



“LANCO Infratech Q4FY09 Results Conference Call”

June 1, 2009



MODERATORS: Mr. Suresh Kumar - LANCO Infratech.
Mr. Gaurav Pathak - ICICI Securities Limited.



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Moderator

Good morning ladies and gentlemen and welcome to the Q4 FY09 results conference call of LANCO Infratech hosted by ICICI Securities Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions at the end of today's presentation. If you should need assistance during this conference, please signal an operator by pressing * and then 0 on your touch-tone phone. I would now like to hand the conference over to Mr. Gaurav Pathak of ICICI Securities, thank you and over to you Mr. Pathak.

Gaurav Pathak

Yeah hi, I welcome all of you to the LANCO 4th Quarter FY09 conference call. We have with us Mr. Suresh Kumar CFO of LANCO. He will brief you on the result and then we will open it up for the Q&A, over to you sir.

Suresh Kumar

Thank you Gaurav, welcome to all to this conference call hosted by ISEC. To begin with I would like to say that we have gone through lot of effort in last couple of months to make sure that business is not affected with the environment that was prevailing at that time beginning from December quarter through March quarter. Now, clearly we believe that we have come out positively and we are clearly looking forward to what is happening and going to happen in 2010 and 2011. Now, with that backdrop, I wanted to walk you all through with what we have achieved in this last one year. With the revenue is up 84% on the gross revenue side. Operating revenues are also up 87%. So, what you all need to be see is the reconciliation between the reported Profit After Tax on a consolidated basis versus profit before elimination of profit from subsidiaries and associates. We believe that it is better to look at LANCO from an angle of what are the profits that LANCO has earned, prior to elimination of inter company profit because of the non-cash adjustment that happens during elimination. We have earned about 409 crores of Profit After Tax before elimination this year against Rs. 382 crore in year 2008. Now, let us look at the backdrop of what went into the numbers last year and what went into the numbers this year that is between 2008 and 2009 and if you all recollect PAT included revenues that we earned from property. So, this year we did not recognize profits because of the environment adjusting for close to 19-20 crores of earnings that we had last year was declared. This year property earned just about 3 crores on the bottom line.

You would also recollect last year on a consolidated basis close to about 40 crores of revenue was booked as FOREX gain, which is more on the notional side rather than anything else. This year we have taken almost Rs. 20 Crores on account of FOREX loss for the year as a whole.

Now, if you look at it and if you adjust all of these numbers you will probably see a healthy growth in our Profit After Tax before elimination of inter company transactions, it is obviously up wards from 20% odd that you would see on a cash earning basis. And clearly, we are quite



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enthused with our performance, not that we are happy with our numbers, but I think given the environment, we have done well to make sure that our cash revenues are showing an upward trend, although we had expected much more than that. Now, largely one of the bigger reasons why we took an overall hit on margins is on account of interest cost because they went up rather almost 100% percent over last year. Now, it is not that it is normal. I would say it is unusual for us to bear such kind of high interest cost because we had to draw upon our working capital limits during the quarter of December and then March because of the way the credit crises evolved and clearly we did not want our businesses to be affected in terms of timelines or expenditure and therefore we went ahead and drew on our limits and met the requirement of the projects. Now, clearly that is what is what is kept us going and it is only a matter of time then you see interest cost coming down over the next 2 to 3 quarters for sure not just because interest rates are coming down but actually because of the fact that we are drawing down on our project loans and replacing working capital loans with the internal accruals that we are expecting going forward. But clearly all of you that would see interest costs coming down over the next couple of quarters because as it has started flowing in a big way.

I will move on now to what are the physical milestones that we achieved during 2009 and in the 1st Quarter of this fiscal. Well, good news is that we synchronized one of the Unit I of Amarkantak that has been installed in 2009 and we are stabilizing the plant and hopefully we will achieve commercial operation soon. We are disappointed with the postponement of Unit I and Unit II revenue because of time overrun and that perhaps you know reflected in the operating margins that we earned during the year, as a large part of the commissioning related revenue has got postponed from March 2009 to 1st quarter of 2010. And typically, the revenue that we earn for commissioning milestones are typically high both in terms of top line as well as bottom lines. So, hopefully like we will see once the commissioning happens, you will probably see a good the bottom line this quarter itself. So, I think going ahead on milestones all the projects that we are executing are going well in terms of time, just to give you a feel Amarkantak I this quarter we will announce commercial operations in the next quarter that is September quarter, you will see Kondapalli getting commissioned, that is the gas turbine getting commissioned on a simple cycle basis. Then in the December quarter you will see Amarkantak Unit II getting in to commissioning mode and certainly in the March quarter you will see one unit of Nagarjuna that is commissioned and in April you will see another unit getting commissioned. So, purely if you look at the way things are progressing we are quite confident of by June 2010, we will see almost close to about 2500 megawatts of capacity getting in to operation mode and therefore by June 2010, we would see that are about 3000 megawatt of operating capacity.

