



“LANCO Infratech Limited Conference Call”

July 30, 2009



**MODERATORS: MR. K. SHANKAR – SENIOR ANALYST, EDELWEISS
SECURITIES LIMITED**



LANCO Infratech Limited
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Moderator

Ladies and gentlemen, good morning and welcome to the Lanco Infratech Conference Call hosted by Edelweiss Securities. As a reminder, all participants will be in the listen-only mode and there will be an opportunity for you to ask questions at the end of today's presentation. If you need assistance during this conference please signal an operator by pressing * and then 0 on your touchtone phone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. K. Shankar of Edelweiss Securities. Thank you and over to you Mr. Shankar.

K. Shankar

Thanks Marina. Welcome friends. First of all we would like to thank the management of Lanco for providing us an opportunity to host this conference call. We are joined by Mr. J. Suresh Kumar who is a CFO of LANCO Infratech. Without wasting any further time I would quickly hand over to him. He will first take us through the broad operational and financial performance of the company for first quarter, post which we can quickly have the Q&A session. Over to you sir. Thanks.

J. Suresh Kumar

Thank you Shankar, thank you Edelweiss. Welcome to all of you to this conference call to discuss Q1 results of FY10.

As you would have seen in the press release and the media release our numbers are generally up over corresponding quarter of last year; up by a significant margin that is because of base effect impact. If you see the way Lanco is currently poised, all the projects that we are working on whether it is Udupi, whether it is Amarkantak, whether it is Anpara, all these projects are at their peak of expenditure and given the fact that these projects are getting into commissioning mode over the next 12 to 18 months you will see the performance of construction and EPC vertical showing very strong growth in terms of top lines as well as bottom lines. So that effect is what is basically happening in the quarter numbers. We expect this kind of trend to continue at least for Fiscal 2010 and a major part of Fiscal 2011. So having that in the backdrop I wanted you all to appreciate results. While year-on-year there is that base effect impact but you see on quarter-on-quarter, you will notice that PAT numbers before eliminating inter-company profits is up from INR 151 crores last quarter to approximately INR 160 odd crores this quarter. If you eliminate inter-company profits and see what is the reported PAT number on a sequential basis from a INR 89 crore figure of last quarter in March we are today at 116. If you look at it from a business wise, division wise performance construction power have contributed significantly to the top line. Power is largely because of huge jump in top-line on account of power trading which has seen robust volumes on the trading side. We today are number one private sector player with a market share of approximately 17% odd and if you look at PTC and NTPC's trading arms they share the number one and number two slots and we are number three, number one in the private sector.



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If you look at the EBITDA performance on a quarter-on-quarter basis at a consolidated level we have been approximately at 20% mark which was similar to the number that was there in the March quarter in terms of percentages. After adjusting for all of the power trading revenue and naphtha sales which do not contribute significantly to the overall margins you see EBITDA margins remaining steady at around 20%. So that is quite interesting to note because we saw 2009 as an extremely volatile year. I think there is some element of stability that we can see in the numbers and hopefully some improvement over the next four to six quarters.

Moving onto profit after tax numbers if you adjust for all the notional adjustments that you need to make on account of inter-company profit elimination as well as the forex gain this quarter. Our profit after tax is up from INR 97 crores year-on-year to INR 140 crores this quarter and that is I think a good position to be in because definitely cash flows are improving closer to commissioning.

Moving onto balance sheet numbers considering the fact that the overall networth and the minority interest of Lanco is close to about INR 3,000 crores the outstanding loan on a consolidated basis is close to about INR 6,300 crores. I think debt equity is steady on a gross basis close to about two times to one. Adjusting for cash available across the group, our debt equity ratios are pretty okay, not bad at all.

If you look at the division wise performance, construction and EPC is quite significant and because it contributes significantly to the bottom line at the standalone level, it is important for you all to appreciate that quarter-on-quarter basis our EBIT margins are up from 12.8% to 15% and you are going to see improvement over these margins over the next couple of quarters given the fact that we are going to reduce our working capital to a reasonable level.

Power is steady on the EBIT side. If you exclude naphtha, our EBIT margins would definitely be higher. Operational data of power plants is important for you all to consider. Kondapalli this quarter has achieved an average PLF of close to about 81% against 72% PLF for the full year of FY09. In June itself Kondapalli achieved 89% PLF which is good news for us and Kondapalli. Compared to that if you look at ABAN, it registered a 66% PLF, down from 77 but there was a plan shut down in April and that caused that aberration but I guess we will recover it over the balance period of operation and hopefully like touch our 80% kind of PLF levels.

