AUDIO CONFERENCING SERVICE

TRANSCRIPTION REPORT

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Operator:

Thank you for standing by and welcome to the Lanco Infratech FY10 results conference call hosted by Credit Suisse Securities.

At this time, all participants are in a listen-only mode. There will be a presentation followed by a question and answer session at which time if you wish to ask a question, please press *1 on your telephone keypad and wait for your name to be announced.

I would like to hand the conference over to Mr. Amish Shah now. Over to you, sir.

Mr. Amish Shah:

Thanks Hema. I welcome you all on behalf of Credit Suisse to Lanco Infratech's FY10 results conference call.

We have with us today on the call from Lanco Mr. Suresh Kumar, the CFO, Mr. Vibhu Agarwal who is the head, Investor Relations, and Saurabh Garg from Investor Relations team.

I would request the Lanco management to briefly update us on the key highlights of the results and we can then open the floor for Q&A session. Over to you, sir.

Mr. Vibhu Agarwal:

I welcome you all to this conference call. I will give you a brief on the results. At the outset let me state we have done reasonably well coming out of the tough 2009. This year was both challenging and eventful for Lanco as we more than doubled the operating as well as construction portfolio.

Speaking about the numbers, on the yearly basis, our consolidated operating revenues before elimination were up by 36%, up from Rs. 69457 million to Rs. 94572 million. Major contributors to the top line on the construction and EPC were Udupi and Anpara. The jump in the power revenues was majorly on account of Amarkantak I which was successfully commissioned during the year. We also saw healthy trend on the power trading where the top line registered a growth of 58% over the previous year, up from Rs.12359 million to Rs.19544 million.
Coming on to our EBITDA, on consolidated basis, our EBITDA registered a growth of 78% up from Rs.8884 million to Rs.15528 million. The margins were at 19% in FY10 compared to the

previous year which were at 15%. However, if we adjust for the power trading, which is a very low margin business, our adjusted EBITDA was up at 24% compared to 18% from the previous year. These margins were majorly driven by the power segment and especially Amarkantak. Our construction EPC EBIT margins for the year FY10 stood at 15% compared to 13% from the previous year. However, the margins on the quarterly basis were down at 11% from 13% in the fourth quarter of FY09. Lower margins in this quarter were on account of the high construction revenues booked in this quarter which yielded lower margins. Margins were also impacted for the BTG equipment that was booked/received in this quarter for Anpara and Kondapalli the steam turbine.

Getting on to our PAT numbers, our PAT before elimination on transaction with subsidiaries and associates was up by 48%, up from Rs.4093 million to Rs.6879 million. You should look at this number in conjunction with the depreciation treatment at Amarkantak and Kondapalli II. The deprecation policy followed by the company for all the new power projects capitalized during the year FY10 and onwards is as per WDV method. While for the projects capitalized, prior to FY10, the depreciation policy followed is that of straight line method. Accordingly, the depreciation charge has been much higher. However, if you look at the cash profit, it was up by 89% up from Rs.5166 million to Rs.9577 million. It is important to look at this number to adjust for the depreciation impact. In our PAT numbers, one should also adjust for the proportionate loss of the property development business aggregating to Rs.286 million. This is consequent to the price discount offered to existing and prospective customers that Lanco has.

Moving on to the major milestones achieved during the year, we added close to 840 megawatts during the year more than doubling our operating capacity. A total operating as well as under construction power portfolio stands at 9300 megawatts today. EPC order book is very healthy and stands at Rs.257 billion at the end of the year. Babandh Amarkantak III - IV, Kondapalli III - IV, and Vidarbha I – II were added to the order book during the year. Construction activities have commenced at Kondapalli III and IV, and Amarkantak III and IV. Majority of the piling work has been completed at Kondapalli, while at Amarkantak the concreting activities are in advanced stage. We also successfully capitalized Amarkantak I & II, Kondapalli II open cycle, and Vamshi Hydro and Vamshi Industry during the year. We have also bought out the entire remaining stake in Amarkantak which now stands at 100%.

I now hand over to our CFO Mr. Suresh Kumar for his comments.

Mr. Suresh Kumar:

In our view this has been a good time to talk about the way the revenue mix is changing. In the years going forward substantial amount of revenue mix is going to come in the form of power business. While we are today at about 1350 megawatts it is expected that in the next couple of quarters you will see much more addition in our operating capacity. By April 2011 you will see us at close to about 4000 megawatts of operating capacity. I would say with a mix of 700 to 800 megawatts of merchant capacity it is expected that by FY11 to FY12 we will have good build up on the revenue front in the power business including the bottom lines as well as the cash flow. Production (EPC) clearly is heading in the direction where FY12, FY13, and FY14 will show a jump in our top line and bottom line. FY11 would not be a huge growth over FY10 I would say, but certainly FY12, FY13, and FY14 will show a lot of growth as we see it. Certainly it looks clearly that the state of the company is firm and we are looking forward to FY11 and onwards.