Clearly, we are in a situation where the hard work of last three years is going to pay off and over the next 12 to 15 months we will be operating about 3000 megawatts of capacities and hopefully with the good mix of merchant and long-term PPA. So, I would say we have gone

through certain ups and downs and you are seeing a future in a much more positive territory rather than in a negative territory. I will stop here and take questions.

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 touch-tone phone. If you want to withdraw your question from the questioning queue, you may press * and 2. At the initial round of question and answer participants are requested to limit their questions to two per participant. Anyone who has a question at this time may press * and 1. The first question is from the line of Mr. Shashi Kiran Rao from Standard Chartered, please go ahead.

Shashi Kiran Rao

Thank you sir for taking my question, just a couple of questions on Amarkantak Unit I has the issue that you had with the Madhya Pradesh Government on taking of off-take of power being resolved that is my first question? And on the interest expense that we have incurred, which is quite a dramatic increase, one part of it has been on account of short-term loans that you have withdrawn for funding a real estate project and what part of it has been on the regular interest rate that would be on repaying their power project rate?

Suresh Kumar

To answer your first question the PPA still a matter of legal issues there. We are expecting this matter to be resolved sooner rather than later. Given the fact that the unit is also synchronized, there is a pressure on both the sides to settling this matter quickly. So, we are hopeful that it would be settled soon. As far as your second question is concerned on the amount of loans that have been drawn, we did not have any short-term loans sitting on our balance sheet to meet requirements of real estate for sure. The large part of our borrowings is either in long-term form or it is in working capital. So, I would say 100% of the working capital has to be considered for meeting the requirements of EPC rather than the requirement of the property division. We are going absolutely slow in the property business. The short point is that we are not taking short loans to meet any of the requirements of our business whether it is property or EPC or power, this either relied on our working capital or on long term loans.

Shashi Kiran Rao

And a related question on this how much is the outstanding working capital loans for the EPC Division right now?

Suresh Kumar

Well, as of March it was about 800 odd Crores as of now it is of 550 Crores.

Shashi Kiran Rao

Thank you.

Moderator

Thank you Mr. Rao. The next question is from the line of Mr. Parag Gupta from Morgan Stanley, please go ahead.

Parag Gupta

Hi good morning Suresh. Yeah Suresh, just few questions, firstly if you can just give us a little idea on what is happening on real estate in terms of advances received, how much of the pre-



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booked area is still good in your view, so that is one? And second, if you can just give us some idea on gas, have you signed the gas sales and purchase agreements for both the units of Kondapalli and if yes, what is the likely PLF you are expecting from hereon?

Suresh Kumar

The property is I would say like property as a business is not doing great, but you know on a relative basis in Hyderabad, the way LANCO held its position and the way customers are there, we have already 60% booked out of 1400 odd apartments that we want to dispose by March 2010, our customers are paying on time irrespective of what the markets are going through, we do see threat selling the balance 40% because there is not much of customer login happening, but our approach is let us go ahead and build at least 800-900 apartment by deferring certain construction of certain buildings, but at the same time catering to the 60% customers who are paying on time, and meeting our obligations to the customers who have shown faith in us. Clearly, we believe that once we build the 800-900 apartments there would be demand for ready possession apartments and we feel number of customers would login into LANCO Hills closer to delivery time that is the approach that we are taking in developing our LANCO Hills project. Now, can you just repeat your second question so that...?

Parag Gupta

Yeah the second question was have you signed the gas sales and purchase agreements for both the units of Kondapalli and if yes then what is the likely PLF that you are expecting?