Looking at key developments during the quarter of June 30th, important ones are we acquired 9% stake that DEG held in Lanco Amarkantak for an approximate consideration of about INR 46 crores translating to about INR 11.80 per share. We completed this transaction and paid DEG's consideration. The shares have since been transferred in favor of Lanco Infratech. We today end up holding close to 86% odd of Amarkantak. In the quarter of June we also booked a profit of INR 14.6 crores towards sale of a stake in Rithwik and Clarion and that is part of the



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other income. Amarkantak Unit 1 got synchronized as you all know in May 2009 and I think we have reached a stage where there is a good amount of stability in the plant. We have achieved full load in June and we should have some clarity about Amarkantak in the next couple of weeks. So you should expect some kind of announcements on Amarkantak 1 in the next couple of weeks.

Now, if you look from a finance perspective I think whatever the concerns that were there in 2009 in the system are not there now. The lenders are actively lending towards the existing projects and also considering new applications as you all are also aware we recently financially closed the Phata project in Uttaranchal, the 76 megawatt hydro power plant that we are building in Uttaranchal. We tied up close to about INR 350 crores odd of debt with the consortium of bank led by Axis Bank, at a good rate of interest. I think we closed at close to 12% cost of debt and we have also started drawing on fund so it is not that we only have done documentation but we also have actually drawn close to about 130 crores odd for that project. So we are seeing a situation where things are improving, liquidity is good in the system, banks are flushed with liquidity. They are in fact investing in RBI's reverse repo, so you know banks are able to like put in money towards project and our approach is sometimes in the month of August we want to put in applications for financial closure for some expansion projects that we are working on and we will inform all of you as and when there is some clarity on status of financial closure, in terms of timing, in terms of quantum, in terms of rates etc. I will move from there to the order book position. Today it is standing at about odd 9,500 crores odd. We see good visibility for the order book by end of this fiscal when new projects will get into construction mode, once they are financially closed and frankly we see a good uptick by the end of the fiscal to the order book. I will stop here and am happy to take questions from all the participants.

Moderator

Thank you very much sir. Ladies and gentlemen, we will now begin with the question and answer session. At this time if you would like to ask a question please press "*" and then "1" on your touchtone phone. If you decide you want to withdraw your question from the questioning queue you may press "*" and "2". Participants are requested to use only handsets while asking a question. Anyone who has a question at this time may press * and then 1. The first question is from the line of Mr. Darshan Vora from Tata Securities Ltd, please go ahead

Darshan Vora

Good morning sir. Sir, I am calling from Tata Securities. First of all congratulations for your good numbers.

J. Suresh Kumar

Thanks Darshan.

Darshan Vora

I just wanted to ask one thing in your results for the quarter, just a financial doubt, you had said that increase or decrease in stock in trade and work in progress, last quarter that is on 30th



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June, 2008 it was an increase in working gradients, stock in trade and work in progress. But in the current quarter it has decreased. Can you just tell me the reason for that?

J. Suresh Kumar

May be it got converted into billing in this quarter.

Darshan Vora

Okay so work-in-progress may be not got capitalized or something like that.

J. Suresh Kumar

It did not get billed last quarter and must have got billed this quarter.

Darshan Vora

Okay. And just wanted to know what is the equity holding in the Amarkantak plant? You said the Lanco's equity holding is 86%.

J. Suresh Kumar

That is right.

Darshan Vora

And the other participants of that holding in that Amarkantak?

J. Suresh Kumar

Close to about 5% is held by IFC Washington.

Darshan Vora

It was acquired somewhere in 2007 I suppose.

J. Suresh Kumar

Yeah, they started investing from 2007 and the balance 9% is held by KVK Energy.

Darshan Vora

Okay, the earlier party for that.

J. Suresh Kumar

Yeah, that is right.

Darshan Vora

Can you just give a brief about the litigation that is pending in the Amarkantak plant?

J. Suresh Kumar

Oh I think the large part of the litigation is

Darshan Vora

I just wanted to know the nature of that litigation.

J. Suresh Kumar

It is more related to the PPA that we entered between Amarkantak and PTC. PTC in turn had a PPA with MP Power Trading Corporation. So sometime in March 2008, aggrieved by certain order of MPERC we decided to terminate a PPA between us and PTC and since MP was an affected party because it was structured more like as a back to back between us and PTC, PTC and MPPTC with Lanco not being party to the contract between MPPTC and PTC. It was effectively a back to back for PTC. They did not want to have an open-ended situation, while they buy from us they wanted to cover themselves you know by selling it through to some other party. Because of the termination notice that we gave MP appealed to the MP High Court and sought a stay on the termination.



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Darshan Vora Termination of PPA?

J. Suresh Kumar The single judge granted the stay but the stay got vacated when we appealed against that order and the division bench rejected, and technically there is no stay on the termination today.

Darshan Vora PPA stands valid I suppose.