I will probably stop here and would open the forum for questions and take it one question at a time.

Operator:

Thank you sir. At this time, if you wish to ask a question, please press *1 on your telephone keypad and wait for your name to be announced. If you wish to cancel your request, please press hash or the pound key.

First in line, we have Mr. Sachin Trivedi from UTI Mutual Fund. You can go ahead.

Mr. Sachin Trivedi:

Hello.

Mr. Vibhu Agarwal:

Hi, Sachin.

Mr. Sachin Trivedi:

Hi, sir. Actually, no questions from my side as of now. By mistake it was there. Sorry.

Operator:

Thank you.

Operator:

Second in line, we have Mr. Ankush Mahajan from KC Securities Private Limited.

Mr. Ankush Mahajan:

Hello. Good morning sir.

Mr. Suresh Kumar:

Good morning, how are you?

Mr. Ankush Mahajan:

I am fine, sir. Sir, my question is regarding Kondapalli II. Sir can you tell me what was the merchant power rate in the last month?

Mr. Suresh Kumar:

In the month of April?

Mr. Ankush Mahajan:

Yes sir, the average merchant power rates.

Mr. Suresh Kumar:

Upwards of six rupees.

Mr. Ankush Mahajan:

How much sir?

Mr. Suresh Kumar:

Upwards of six rupees.

Mr. Ankush Mahajan:

Okay, sir. And sir at what rate you are getting the price of the gas from Reliance and all?

Mr. Suresh Kumar:

It is $4.20 per MMBTU at the well head, plus the transmission and marketing margins, will add up to close to about $5.20 to $5.30 per MMBTU.

Mr. Ankush Mahajan:

Thank you, sir. This is okay from my side.

Operator:

Thank you. Next in line, we have Mr. Parag Gupta from Morgan Stanley. You can go ahead.

Mr. Parag Gupta:

Good morning Suresh.

Mr. Suresh Kumar:

Good morning Parag. How have you been?

Mr. Parag Gupta:

Good. Suresh, I have three questions from my side. So, if you could just give us some update on what is happening on Amarkantak in respect of off take, so has there been any development from MP and if not then…..

Mr. Suresh Kumar:

Okay, no development from MP. No discussions since the Supreme Court decision. We have gone ahead and scheduled Amarkantak unit I power.

Mr. Parag Gupta:

This would be on a six month contract or what is the tenure of the contract?

Mr. Suresh Kumar:

Typically three months, four months kind of contracts in April. It will come up for renegotiations during the month of June.

Mr. Parag Gupta:

Okay. And so, you are basically scheduling the entire 300 megawatts on these contracts as of now?

Mr. Suresh Kumar:

That is right. Right now it is all scheduled until June, but you know because of the UI prices remaining low, typically state electricity boards are cancelling some of their earlier bilaterals and they are taking advantage of the UI prices, but they are paying us a penalty and moving on. So, if you see, if you add the penalty and the UI prices that we will get when we sell that power, it will be close to about four and half to five rupee kind of range as against the six plus that we had contracted bilaterally.

Mr. Parag Gupta:

Okay. So there will be a fall in average pricing when you renegotiate in June?

Mr. Suresh Kumar:

That is right.

Mr. Parag Gupta:

Secondly, when are you expecting the combined cycle for Kondapalli to be operational?

Mr. Suresh Kumar:

If you see the Kondapalli plant, it has been shut down to synchronize with the steam turbine right now as we speak and we are expecting over the next week or so there should be a development on combined cycle operations. So, we are just waiting for the commissioning of the combined cycle to get completed. Right now they are going through the final few days of testing and synchronizing with the gas turbine. So that process is on, I would say over the next seven to ten days you should hear something.

Mr. Parag Gupta:

Okay. So, basically we will have the combined cycle operational by this month itself?

Mr. Suresh Kumar:

Surely, clearly.

Mr. Parag Gupta:

Okay. And lastly, you know, you talked about changing your depreciation policy for your new projects to WDV. What is the additional depreciation in the fourth quarter because of this change in depreciation policy?

Mr. Suresh Kumar:

It will not be on the fourth quarter. If you look at say Amarkantak balance sheet as such, we have provided for depreciation almost to the tune of 200 crores as per WDV methodology. Had I followed say straight line method as few companies follow and as we used to follow earlier, the delta is close to about 130 crores. So, we provided higher depreciation of close to 130 crores for Amarkantak. So, just look at it like this. 15% 15.28% somethingis the depreciation rate for

WDV, whereas for straight line it is 5% or 5.28% something. So, almost one-third to two-third kind of a split.