Suresh Kumar

Yeah, as far as gas is concerned Parag, we have signed topup agreement for the first unit and today the unit is operating about 80% PLF. Now, since our unit is based on dual fuel, can fire both Naphtha as well gas, government is pushing us more the Naphtha side, today we are operating of almost 81-82% PLF in Kondapalli Unit I and for Unit II, given that government is just commenced the functioning over the last week or so, we expect that in the month of June or perhaps July we will have GSPA for Phase II as well. But having said that we are actually do not believe that gas is going to be a constraint anymore, there was some uncertainty at some point of time as to quantity and timing but given the way off take is happening among the fertilizer companies, we are seeing more than adequate gas available, for the power sector in general, so you know coming August when Kondapalli will commission with the gas turbine and we do believe that gas agreement will be in place and there will be enough flow for meeting our requirements.

Parag Gupta

Okay thanks and just one last question, are you expecting any carbon credit sales for fiscal 2010?

Suresh Kumar

Well, actually we have not booked any of our carbon credit revenue that we have in Aban , for the simple reason that CER price have crashed to 8-9 euros around the time when we were wanting to monetize our stock of credits. It is good that we held back ourselves and today it is backed at some 12 euro levels. So, we will probably start booking now onwards. The existing stock that is lying in inventory so, we definitely see credits picking up in the next couple of



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quarters. We would also see the upside of credits coming in the form of Kondapalli II expansion as well. That project will also be eligible for credits. The small hydro projects, which have started operations it will also start generating credits so I would see a good amount of revenue over the next couple of quarters on this account as well.

Parag Gupta

Suresh thanks.

Moderator

Thank you Mr. Gupta. The next question is from the line of Mr. Vishal Sharma from BNP, please go ahead.

Vishal Sharma

I had a question on the construction revenue it looks like for the quarter you have recorded almost 18 billion of revenue, but the difference in order book has been down only to about 10 billion and majority of that revenue is being driven by the order book, so has there be any additions to the order book?

Suresh Kumar

Yeah, there would be in the additions to the order book largely on the transmission side if I remember right.

Vishal Sharma

Okay, actually it is showing a decline so, alright so maybe you can take this off line in detail?

Suresh Kumar

Yeah.

Vishal Sharma

The second thing is your status on the Vizhinjam Port.

Suresh Kumar

Well, the thing is that for Vizhinjam Port many people are interested in that project despite bidding very aggressively and the matter is with the state government. So, we bid for Vizhinjam Port on our terms and we will agree only if the Port is giving to us on our terms rather than on the terms that others may push for. The matter is going through some legal process and it is better to talk less about the matter. But we need to wait and watch as to how the government is going to react to the matter.

Vishal Sharma

Okay and in the case of your QIP proceeds, it looks like you have expressed some interest of raising the money, now when exactly will you need this money?

Suresh Kumar

See, honestly like all of you perhaps know the numbers and all, we do not require for the existing project that we are developing and which are financially closed. If at all we are going raise this money under this enabling revolution that will be to take care of the growth initiative of the group, most of you all know that we are L1 bidder for both Punjab and Maharashtra projects. We are also doing expansions of Amarkantak III & IV and Babandh. So, it is clearly not to meet the existing requirements it is only like trying to derisk ourselves to take next growth initiatives.



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- Vishal Sharma** Correct and what is the status of land acquisition at Babandh?
- Suresh Kumar** Land acquisition at Babandh has started. We actually completed for section 4 and section 6, section 4 is over, section 6 is underway, but we have gone ahead and around acquired 150 acre and by December we are expecting acquisition of total 1200 acre land.
- Vishal Sharma** And I am sorry, when you withhold this Kondapalli PLF it just got little disturbed here. So, can you tell me, what was the PLF at Kondapalli?
- Suresh Kumar** 80-81.
- Vishal Sharma** 80-81, alright okay thank you so much.
- Moderator** Thank you Mr. Sharma. The next question is from the line of Mr. Rahul Bhangadia from Lucky Securities, please go ahead.
- Rahul Bhangadia** Yeah sir good morning. This question is regarding the property business, I just wanted to know what is your expectation in this year regarding the average realization?
- Suresh Kumar** Well, you assume the holds in this given market and a minor discount to the customers who have been paying on time of close to about 5% overall. We would not reduce prices so our average realization still remains around Rs. 4800 per square foot.
- Rahul Bhangadia** 4800 right?
- Suresh Kumar** Yeah.
- Rahul Bhangadia** And sir one more question regarding the biogas plant. Sir, what is the PLF over there?
- Suresh Kumar** See, the average is about 80% there.
- Rahul Bhangadia** And sir, this delay in the power project means is it okay and the balance sheet is comfortable to giving enough cash flows to pay off the interest charges?
- Suresh Kumar** Well, the interest charges are being taken care of.
- Rahul Bhangadia** Sir, I am talking about this year.
- Suresh Kumar** This year we are in operation mode I do not see any reason why we are not be able to meet these interest liabilities.