J. Suresh Kumar PPA is not valid. There is no stay on the termination technically speaking. But the issue is MPPTC still preferred to appeal to the Supreme Court. The hearing is I am told scheduled for tomorrow for the petition whether the appeal of MPPTC can be admitted in the Supreme Court. So we will have some clarity over the issue in a week or so.

Darshan Vora Okay, because you are saying that some issue in that converting from PPA to a merchant power plant.

J. Suresh Kumar No, I think it is early days as to what is going to be configuration, how the 300 megawatts should be sold. We are in discussions with all parties concerned over whatever is going on in the legal arena and hopefully we will have some clarity very soon.

Darshan Vora Yeah, thank you sir.

Moderator Thank you Mr. Vora. The next question is from the line of Mr. Rakesh Vyas from Nomura, please go ahead.

Rakesh Vyas Yeah, hi Suresh, good morning.

J. Suresh Kumar Hey, morning.

Rakesh Vyas Sir, a couple of questions actually. First one on Amarkantak. Can you let us know as to what kind of load we are actually, what kind of PLF is there on Amarkantak at this point of time and secondly as to what is happening to the sale of power during the period before we do the COD? Is it just to UI or are we allowed to sell any part from merchant and realizing it?

J. Suresh Kumar I think contractually speaking it is all infirm power and it is not necessary that it will be as per UI mechanism because infirm power has a different regulation. So to the extent we are generating during the trial run period but we are pushing it into grid and claiming whatever are the regulations under that, whatever you get for infirm power sale you get that realization.

Rakesh Vyas Sir, that will be set off against capital cost for the units, is that correct?

J. Suresh Kumar Yes



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- Rakesh Vyas** And sir what kind of PLF
- J. Suresh Kumar** You know really it is contract to contract. Some PPAs say that infirm power will be sold at variable cost, some PPAs say infirm power sale can be sold for both variable as well as fixed cost and the benefit can be taken by the developer until we announce the COD. So it varies from project to project, contract to contract, PPA to PPA.
- Rakesh Vyas** Okay, sir in terms of PLF and availability of fuel are we seeing adequate fuel availability at this point of time?
- J. Suresh Kumar** I think the way we stacked up our coal it gives us comfort for the next three months.
- Rakesh Vyas** Okay.
- Moderator** Mr. Vyas, do you have any further questions?
- Rakesh Vyas** Yeah, sir additionally, just one more question on the expansion plan particularly related to Babandh, can you throw some light on the latest update on that particular project?
- J. Suresh Kumar** We have acquired close to about actually 200 acres of land for Babandh phase 1. We are in the process of acquiring another 100 more acres by having bilateral discussions between private parties as well as government agencies which owns some portion of the land. We need to acquire another 600-odd acres to be ready for starting work on phase 1 which is 1,320 megawatts. Our expectation is that since Section 61 is expected anytime in August, we feel by December 2009 we should be in a position to acquire the following 600-acres which is good enough to start work on phase 1 and by which time our expectation is that we will achieve financial closure for the project and then we can start physical work aggressively.
- Rakesh Vyas** And sir if I am correct in this phase 1 we already have signed a MoU with Orissa government for the off-take.
- J. Suresh Kumar** The MoU provides 25% of the gross generation to be sold to Orissa on CERC basis and the balance 75% we are free to export outside the state.
- Rakesh Vyas** Thank you so much sir. That is all.
- Moderator** Thank you Mr. Vyas. Next question is from the line of Mr. Aman Batra from Kotak Securities, please go ahead.
- Aman Batra** Hi Suresh.
- J. Suresh Kumar** So Aman, how are you doing?



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- Aman Batra** Fine sir. Just wanted to check on two small things, one you have increased your stake in Lanco Amarkantak. At what price have you bought the stake?
- J. Suresh Kumar** Rs. 11.80 per share.
- Aman Batra** Okay and the second is where are you getting the coal for from Lanco Amarkantak? The linkage is operational and what would be the say the landed coal cost?
- J. Suresh Kumar** I think the coal field, south eastern coal field is just I think about some 10 km away from our site. So I do not think it is more than 780-790 but I will have to reconfirm.
- Aman Batra** Okay fine thanks.
- Moderator** Thank you Mr. Batra. The next question is from the line of Mr. Punit Jain from Karma Capital, please go ahead.
- Punit Jain** Sir, I just wanted to have an update on your Nagarjuna power project and also wanted to understand in you're the entire project portfolio how much would you be expecting to sell at merchant say by FY12?
- J. Suresh Kumar** Nagarjuna is nothing merchant. The plan of Nagarjuna is by December '09 we want to synchronize Unit 1 and the second unit we want to synchronize by sometime around March or something 2010 because the way things are going, July has been tough because of rains, exceptionally heavy rains. I do not know, I think Mangalore has been singled out for rain whereas the rest of the country is going through a pressure point. But despite all this I think we are geared more towards December '09 synchronization of Unit 1. So that is the status of Nagarjuna. The question on merchant is clearly Kondapalli phase 2 expansion is configured as 100% merchant project so depending on whatever happens in Amarkantak PPA dispute if we get some uncommitted capacity then we have that option to play in the short term market. It can be on 11-month PPA basis, on a 6-month PPA basis with whoever is willing to off-take. Or it is our call, we are free to decide how we want to deal with the uncommitted capacity. So depending on the resolution there is an additional capacity which is not in the PPA market. So it would be anything over 366.
- Aman Batra** Okay, but in this Amarkantak as you mentioned tomorrow Supreme Court would decide and so once if the matter goes to Supreme Court how much time would it take and prior to that once you start with the power generation how would you be like selling it in the interim period?
- J. Suresh Kumar** See, I think one thing is quite clear we have no intention of selling the entire 300 megawatts of Amarkantak today in the merchant market, although there is technically no stay on the termination we do not feel it is appropriate to sell the entire 300 megawatts on merchant basis. I think it gives a wrong signal to all stakeholders. So we are looking more for an amicable