Mr. Parag Gupta:

Okay. Thanks Suresh.

Mr. Suresh Kumar:

Thank you .

Operator:

Thank you. Next in line, we have Mr. Atul Tiwari from Citi Group. You can go ahead.

Mr. Atul Tiwari:

Yes, hello sir. Congrats on good set of numbers. Sir, I have a couple of questions. (A) Can you talk a bit about the progress of the Babandh project, I mean especially in terms of the financial closure and the fuel supply. Because now the project is in your order book, so when will you start actual construction on the ground and the same for Vidarbha.

Mr. Suresh Kumar:

Okay. For Babandh fuel we have 1000 megawatt captive coal and a coal linkage for 660 megawatts from Ministry of Coal through Mahanadi coal fields. So, for the first phase of 1320 megawatts, we have enough coal that we need for the phase I. From the fuel side, there is no gap in terms of our coal requirements and sources of coal. If you look at on the financing side, the good news that we have got sanctions for close to about 6000 crores from all the banks as against the 5500 crores that we needed for the project in terms of debt tie up. So, sanctions all are in place. We are in the process of completing documentation. The timing for that is expected around June 15 to June 30, but in a very advanced stages of closing on the financial closure documentation. If you look at from the land angle, we are I think only about 20 acre short on our main requirements for the project at least for Phase I and therefore the expectation is that by June end we should also get our land in place available for us to start work on and all of us are focused on breaking ground from July 1st onwards for Babandh in specific. That as far as Babandh is concerned, but you should have comfort in the fact that ground breaking has already started in Kondapalli as well as in Amarkantak for their respective expansions.

Coming to Vidarbha, as you all may be aware we have coal linkages for both the units for 660 x 2. Financial closure is under way in the sense that we have about 1000 crores already tied up, PNB and I think Union Bank has given us a 1000 crores between themselves. Another 4500 crores of debt applications have been made to various institutions, and we expect that over the next two to three months we will get our sanctions for Vidarbha as well and I think in a phased manner we are approaching financial closure for Vidarbha, Kondapalli, as well as Amarkantak. Look at land of Vidarbha, we are almost close to about 470 to 480 acres of land purchased already, another 20 acres in Vidarbha is yet to be done that will complete our requirements for Phase I, and clearly like we are on schedule for Vidarbha as well. So, I think like you will see the clear announcements over the next two quarters, both on ground breaking front as well as on financial closure.

Mr. Atul Tiwari:

Yes, and sir, the captive mine for Babandh, I mean you have the land under possession for that part also, or it is under progress?

Mr. Suresh Kumar:

Yes, that will be under progress because if you look at coal, the demarcation is always the issue and especially when your mine is adjacent to the Mahanadi coal fields mine, there will be some time that will get absorbed in demarcating land for the coal JV company. So, having said that you know typically you see Ministry of Coal guidelines, when you have a captive coal available with you and you achieve financial closure of that project, typically Ministry of Coal gives one what we call a tapering coal linkage against the captive coal. You know, just to make sure that if there is any mismatch in the production of the mine and the commissioning of the project, the mismatch gets kind of filled up by this tapering linkage. So, there is a temporary linkage that Ministry of Coal will give you to take care of mismatches in mine production and your plant commissioning. So, what we will do is, as soon as we get our financial closure in place for Phase I of Babandh, we will apply to the ministry and request for the tapering linkage and I think the guidelines are pretty clear that if you have a captive coal you should get your tapering linkages. It has happened in a few cases. For example, GMR has got a tapering linkage in addition to having the captive coal. So, I think guidelines and the approach of Ministry of Coal is very clear on the matter. So, that way, I think we are trying to avoid any mismatches in the schedule.

Mr. Atul Tiwari:

Okay, sir. And sir a couple of more questions. On property development, you have booked few losses. So, I mean do you expect these losses to continue over the next few quarters or it was like a one time event?

Mr. Suresh Kumar:

It is clearly a one time because you know we brought down our prices right from an average price of close to about 4800 to 4600 to almost 3500 to 3600. It was a pretty big discount that we offered to our existing customers as well as to our new customers. Our expectation is that it is one time and given the fact that we are closer to delivering the apartments, we expect many more customers to come. But having said that it is a tough environment and we are trying our best to make sure that the price point is attractive enough for attracting new customers as well as making sure that existing customers are motivated to make the balance payments as well. So, that approach is what we are taking and hopefully like with the economy improving and with the sentiment of Hyderabad improving, we should be able to pull through this period. Having said that, if you see the commercial space in Hyderabad, the demand has come back for both SEZ as well as non-SEZ space. So, I see some green shoots and hopefully like we should be comfortable in the property business soon, should be comfortable over the next two year horizon, but early days I would say

Mr. Atul Tiwari:

Okay, sir. Sir for Amarkantak, the increase in stake, I mean, are you disclosing how much you have paid, is that a public information or . . .