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- Rahul Bhangadia** And sir last question, this 3000 megawatt you are talking about in FY10. Does it include that imported coal plants?
- Suresh Kumar** Yes.
- Rahul Bhangadia** Okay sir. Thank you.
- Moderator** Thank you Mr. Bhangadia. The next question is from the line of Mr. Aman Batra from Kotak Securities, please go ahead.
- Aman Batra** I just wanted an update on the hydro project side when will Vamshi project commission and when will the other projects commission and then if there is any kind cost escalation that we need to build in compare to what estimated cost was there before?
- Suresh Kumar** See, clearly there is time over run and cost overrun in hydro and honestly because we have underestimated hydro. But these cost overruns are manageable in the sense that there is enough comfort at the tariff levels to make the project viable despite this cost overrun. So, if you look at Vamshi, Vamshi one unit is operational and enjoying the benefits of monsoon over there in the hills. For example, especially for the month of May hydrology has been good and the month of April was also amazingly good. Hydrology is more or less in line with what we considered in the DPR. Now, commissioning of Baner is expected to happen in June, so hopefully we will give an announcement regarding that in this month. Dirinidhar (Vamshi Energy) is expected around July-August say by August 15th that is what people are saying in the team. There is a delay in Upper Khauli project, so we are looking at around December of commissioning of project. As far as the Budhil is concerned it is not happening as we were earlier thinking, it is going to happen by about June 2010 there are some issues, which we are trying to resolve, it is more on the contracting side, but certainly it is not earlier than June 2010. As far as, Uttaranchal is concerned while financial closer has not happened as yet, it should happen soon in this month as I said, we are going ahead and spending. We have spent almost 100 odd Crores till date. Teesta is going well, contractors have mobilized well enough and we are targeting 2012 for commissioning of teesta.
- Aman Batra** Fine sir.
- Suresh Kumar** But you know it is better if you assume time as well as cost over in all hydro projects.
- Aman Batra** But where would you see actually say the cost escalation and time overrun, if the equity IRR are working out to be total 16%-17% or slipping below that?
- Suresh Kumar** Well, I think 16% is in the base case. There are lots of issues and a lot of other genuine cost escalations that have happened. So, we are hopeful that PTC and Haryana would allow us for



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the cost increase and therefore like it should effectively be positive. So, my base scale IRR would improve due to carbon credits.

Aman Batra

Yeah, okay thanks a lot.

Moderator

Thank you Mr. Batra. The next question is from the line of Durga Dutt from Goldman Sachs, please go ahead.

Durga Dutt

Hi Suresh, I just have couple of questions. Can you please confirm the equity invested till date in your projects under construction and how much equity is required to be invested? And my second question is when do you expect the completion of financial closure for Amarkantak 3 and Babandh?

Suresh Kumar

Financial closure for Babandh and Amarkantak 3 & 4 by March. But as far as equity investment in projects is concerned, Saurabh will give you the details.

Durga Dutt

Sure, thank you.

Moderator

Thank you Mr. Dutt. The next question is from the line of Abul Fateh from Baroda Pioneer Asset Management, please go ahead.

Abul Fateh

Hello.

Suresh Kumar

Yeah.

Abul Fateh

Good morning Suresh.

Suresh Kumar

Good morning.

Abul Fateh

How are you?

Suresh Kumar

Good.

Abul Fateh

Suresh, I just wanted to know the holding in the different power plants as on date like in Udupi Power what is, as on date?

Suresh Kumar

Well, as good as 100%, but directly is 26%.

Abul Fateh

26%, what is it and how is it 100% subsidiary?

Suresh Kumar

Yeah by other company.



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Abul Fateh Okay and in Anpara?

Suresh Kumar Anpara is same.

Abul Fateh Same 26%?

Suresh Kumar Yes.

Abul Fateh And Amarkantak?