settlement and we hope that whatever settlement happens is win-win for all. So we would like to first resolve the dispute amongst all the stake holders before taking a call on what to do with the capacity.

Aman Batra

Right, and you mentioned about Nagarjuna Power but have you seen all your cost of setting up the plant is it freezed or are you seeing any since lot of, as of today in last six months a lot of equipment costs have come down so have you seen your cost of setting of a plan coming down for may be some of the future projects if not for Nagarjuna Power?

J. Suresh Kumar

If you ask me equipment prices, whether they have come down, I do not think so, it has not yet come down. China is still keeping its prices up. In addition dollar-rupee the way it is moved since what it was in 2006-07 I would say like equipment prices still remain high on a converted rupee basis. So I do not think it is come down yet so which is why I think we have held back on some order placements for the expansion projects that we are doing. We are hoping that there will be some correction in the next couple of months after which we thought we will be in a position to start initiating discussions on the equipment side. But steel prices definitely are down from where they were in most part of 2009. Cement is virtually stable from 2009 levels. But my read is you will see the benefit of input prices coming down. We see that benefit flowing in the next couple of quarters, I would say not next couple I would say over the next four to six quarters you would see the benefit flowing through. But on the specific question of equipment prices coming down, I do not think we witnessed that in the last couple of months, not as yet.

Aman Batra

And can you since explain me on the transfer pricing between your EPC division and your utility division, how does it work internally?

J. Suresh Kumar

Typically arms length and it is basically at the price which is in line with market norms for in terms of project cost per megawatt. In fact you will see most of the cases that we are doing you perhaps see our project cost being lower than market norms, so I would say like it's arms length basis, goes through multiple layers of scrutiny not only internally but also externally from lenders themselves, from their lenders engineers, sometimes from minority shareholders as well and at the end of it, it is important to note that my project cost per megawatt if not on par, definitely lower than our peer group.

Kiran Jain

Sir if you can just ball park average cost for setting up a thermal power for you would be?

J. Suresh Kumar

Look at say for example I will go by historical numbers because it is more proven. If you look at Kondapalli Phase I my cost per megawatt is about close to INR 3 crores a megawatt, INR 2.95 crores a megawatt whereas some of the other peer groups are at a INR 3½ to 3.9 crores per megawatt.



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Kiran Jain Sir but how does it work because since it would be a regulated plant would the benefit accrue to you for this efficiency or you would be getting that ROE in the range of about....

J. Suresh Kumar Project cost range of INR 4.5 to 5 crores and tariff levels of say INR 2.5 per unit it can easily throw you a 20-22% return on invested equity. So broadly that is the benchmark that one needs to consider. In the current environment the cost benchmark of INR 4.5 to 5 crores per megawatt I do not think stands for the simple reason that cost have definitely gone up. 2006 steel was say INR 15,000 to 20,000 a ton. Today it is like INR 35,000 a ton. Interest cost in 2006 was somewhere around 8.5% today it is 12%. And rupee dollar parity from 40 in sometime in 2006 41-42 in 2006 it is today at 48-49. The cost have gone up. Labour cost has gone up. Even today you do not have skilled labor with you. I would say like the days of INR 4.5 to 5 crores a megawatt are not there. And, therefore, you are seeing changes in the way tariffs are being bidded out. I mean you are looking at tariffs anywhere upwards of Rs. 2.80 to 3 kind of levels. It is nothing but a reflection of the cost pressures that are there on each project.

Kiran Jain Even on the long term PPAs?