Mr. Suresh Kumar:

It is like, you know, as we have told in the past, webought DEG stake at close to 12 rupees, IFC we bought close to 14 rupees, KVK we bought close to about 25 rupees a share. So, like on a weighted average basis, for acquiring the 24 odd percent that we acquired from various parties, I think on an average we should be somewhere around 20 kind of a thing. I think you can go by that number.

Mr. Atul Tiwari:

And sir, how many shares in Amarkantak?

Mr. Suresh Kumar:

Amarkantak is close to about 60 crores shares.

Mr. Atul Tiwari:

Total outstanding, okay. And sir my last question is I mean in EPC business, on the parent level you have a very strong other operating income of around 110 crores rupees if I am not mistaken. So, can you throw some light on that, what is that going forward?

Mr. Suresh Kumar:

Come again.

Mr. Atul Tiwari:

Sir in your parent numbers you have other operating income of around 110 crores rupees if I am not mistaken.

Mr. Suresh Kumar:

Forex I think, and income at some infrastructure vertical.

Mr. Atul Tiwari:

Okay, sir. Thank you, sir. Thanks a lot.

Operator:

Thank you sir. Next in line, we have Mr. Shankar from Edelweiss. You can go ahead.

Mr. Shankar:

Good morning sir. Thanks a lot for taking my questions.

Mr. Suresh Kumar:

Good morning Shankar. How are you doing?

Mr. Shankar:

Fine, thank you sir. So far so good. Sir, broadly some of the questions. What is the cash available for equity investments while the balance seems to be pretty huge, just wanted to know how much we can deploy these cash for our projects?

Mr. Suresh Kumar:

Assuming cash profit if you see for this year itself, FY10, my cash profit is close to about 975 crores, right.

Mr. Shankar:

Yes.

Mr. Suresh Kumar:

Plus, deferred tax if you add, plus if you add the non cash, employee stock option cost, and all that, I think like even it will cross the 1050 mark on a consolidated basis.

Mr. Shankar:

Okay.

Mr. Suresh Kumar:

And you are seeing the first full year of operations of at least some 666 megawatts of merchant in FY11. Plus my cash balances that are sitting at Kondapalli, Aban, there is like if you see at the group level, my overall cash balance is close to about 2200 crores today.

Mr. Shankar:

Okay, entirely available for investments for equity investments?

Mr. Suresh Kumar:

To play whenever I want on my equity investment.

Mr. Shankar:

Okay. Now, secondly, what is the rationale for changing to WDV, only for these two assets or is it going to be a policy that all assets will be in WDV going forward.

Mr. Suresh Kumar:

It is clearly for all the new projects that are going to be commissioned from the period beginning 1st April 2009 and onwards, only for thermal projects we will follow an accelerate rate of depreciation policy, while for hydro it will be like the normal.

Mr. Shankar:

Sir, irrespective whether it is on a PPA or a regulated or merchant, irrespective of that everything will be WDV?

Mr. Suresh Kumar:

That is right.

Mr. Shankar:

Any particular reason, sir?

Mr. Suresh Kumar:

No, particular reason. I think like if you ask me offl ine I will explain to you.

Mr. Shankar:

Okay, that is fine. Sir, I just wanted to . . .

Mr. Suresh Kumar:

But clearly, it is something that adds NPV positive, whatever we are doing.

Mr. Shankar:

Yes, I understood sir. Sir, I just wanted to know in terms of Amarkantak both largely first the unit one, are you selling it on UI or are you commercializing it and selling it on merchant?

Mr. Suresh Kumar:

Unit I we are clearly selling on a scheduled basis, on a bilateral basis, under the PPA with PTC.

Mr. Shankar:

Okay.

Mr. Suresh Kumar:

PTC in turn is selling to the bilateral market.

Mr. Shankar:

Okay. But it is no more with the MP government being the third party.

Mr. Suresh Kumar:

No.

Mr. Shankar:

Okay. So, you expect them to come on to board and discuss after this contract expires based on the Supreme Court directive?

Mr. Suresh Kumar:

There is no directive from Supreme Court now and the matter is just dismissed and they have told MP that if you have any other option to pursue a dialogue with Lanco it is up to you. So, as far as Supreme Court is concerned, I think it is no longer in their court. It is up to MP now to decide its future course of action.

Mr. Shankar:

So, for all practical purposes we can safely assume this unit I of Amarkantak will be on merchant throughout the life now?

Mr. Suresh Kumar:

At least we are going on that premise right now.

Mr. Shankar:

Okay. And unit II continues to be with Haryana and all?