Suresh Kumar Amarkantak is directly owned 77%.

Abul Fateh 77%?

Suresh Kumar Yeah.

Abul Fateh And you said like we were seeing a press released your debt in the power project is close to 56 billions and your consolidated debt number is also equal to that number, so there is no other debt in any other subsidiaries or standalone level?

Suresh Kumar No.

Abul Fateh Hello.

Suresh Kumar Yeah.

Abul Fateh Yeah, I did not get you sorry.

Suresh Kumar Well, see it is around 5,600 crores on the consolidated balance sheet.

Abul Fateh Consolidated balance sheet has it is close to Rs.56 billion of debt.

Suresh Kumar Yeah

Abul Fateh And your power plants they have a total debt of close to 56 billion that is also equal to the consolidated debt, there is no debt at the standalone level?

Suresh Kumar There is debt of course at a standalone level, but it is largely working capital debt.

Abul Fateh Okay, all of that is working capital?

Suresh Kumar No, I would say like out of 1200 crores of debt at standalone level 800 crores is working capital as of March 09 and 400 crores is long-term debt.



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Abul Fateh Okay and the debt equity ratio for all your power plants is like 80-20?

Suresh Kumar Largely 80-20, except for one hydro project, small hydro which is 75-25.

Abul Fateh Okay, 80-20 debt equity is, there is no other covenant attached to it, main 80-20 debt equity ratio?

Suresh Kumar Yes.

Abul Fateh Okay, thanks a lot Suresh.

Moderator Thank you Mr. Fateh. Ladies and gentlemen due to time constraint we will take the last question. Next question is from the line of Mr. Rakesh Vyas from Nomura Securities, please go ahead.

Rakesh Vyas Hi good morning Suresh.

Suresh Kumar Hi, how are you?

Rakesh Vyas I am good, how are you doing?

Suresh Kumar Good.

Rakesh Vyas Sir, I had actually couple of questions. First one can you throw some light on the EPC margins going forward?

Suresh Kumar See, I said that in Jan con call, definitely we are seeing a sharp reduction in commodity prices for all the projects that we do, whether it is steel or cement. We also achieved a good amount of reduction in our interest cost so, all the benefits of whatever is happening in market today on the commodity stand and on the liquidity front, we believe will flow through over the next 4 to 6 quarters. I see EPC margin improving from what it was and there are also new initiatives that we are taking on the new projects. We expect better performance in 2010 and 2011, anything I am looking forward to 2010, I am seeing a good amount of operating projects coming through

Rakesh Vyas Okay, also I believe Kondapalli 2 is 100% debt funded project, but if you look at the CapEx breakdown, we could still see some kind of equity contribution being made.

Suresh Kumar The payment terms are back ended and therefore capex will not reflect completely on the balance sheet.



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- Rakesh Vyas** Okay and one last question Kondapalli. Do we see any issues related to section 11, which is being enfolded through a state going forward, I mean is there any indication of something like that happening in AP as well?
- Suresh Kumar** Well, if you want to earn tariffs of Rs. 14 or 15 it s expected that the govt will use all available law in the country to e reduce the prices.
- Rakesh Vyas** Got your point Suresh, but what are the kinds of realizations we are expecting now?
- Suresh Kumar** See, from this month to mid of next month is not be a good indicator of the prices given that monsoon time is always a time when tariffs are low, but you know the ground level situation is very simple, there are deficits and they are basically there for the next 5 years for sure or at least what I feel is that for the next 10 years India is going to see deficit continuing, also it is not that elections are over, from October you are going to see Maharashtra election after that you would see, more states coming into election mode. So, my thinking is merchant prices will be high, but not Rs.11 or Rs.12 that we earned six months back. But basically in the mid range for sure anywhere between 4.5 to 6 is when I estimate it.
- Rakesh Vyas** Thanks a lot Suresh, thank you.
- Suresh Kumar** Yes.
- Moderator** Thank you Mr. Vyas. Ladies and gentlemen that was the last question. I would now like to hand over the floor back to Mr. Pathak for final comments.
- Gaurav Pathak** Yeah thanks everyone for attending the call, have a good day thank you.
- Moderator** Thank you Mr. Pathak, thank you Mr. Kumar. On behalf of ICICI Securities Limited that concludes this conference, thank you for joining and you may now disconnect your lines.