J. Suresh Kumar Yeah. I am talking about long term PPA only. You see how merchant prices have gone up.

Kiran Jain So on 2.2 –

Moderator: I am sorry to interrupt Mr. Jain could you please come back for your questions. Thank you Mr. Jain, ladies and gentleman in order to ensure that the management is able to address questions from all the participants please limit your question to two per participant. The next question is from the line of Mr. Sumit Agarwal from HSBC Securities. Please go ahead.

Sumit Agarwal Hi Suresh, how are you?

J. Suresh Kumar Hey, what's up?

Sumit Agarwal Fine, going on well. Congrats for a good set of numbers.

J. Suresh Kumar Thank you.

Sumit Agarwal Suresh I just wanted to check out for the Kondapalli phase II expansion which would be operation say this year, how much gas has been allotted to you and is it sufficient for you?

J. Suresh Kumar Can you repeat your question Sumit?



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Sumit Agarwal For the Kondapalli Phase II that you are going to set up has the fuel been tied up and how much gas has been allotted and is it sufficient for say 80% of your PLF?

J. Suresh Kumar Kondapalli Phase II we have not yet have the gas purchase agreement with RIL but it has been approved by the group of ministers and is going through that process at the bureaucratic level for clearance for signing the gas purchase agreement. So that process is on. Typically the approach that is being taken is closer to commissioning of your plant, papers get moved and the clearance is given for signing gas purchase agreement.

Sumit Agarwal Sir, how much quantity gas has been recommended for this project?

J. Suresh Kumar Comes up to 1.75 MMSCMD

Sumit Agarwal Sorry!

J. Suresh Kumar 1.75 MMSCMD.

Sumit Agarwal Okay. So I think that would be for 75% to 80% PLF. Also sir just wanted to I think I missed the PLF number for Amarkantak that is getting synchronized commission. What was the PLF some time in July?

J. Suresh Kumar I have not given the PLF to anyone.

Sumit Agarwal Okay.

J. Suresh Kumar I have given the PLF for Kondapalli which is like 81% odd for the quarter of June and 89% in June.

Sumit Agarwal What is the PLF for Amarkantak if I can ask sir.

J. Suresh Kumar I consciously avoided that answer.

Sumit Agarwal Okay fine not a problem. Sir just wanted one clarification--

J. Suresh Kumar Not that I wanted to hide anything I just do not need to.

Sumit Agarwal No sir its fine. Sir just one more thing. Sir before for this Amarkantak sale for ourselves till the time you get into some sort of an amicable solution with PTC and with MP Government what is the arrangement that you have made it because this project is getting commissioned so for the management for the sale of power that is getting generated?

J. Suresh Kumar It is sold on the infirm power basis.



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Sumit Agarwal Sir will it continue, that is what I wanted.

J. Suresh Kumar We do not want to continue it – want to like announce our COD and move on in life.

Sumit Agarwal Yeah so that anything, any updates that we can get about or you would continue with infirm power delta.

J. Suresh Kumar I think some announcement is due down the corner.

Sumit Agarwal Okay. Thanks a lot and best of luck for the future.

J. Suresh Kumar Thank you.

Moderator: Thank you Mr. Agarwal, the next question is from the line of Mr. Pankaj Sharma from UBS. Please go ahead.

Pankaj Sharma Good morning Suresh.

J. Suresh Kumar Hey Pankaj, what's up?

Pankaj Sharma Yeah fine. How are you? Just one question or rather update Suresh. What is the status on Dhopave and Rajpura? Have you heard anything from the government?

J. Suresh Kumar In I think today some hearings at Punjab High Court for Rajpura. So we appeal against the order of the PERC Punjab ERC. Today is the hearing. I guess the hearing will go on for couple of days. Perhaps August first week or second week we should have some clarity on Rajpura. There is currently a stay on the ERC order. And we will get to know once the hearing is completed as to what the approach of the High Court is going to be like. Then that would decide the next step in Punjab. In regards Dhopave we have not accepted the cancellation of the process but we are still in discussion mode with the authorities concerned. We are just waiting for some more developments there.

Pankaj Sharma Right. If the authorities stick with their decision, are you planed to go to court or like the way it has happened in Punjab.

J. Suresh Kumar It is early days.

Pankaj Sharma Thanks Suresh. Thanks a lot.

Moderator: Thank you Mr. Sharma, the next question is from the line of Mr. Vishal Sharma from BNP Paribus. Please go ahead.