Mr. Suresh Kumar:

Unit II continues to be with Haryana through PTC, but currently it is on UI.

Mr. Shankar:

Okay, because you are not yet commercialized that is the reason, okay. Sir, can you just reiterate your fuel supply agreement for Udupi, Nagarjuna?

Mr. Suresh Kumar:

Udupi, see the fuel supply agreement was for a pass through at $51 a ton on the premise of an agreement that was signed between project company, coal supplier, and endorsed by Government of Karnataka. As you all will probably be aware the coal prices have gone up since we signed this agreement in 2006, and prices are up and Indonesian government policy is also saying that you cannot enter into contracts where market prices are more than contracted prices. So, Indonesian government has been having dialogue with the Government of Karnataka, us, as well as the coal suppliers to bring about a reasonable increase in prices. So, at least our discussion that we have been having with Karnataka is that once those price discussions reach a final conclusion, until that happens there will be a lack of clarity on how the pass through mechanism will work. Having said that, in principle understanding is that whatever is the price negotiated between all the parties and it is a price negotiation where Government of Karnataka will be involved, they will bless the pricing and that price will be considered for pass through under the PPA. So that discussions are currently on and therefore like I just wanted to give you an overall feel of getting into some of the nitty-gritties on this matter.

Mr. Shankar:

Thank you. Lastly on the real estate, until last year prior to this quarters write off pursuant to the discounts, you restated the margins historically and almost got it in line closer to 25 odd percent, then you have taken this hit on the discount. Now, going forward, is it fair to assume that all the worst is behind us and whatever you will book now entirely should start coming on the normalized basis, no more further writes off and whatever may be the parameter?

Mr. Suresh Kumar:

As of now that is the picture, because effectively like you know whatever we wrote off this year, was effectively what we booked over 08 and 09, it would not be reversed more or less, and this is a one time so, hopefully like there should not be much of loss going forward, but you know we will recognize revenue now only in the end.

Mr. Shankar:

In the sense, can you just slightly explain sir?

Mr. Suresh Kumar:

Until we complete, we do not want to kind of see uncertainty is still there in the property market. So, I do not think we are out of the woods as yet. So might as well be conservative and not recognized much of profits.

Mr. Shankar:

Yes, that is fine. But since the delivery of your original 2 million is around the corner.

Mr. Suresh Kumar:

Yes, to that extent we will definitely recognize revenue and all, but conservative on the margin front.

Mr. Shankar:

So, basically we will continue to book cost based on the entire 4 million?

Mr. Suresh Kumar:

That is right.

Mr. Shankar:

Okay. And when do you plan to or are you planning to sell off the entire lot either with a bulk sale or with slightly more discounts or whatever, at least from a time period perspective you plan to complete that transaction?

Mr. Suresh Kumar:

I think constantly we are looking out for such kind of opportunities. But you know given the size of the group, I do not think we have reached a stage where we want to display desperation. So, I think like it is early, see the thing is let this uncertainty of Telangana come out first. Our expectation is by December 2010 there will be enough clarity on the way forward and my read is if something positive happens on the split side on the split discussion, then it is only upside available for existing customers and new customers.

Mr. Shankar:

Okay. Thanks a lot, sir. That is all from my side.

Operator:

Thank you. Next in line, we have Mr. Avinash Agarwal from Sundaram BNP. You can go ahead.

Mr. Avinash Agarwal:

Morning sir.

Mr. Suresh Kumar:

Morning Avinash.

Mr. Avinash Agarwal:

Sir, could you give us a broad timeline for the 9300 megawatt as in how they would come about and add to our profits?

Mr. Suresh Kumar:

Internally, we are looking for a shorter timeframe for executing this new 4750 megawatts that we are commenced or commencing work on. If you look at Kondapalli Phase III and IV, we have already started work in December 2009 itself. So, my read is by March 2012, certainly, even earlier for sure, you will see the 740 megawatts commissioned and operating. But when it comes to the other projects of Amarkantak, Vidarbha, and Babandh, while in terms of guidance we have given in fiscal 14 commissioning, there is a strong possibility that it will happen earlier at least for Vidarbha for sure, but from your perspective I would suggest you all to focus on fiscal 14 for Amarkantak, Babandh, and Vidarbha. Vidarbha could perhaps surprise everyone, but I do not want you all to factor in that possibility right now, but clearly like you will see us at close to about 9300 megawatts of operating capacity surely by fiscal 14, that is the confidence level that we have today. It is not that we are guiding an aggressive approach to our commissioning plan, but I think having learnt through the last three to four years, I think we are quite confident that we should be there by FY14, we should be at 9300.

Mr. Avinash Agarwal:

Okay. And sir, in terms of Udupi and Anpara or what is the sort of timeline for this year when you expect them to come sir?

