkantak would have made significant profit whereas PLF actually was much lower even after stabilization, so I was just trying to understand what is the thesis going forward as well when Amarkantak II also comes on stream?
- Suresh Kumar:** The pricing has not yet stabilized, there is still a lot of backing down that happens because of the UI pricing itself because although like what pricing you are seeing on UI is on average price for the day, there will be a significant amount of backing down in the night because UI prices in the night are absolutely like 11 paisa, 8 paisa, 10 paisa, less than the variable cost, it does not make sense, so while during the day you may get a higher realization because of frequency level, it is not necessary that it will be maintained through the night, so there will always be issues like that and honestly we are also in stabilization mode, it normally happens in the first year of operations which is nothing unusual. It is getting more pronounced with the UI prices showing a different trend in the night.
- Rakesh Vyas:** Secondly can you just tell us what is the capacity that you have entered with Rajasthan currently?
- Suresh Kumar:** It is privileged information, sorry, I cannot give you that information; you should get it from the respective load dispatch center sites.
- Rakesh Vyas:** The pricing there is in excess of 5.6, I would presume because as you said UI was lower on an average. Is there a concern because what we are hearing is most of the SEBs have asked for renegotiation of earlier agreement because the prevailing prices now are lower for all the bilateral trades as well?
- Suresh Kumar:** There are penalty clauses. You cannot just cancel a bilateral just like that, so I do not buy that argument.
- Rakesh Vyas:** Thanks Suresh, that is it from my side.



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- Moderator:** Thank you Mr. Vyas. Ladies and gentlemen, due to time constraints we will take the last two questions. The next question is from the line of Rahul Agarwal from Anand Rathi. Please go ahead.
- Rahul Agarwal:** Good morning Sir. What is the current shareholding pattern for Amarkantak after the IFC transaction?
- Suresh Kumar:** 91 odd percent.
- Rahul Agarwal:** Sir Lanco Infra holds 91% and the balance is held by?
- Suresh Kumar:** KVK Energies.
- Rahul Agarwal:** The whole of 9%?
- Suresh Kumar:** Yes.
- Rahul Agarwal:** This dilution of 5.44% transferred to Lanco from IFC, can we get the consideration paid for this?
- Suresh Kumar:** About 14 odd rupees per share, about 48 Crores I think.
- Rahul Agarwal:** Thank you very much Sir.
- Moderator:** Thank you Mr. Agarwal. The last question is from the line of Shankar K from Edelweiss Capital. Please go ahead.
- K. Shankar:** Thanks Suresh for taking my question, just wanted to get some sense especially it is largely coming from what the L&T Management has spelt out during the call and since you are more or less on the ground and doing quite a bit of projects, what is the sense that you are getting on the business front, on ground development either in terms of doing construction work or in terms of clearances, both in terms of progress as well as in terms of issues?
- Suresh Kumar:** I do not want to compare Lanco to L&T because.....
- K. Shankar:** I am not saying that, I am just trying to give you..
- Suresh Kumar:** I will give you a different perspective. L&T is more in the external clientele market, our order book is weighted more towards our internal clientele and frankly, I see a lot of visibility and in a way I see a lot of assurance in making sure that there is a spend that will happen in my internal projects. I do not have that kind of comfort levels when I am looking at external projects because a large part of the projects are government contracts. I am not sure where the government is spending so much on those external contracts. I have a lot of clarity about our internal captive



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client will spend or not and there is quite a good probability and spending on our captive clients will happen, so from a ground level situation, there is certainly a lot of visibility and comfort that the order that we have will be executed over the next three and a half to four years surely. I do not have that confidence when it comes to executing government contracts like construction division has some 300-400 Crores of order book where the clients are governments, largely I would say AP Government, but I am not sure whether there will be so much of spending on those contracts.

K. Shankar: What in terms of getting linkages, clearances, allocations and all of those things put together, don't you think they are dragging their feet?

Suresh Kumar: No, they are not dragging their feet, they are being more realistic about allocating fuel. They are giving projects priority where that project is in advanced stage of commissioning and that is the mindset that Ministry of Coal is having. I would say rightly so and therefore it is important that you commence work on your project, show progress, bring it to an advanced stage of commissioning, the chances of you getting a coal linkage or fuel is that much more higher compared to your other players in the sector, so that is the approach that one should take at least in a sector like power. You have got to be self sufficient in your fuel requirements so it is always better to hedge yourself and make sure that you have an access to an imported coal mine or to a long term source of imported coal.

K. Shankar: Okay, got those. Thanks a lot.

Moderator: I would now like to hand the floor back to Mr. Gaurav Pathak for closing comments. Please go ahead Sir.

Gaurav Pathak: I thank everyone for attending the third quarter conference call. Have a good day. Thank you.

Suresh Kumar: Thank you guys, thanks for joining in.

Moderator: Thank you gentlemen of the management. Ladies and gentlemen, on behalf of ICICI Securities Limited, that concludes this conference call. Thank you for joining us and you may now disconnect your lines.