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- Vishal Sharma** Hi Suresh. Great numbers around.
- J. Suresh Kumar** Great numbers? But my request to you all is look at it more like base effect first because I do not want you all to get carried away by 100% jumps year-on-year do not get into that thing mode.
- Vishal Sharma** True. Actually that was my question. In the EPC we have recorded decent numbers at least Year-over-year but quarterly it was more or less along that the same lines.
- J. Suresh Kumar** But my EBIT margins I think are good compared to the last quarter. On a sequential basis, I think EBIT margins are up from 13% odd 12.8% to odd 15%. So I think it is quite reasonable in terms of achievement I would say given the stress that was there in the markets in 2009. That is the way I see it at least. Happy with your....
- Vishal Sharma** Sir can we expect this similar levels of absolute revenues and margins at least at these levels for the next four quarters at least on EPC side.
- J. Suresh Kumar** See that is my anticipation in the sense that I have been saying it even in the previous con call I am seeing margins trending back. I mean they are going to be better than 2009 in my view.
- Vishal Sharma** Okay great and when do you see this naphtha use going down?
- J. Suresh Kumar** It's already down. It is still maybe we are firing on naphtha as well but I think now we have stopped. I think in June we got almost 100% gas because we got the top-up from Reliance.
- Vishal Sharma** Okay great. And in this DEG acquisition has the transaction been in the name of LANCO Infratech that is the parent company, they have infused additional cash to buy that stake out or was it through the internal accruals from Amarkantak itself?
- J. Suresh Kumar** No. we used Lanco Infratech's internal accruals.
- Vishal Sharma** Okay great and any update on Unit II on Amarkantak.
- J. Suresh Kumar** December.
- Vishal Sharma** December is still up and can you discuss what is the accounting treatment for this infirm power or does it go to reducing your capital expenditure?
- J. Suresh Kumar** Yes it does. My expenditure during construction gets reduced to that extent. My IDC gets reduced to that extent. Effectively IDC and everything is part of expenditure during construction. That line item gets reduced and on COD all this interest expenditure during construction gets capitalized to various excessive line items.



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- Vishal Sharma** Okay and any update on Teesta? We heard some central government coming in and some political issues there for Teesta 1 & 2 but is there anything that is affected in Teesta 6?
- J. Suresh Kumar** No, not that I am aware of. Teesta 1 & 2 must be from R&R issue maybe. MOEF issues because of R&R. Not on our side. We are done with all those MOEFs.
- Vishal Sharma** Okay sure. Thank you.
- Moderator:** Thank you Mr. Sharma. The next question is from the line of Mr. Sachin Trivedi from UTI Mutual Fund. Please go ahead.
- Sachin Trivedi** Hello.
- J. Suresh Kumar** Hi Sachin.
- Sachin Trivedi** Yeah hi morning sir. sir just missed this stake change part. So if you can clarify further on that or what was the transaction?
- J. Suresh Kumar** We acquired the 9% stake of DEG in Amarkantak project. Lanco Infratech acquired for a consideration of about INR 46 odd crores translating to a per share valuation of INR 11.80.
- Sachin Trivedi** Okay and this is paid in cash?
- J. Suresh Kumar** Of course.
- Sachin Trivedi** Okay thanks.
- Moderator:** Thank you Mr. Trivedi, the next question is from the line of Mr. Bhargav Buddhadev from Noble. Please go ahead.
- Bhargav Buddhadev** Yeah. Good morning sir.
- J. Suresh Kumar** Good morning Bhargav.
- Bhargav Buddhadev** Sir, is there any specific reason for DEG to exit just at a slight premium given that they invested in 2006 when Amarkantak was in early stages of development?
- J. Suresh Kumar** Basically it is an option that we had to buy them out and we exploited that option.
- Bhargav Buddhadev** Okay. So there was not any specific reason to just exit at a slight premium?
- J. Suresh Kumar** As I said we have an option to buy as per a particular pricing formula and we exploit that.



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Bhargav Buddhadev And lastly sir what is the current stake held by Lanco in Anpara and Udipi?

J. Suresh Kumar Directly 26%.

Bhargav Buddhadev Both in Anpara and Udipi, right?

J. Suresh Kumar Yes.

Bhargav Buddhadev Okay thank you sir.

Moderator: Thank you Mr. Buddhadev, the next question is from the line of Mr. Siddharth Sanghvi from Pioneer Investments. Please go ahead.

Siddharth Sanghvi Hi sir, this is Siddharth here.

J. Suresh Kumar Siddharth, how are you doing?

Siddharth Sanghvi Yeah I am doing good. How are you?

J. Suresh Kumar Good.

Siddharth Sanghvi Yeah my question is on Nagarjuna. When is this expected to be commissioned?

J. Suresh Kumar Synchronizing in December 2009 and give it a month to COD or something 1½ month.

Siddharth Sanghvi Okay and this is based on imported coal, right?

J. Suresh Kumar That's right.

Siddharth Sanghvi Yeah, can you just give me some details on the coal pricing agreement which you have entered into?

J. Suresh Kumar Do you mind talking to my investors relations guy. He will give you all the details but approximately it is \$51 - \$52 landed cost.

Siddharth Sanghvi Okay what is your CV of that coal?