Mr. Suresh Kumar:

Well, Udupi may be in a day or two you will hear from us on the synchronization of unit I of Udupi, it is in absolute final stage now, it can happen any time, unit I, and August is the schedule for unit II, so that covers the 1200 of Udupi. If you look at Anpara, certainly December 2010, March 2011 or April 2011 is the first unit and the second unit respectively. I would say like there is reasonable chance that we will achieve what we have been saying, and let us see we will announce as soon as we are able to synchronize unit I of Udupi, and it is for you all to see after that.

Mr. Avinash Agarwal:

Okay. And sir, in terms of the Amarkantak I and Kondapalli II, did you take the 80(i)(a) benefit this year, I mean in FY10.

Mr. Suresh Kumar:

Not this year. Probably in a year or two. I do not think in Kondapalli we will use 80(i)(a) in two years, probably three years from now. Amarkantak may be in FY12.

Mr. Avinash Agarwal:

What is the reason for not using Kondapalli sir for two years, I mean assuming merchant prices would go down in say two or three years, why do you only use it after that?

Mr. Suresh Kumar:

I think I have enough accumulated depreciation which I can take advantage of now for the time being over the next two years, and then only I will start 80(i)(a).

Mr. Avinash Agarwal:

Okay. And sir, in your press release, your Amarkantak I and Kondapalli had the same number of units, is that correct?

Mr. Suresh Kumar:

That is a mistake. We sent the press release I think at 2 o'clock midnight. Pardon us for that, but if you see the table above, it gives you the true picture, but you know if you look at statistics over there, average realization of Kondapalli II until March 2010 is about close to 5.5 rupees per kilowatt hours for Kondapalli II of merchant, whereas for Amarkantak it is close to about four rupees and 10 paise for the full year.

Mr. Avinash Agarwal:

Okay. And sir, our tax rate seems to be high for this year, about 39%, what is the reason?

Mr. Suresh Kumar:

It is a lot of deferred tax across. For example, although my employees stock option cost gets charged to my profit and loss account, it is not a tax deductible expenditure, I mean jury is still 50:50, but you know although you are providing for a stock option expense which is non-cash getting charged to your P&L account, it is not a tax deductible expenditure as of now; for the purposes of our provisions we have not considered that be tax deductible although they are cases laws which say that it is tax deductible. So, to that extent they will be the theoretical high rate of taxation, but that is the way consolidation works. I have eliminated 170 crores of inter-company profit that I have earned from my subsidiaries, but I have paid tax in Lanco Infratech on that profit that I eliminated, but I have not reduced my tax. So, to that extent there will be all this…., and as per accounting standard I cannot adjust it for elimination on consolidation, the tax that I have provided for. Owning standard says whatever is the provision for tax in all your subsidiaries you need to add arithmetically without getting into like whether it has been eliminated or no other profit, of course there is that theoretical mismatch, so it is okay, we have to live with it.

Mr. Avinash Agarwal:

Okay, Sure. And sir, just one final question. On the depreciation sir of Amarkantak and Kondapalli, especially for Amarkantak, have you provided for the full year in this quarter sir, or is it only for one quarter?

Mr. Suresh Kumar:

What is happening is the auditors have clearly said that you need to recognize account for Amarkantak revenue right from June 01, 2009, on the premise that the plant is ready for use. So, they have actually showed revenue right from day one and accordingly depreciation has been calculated from day one, that is from June 01, 2009, for Amarkantak I.

Mr. Avinash Agarwal:

So, all the revenues have been recognized in this quarter sir, for Amarkantak account?

Mr. Suresh Kumar:

Yes.

Mr. Avinash Agarwal:

Okay, sir. Thank you. Thanks for this.

Mr. Suresh Kumar:

While Amarkantak II it is for six days, we capitalize it on March 25th if I remember right, so six days of depreciation has come for unit II, but whereas almost ten months has come for Amarkantak I.

Operator:

Thank you. Next in line, we have Mr. Sumit Kishore from J.P. Morgan. You can go ahead.

Mr. Sumit Kishore:

Hello sir, Sumit here from J.P. Morgan. I have a couple of questions. Most of my questions have already been answered. In the fourth quarter, the construction segment you know, margins had declined to around 11%. I understand there is quarterly volatility in margins, but what should we be read into this quarter’s performance.

Mr. Suresh Kumar:

Come again, what is the end of the question?

Mr. Sumit Kishore:

You know, what should be read into the decline in construction segment EBIT margins in fourth quarter?