J. Suresh Kumar It varies between 5800 and 6200, say average 6000.

Siddharth Sanghvi Okay thanks.

J. Suresh Kumar Fixed for the first 5 years and variable thereafter in the passed through under the PPA.



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- Siddharth Sanghvi** Okay thank you.
- Moderator:** Thank you Mr. Sanghvi, the next question is from the line of Mr. Vikas Gupta from B&K Securities. Please go ahead.
- Gautam** Sir this is Gautam from B&K.
- J. Suresh Kumar** Good. How are you doing?
- Gautam** I am good sir. I wanted to know sir what is happening on our property projects? Can you through some light on it?
- J. Suresh Kumar** Thanda hai, quite cold. It is not yet taken the positive cues from perhaps other markets like Mumbai and Gurgaon yet so there is still no momentum building up. We are hopeful that second half should be something good around the time of Diwali. So we see still do not have comforts on the way market is moving.
- Gautam** So sir what would be our strategy for the remaining development on the land?
- J. Suresh Kumar** I think our approach is to focus on delivering whatever we committed by March 2010 and if there is demand incrementally for apartments then we will build more otherwise we will continue to build based on the existing level of demand.
- Gautam** Okay and what about the commercial portion sir?
- J. Suresh Kumar** Commercial, we built one tower. The markets are still down I would say commercial markets. So we take it easy.
- Gautam** Fine and sir what about hotel and retail?
- J. Suresh Kumar** Retail, we will do some portion of the retail because it needs to cater to the existing residential clientele. So, we definitely built some retail but it does not look like hotel will happen so soon because anyway we are planning to bring the hotel by 2011-2012. So it is still early days I would say but clearly that retail thing we should build a small portion of the 2 million square feet.
- Gautam** Fine sir, thank you very much.
- J. Suresh Kumar** Thank you.
- Moderator:** Thank you Mr. Gupta, the next question is from the line of Ms. Saumya Srivastav from Morgan Stanley. Please go ahead.



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Parag Hi Suresh this is Parag here.

J. Suresh Kumar Hey. Changed your name or what?

Parag No I just patched in from a different line. Just two questions, firstly in construction. What is the primary reason for an increase in you EPC margins in this quarter on a Q-o-Q basis? And secondly what is the update on the port project?

J. Suresh Kumar Which port project?

Parag Vizhinjam project is there anything happening on that front?

J. Suresh Kumar Which port project I do not know you are you talking about? The margin is in line with I think what we have been seeing in the business and you know typically what happens is a lot of contingencies in the project get converted into margins because you have finished your ordering. You have reached a stage where a lot of your projects are getting commission say in the next couple of months you see. So all those margins start coming into real play otherwise they lie in contingencies and are never recognized. So that is one way of looking at it. The other way of looking at it is anyway my steel cost are down, any way my labour cost are down and interest cost are also coming down so like it will have a soothing effect on the margins.

Parag Sir just to clarify you said that for fiscal 2010 expecting EPC margins to be at similar level for Fiscal 2009 or do you think it can be at similar levels as for the 1st Quarter?

J. Suresh Kumar I think they will definitely be better than 2009. I am hopeful that it will improve even better than what it was in Q1 of this year but its okay. Better to be conservative as well.

Parag Okay. Thanks.

Moderator: Thank you Mr. Shrivastav, the next question is from the line of Mr. Shashikant Rao from Standard Chartered. Please go ahead.

Shashikant Rao Hi this is Shashi from Standard Chartered.

J. Suresh Kumar Hello Shashi.

Shashikant Rao Just wanted to know why is that your EPC order book has been declined for the past couple of quarters?

J. Suresh Kumar It will decline to the extent of the power order book gets executed, right?

Shashikant Rao Right.



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- J. Suresh Kumar** And the large part of our order book is in-house captive projects. Given the way the EPC and construction division is plugging away you will see that order book getting shaved off very quickly. That is why I think our approach is by March 2010 will replace a significant portion of this order book with the new order book that is coming in the form of expansion projects of Amarkantak and Babandh as well as other projects that we may win in the course of this year. So definitely we are conscious of the fact that the order book is coming down but I think given the visibility that we have in the projects that we are developing I think its matter of time.
- Shashikant Rao** Right. I have two follow questions to that. Can you expect Babandh and Amarkantak 3 to come into the order book? And second thing on external projects are you bidding for any road projects which you will add to your order book?
- J. Suresh Kumar** Look at Amarkantak 3 and Babandh hopefully by March 2010 it should land into our order book. We are definitely bidding for the projects that are coming up for bidding in the road sector in the next couple of weeks if not months. We will tie up with a large road developer in Spain and we are hopeful of also getting a few contracts our way. So it will give some visibility to your order book as well. There are clearly a couple of projects that are coming up on the construction side particularly on the transmission side of the business. So we are gearing up for those initiatives as well. And we believe that we have a strong capability on the transmission side of the business. We have done it for Amarkantak, we are doing it for Nargarjuna, and we are doing it in Budhil. So I think we have built up a good expertise in this transmission space and I think the opportunity is coming up in the BOT space of transmission. We are seeing some bids that are expected in the next couple of months. We are participating in those bids and there is good potential over there as well.
- Shashikant Rao** Okay. Thank you.
- Moderator:** Thank you Mr. Rao. Ladies and gentlemen due to time constraint we will take the last two questions. The next question is from the line of Mr. BK Karthikeyan from Suyash Advisors. Please go ahead.
- BK Karthikeyan** Good morning Mr. Suresh.
- J. Suresh Kumar** Good morning.
- BK Karthikeyan** One question on the gas allocation that you spoke about for Lanco Kondapalli extension. You said 1.75 million cubic meters. Would that be what you require or is that what is being recommended? I am actually a little confused about that?
- J. Suresh Kumar** What we need.
- BK Karthikeyan** Okay fine and what has been recommended?



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J. Suresh Kumar Same amount.

BK Karthikeyan Same amount has been recommended, is it?

J. Suresh Kumar See recommendation works this way that they will say that we guarantee you a minimum PLF and translates to that kind of requirement.

BK Karthikeyan Okay. And what will be the heat content of gas you are currently receiving from KG Basin?

J. Suresh Kumar 8,900 or something.

BK Karthikeyan Okay fine. Thank you so much.

J. Suresh Kumar I will ask Saurav and Vibhu, he will tell you.

BK Karthikeyan I will do that. Thank you.

Moderator: Mr. Karthikeyan do you have any further questions?

BK Karthikeyan No. I missed the answer. I am sorry.

J. Suresh Kumar 8,900 or something.

BK Karthikeyan 8,900 from KG basin?

J. Suresh Kumar Yeah KG.

BK Karthikeyan Okay. Thank you.

Moderator: Thank you Mr. Karthikeyan, last question is from the line of Mr. Nalin Ladiwala from Shanti Asset Management. Please go ahead.

Nalin Ladiwala Hello Sir. Congratulations on a great set of numbers.

J. Suresh Kumar Yeah thanks.

Nalin Ladiwala I just had one question. I wanted to understand what is the philosophy of the company towards monetizing its assets. I am asking this in regards with the Amarkantak project. One would have thought that the company would have sold a minor stake in the project once it is operational so as to be able to raise money for new projects.

J. Suresh Kumar To be honest may be this was a question that was pertinent at a time when we just may have started our initiatives in the power sector. We have reached a mature stage where I do not think



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it is required for us to like dilute and give minority stakes at close to commissioning SPV or our operating SPV.

Nalin Ladiwala

Okay.

J. Suresh Kumar

We have crossed that evolution. And I do not see that as a major strategic advantage any more.

Nalin Ladiwala

Okay. But it would certainly have caused up certain amount of heartburns with the investors, since they decide to exercise their call option.

J. Suresh Kumar

That's Life no.

Nalin Ladiwala

Okay. Appreciate the answer. Thanks so much. That's it for me.

Moderator:

Thank you Mr. Ladiwala.

Moderator:

Okay sure sir. The next question comes from the line of Mr. Sidharth Sanghvi from Pioneer investments. Please go ahead.

Siddharth Sanghvi

Hi sir. Again I have question on this Nargarjuna and Anpara 3. You mentioned that currently you have 26% stake and eventually it is going to be 74% and 100% stake in both these companies. So what is your time frame of acquiring the balance stake and--?

J. Suresh Kumar

I believe the structure and the way it works is on COD it becomes our subsidiary and there is no outside holding. I would suggest you have a call with Saurav and Vibhu and they will walk you through the structure.

Siddharth Sanghvi

Okay and sir can you just tell me who owns the balance stake in these two projects?

J. Suresh Kumar

You should rest assured it is not with any of the promoters. But it is not required on this call. I need to be discreet so I will put you on to Saurav, he will talk to you.

Siddharth Sanghvi

Okay. That's fine.

Moderator:

Thank you Mr. Sanghvi. Ladies and gentlemen that was the last question.. I would now like to hand over the floor back to Mr. Shankar for final comments.

Shankar

Thanks Suresh and thanks Melissa. It has been very hearting to for you could take up all these questions and do a great interaction. Thanks friends and hope to have such great interactions going forward.

J. Suresh Kumar

Thank you everyone. Thanks for joining in.



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Moderator:

Thank you Mr. Shankar, thank you gentlemen of the management. On behalf of Edelweiss Securities Limited concludes this conference call. Thank you for joining us and you may now disconnect your lines. Thank you.