Mr. Suresh Kumar:

If you see my last quarter, there was a huge jump in my construction revenue, not the EPC revenue, there was a significant jump in my construction revenue where the margins are typically in that 6 to 10% EBITDA margins. So, that is one factor that contributed to depressed EBIT margin. Secondly I booked some BTG turnover of Anpara and Kondapalli EPC in this quarter of March and typically BTG is not huge margin there from our contract billing and cost point of view. To that extent it will get depressed, I mean typically on BTG your margins are not as high as the overall contract you earn in our EPC.

Mr. Sumit Kishore:

Sure.

Mr. Suresh Kumar:

This is what is expected further, and I think generally like you know projects have reached almost their final stage. So, there will be a bit of a catch up of the new projects to happen before you see trend lines again going back to higher margins. So, I think it is momentary, may be like two to three quarters, and after that we will resume the growth in numbers and profitability of EPC and construction put together.

Mr. Sumit Kishore:

Sure, that is very clear. Just a small data related question on Amarkantak I. What was the PLF of A1 in the March quarter and what was the profit attributable only to Amarkantak I?

Mr. Suresh Kumar:

If I remember right, in March quarter it must be some 83 to 84% PLF, but Saurabh will feed you that data.

Mr. Sumit Kishore:

Sure, yes. Thank you.

Mr. Suresh Kumar:

Yes.

Operator:

Thank you. Next in line, we have Mr. Murtuja from Kotak Securities. You can go ahead.

Mr. Murtuja:

Hi, Suresh. Actually, my question is on the similar lines as the previous one, because all of your interest and employee, all of the expenses seem higher in this quarter that is because you booked all of Amarkantak from June 1st in the current quarter, would that be a fair statement?

Mr. Suresh Kumar:

Yes, that is right.

Mr. Murtuja:

Okay, sir. Would you again I mean I think it would be helpful if you could get . . .

Mr. Suresh Kumar:

I do not think the employee cost would be very high because of Amarkantak booking. It is really high because of all the ESOP accounting entry which would come in March. So, there will be I think I will tell Saurabh to spend some time with you on the cost front. I do not think it is because of Amarkantak.

Mr. Murtuja:

Thanks very much sir.

Operator:

Thank you. Next in line, we have Mr. Bhaven Vitlani from Enam. You can go ahead.

Mr. Bhaven Vitlani:

Morning sir.

Mr. Suresh Kumar:

Morning.

Mr. Bhaven Vitlani:

Couple of questions. One is on the Amarkantak. If you can explain what was the fuel cost and how much of the coal we are getting from the Coal India's linkage and what proportion we have been buying from the e-auction or the imports?

Mr. Suresh Kumar:

I would answer the second question first. More or less coal is coming in from Coal India as well as e-auction. We are depending now less on imported coal. So, that way I think the coal cost pretty much is under control. If you look at my overall cost of generation, it is working for Amarkantak I as of today is close to about some 2 rupees 30 paise per unit is my cost of generation. What was your first question, Bhaven?

Mr. Bhaven Vitlani:

First question is the proportion of coal coming from Coal India and percentage coming from e-auctions or imported coal.

Mr. Suresh Kumar:

It varies, I would say, safe to assume 70:30 between coal linkage and 30 for e-auction and imported.

Mr. Bhaven Vitlani:

One followup question on this. While we understand that most of the other companies have been getting coal linkages, why is it that Coal India gives only 70% of it and is it liable for any penalty clause if it supplies below the mandated level?

Mr. Suresh Kumar:

See, everyone is smart in this business. So, Coal India is certainly like taking into consideration the current environment and availability of coal and the request from various developers who ask Coal India for coal. You see given the priority of the sector, everyone needs to be treated equally in the power sector in terms of coal allocations as well as distribution of coal. So, I think the Ministry of Coal through Coal India is taking steps which I think will ensure that everyone gets coal rather than only a few developers get coal. So, they are at least ensuring that all developers who have commissioned projects, who invested significant amount of capital into these projects, at least get 70% of the requirement and the balance either Ministry of Coal is making arrangement for import and blending with domestic coal and distributing to power developers for their requirement or wherever the power developer is able to absorb higher cost of coal, and since they are running on merchant, those developers are buying from the e-auction and importing coal and supplementing their needs. So, I would say it is an approach towards equitable distribution of coal by Coal India to various deserving developers. And typically if you see the FSA, although it says that we will agree on a best effort basis give you enough coal to meet an 80% PLF, they agree to a minimum quantity which was guaranteed, and the rest is on a best effort basis. So, I think it is something that we need to live with given the situation in coal today, but hopefully over the next four to five years Coal India will put its best effort to meet the country's requirements of coal which we have access to other market from which we can either import or e-auction as an alternate.

Mr. Bhaven Vitlani:

Sure. So, what is the guarantee which Coal India gives and what has been the blended average cost rupees per ton for the last quarter?

Mr. Suresh Kumar:

I will tell Saurabh to talk to you on cost, but you know at least the minimum that they are giving is I would say it is taking care of 70% PLF as of today.

Mr. Bhaven Vitlani:

Fair enough. My second question is more on the Udupi project. When do we expect it to start commercial operations and post the renegotiation with the coal suppliers, what in your opinion would be a selling price on a rupees per kilowatt hour basis?

Mr. Suresh Kumar:

Let us look at like this. At $51 a ton, my variable cost is if I remember right close to 160 I think, but you know I am slightly roughly there on the number, I see it is 160, and if you say assume a cost of say $65, probably cross 2 rupees level on the costing side, variable cost. But you know it is early days, so we do not know where the negotiations are headed, and of course at the right time we will keep you all informed.

Mr. Bhaven Vitlani:

Sure. Sir, would it be fair to assume that the post-accounting for taxes and ROE, selling price would be between 3.2 to 3.5 per kilowatt hour?

Mr. Suresh Kumar:

Probably, but you know it is early days. May be in a month's time we will get some clarity.

Mr. Bhaven Vitlani:

Sure. And when do we expect the project to start commercial operations?

Mr. Suresh Kumar:

Well, we are in very-very advanced stage of synchronizing the first unit and I would say could be in a matter of days if not in hours, but a lot of effort is going certainly at, you know when it comes to synchronizing and commissioning, you need to leave it to the team. You should not take, I mean you should not be in a rush to synchronize or commission a plant because this is the final stage. We should not do something that will you know in a rush if it backfires then it is a problem. I think the team is very focused on doing a smooth synchronization, a smooth commissioning, so that you know next 25 years is absolutely no issues on the running of the plant. So, give it some time, I know everyone is eager just as we are eager to know the status about Udupi, but I think we are close to it and will inform the market as soon as there is a development.

Mr. Bhaven Vitlani:

Sure. My last question is more on the Rampia mines where there are multiple owners. So, while we understand your projects, Sterlite and GMR's projects are actually going at full blown steam, what in your opinion if a couple of partners actually do not start the projects on time. So, what is the fall back option the consortium has if couple of partners do not start the project?

Mr. Suresh Kumar:

I think they are mutually exclusive, I would say, is whoevers' plant is ready, they can use the coal, and to the extent there is production and to the extent one of the JV partners does not have a capacity to use it for, he has the liberty of selling the coal to Coal India and make his returns. So, I do not think there is pressure on you know that all the coal has to be used only for generating power. I mean, a partner share can go to Coal India and the partner can realize the trading margin and upside by selling it to Coal India. So, I do not think there is any constraint on that front. I think all the six consortium members are serious players in the sector and I am sure like all of them realize the value of the coal mine and the upside potential of converting the coal into a value-added product. So, I think like if all the six players are serious enough, this is less of an issue today.

Mr. Bhaven Vitlani:

Sure. That is it from my end. Thank you so much.

Thank you.

Operator:

Thank you. Next in line, we have Mr. Jitesh from ICICI Securities. You can go ahead.

Mr. Jitesh:

Good morning sir. Congratulations on a good set of numbers.

Mr. Suresh Kumar:

Thank you.

Mr. Jitesh:

Sir, my first question would be a book keeping question, if you can share the standalone debt and cash numbers of the company?

Mr. Suresh Kumar:

Standalone debt and cash?

Mr. Jitesh:

Yes sir.

Mr. Suresh Kumar:

Saurabh will give it to you. You can touch base with him.

Mr. Jitesh:

Okay sir. Next question would be with regards to Amarkantak II generation. Sir, if you can share numbers, what kind of generation there has been done since the inception?

Mr. Suresh Kumar:

Not much, because we capitalized Amarkantak on March 25, 2010. For the five six days there was hardly any generation I would say. April onwards, there has been a reasonable jump, but you know being the first few months of its operation, there wouldn't be significant amount of generation coming in from unit II, but I think starting June-July or some part of May, June, and July you will see the buildup happening.

Mr. Jitesh:

Okay. And sir, just wanted to check on this one, are we recognizing this project's revenue in our consolidated revenue or we are excluding it and capitalizing it at this point of time.

Mr. Suresh Kumar:

No, we are recognizing it through P&L account.

Mr. Jitesh:

And sir, when you think likely that for the commercialization of unit II.

Mr. Suresh Kumar:

We will announce in a month or so.

Mr. Jitesh:

Okay. Next question would be with regard to the gross block outstanding at Amarkantak as on date because we have capitalized a few gains to . . .

Mr. Suresh Kumar:

To about close to 2900 crores as of March 10, 2010.

Mr. Jitesh:

And sir accumulated depreciation would be what we have recognized in this particular quarter or . . . .

Mr. Suresh Kumar:

That is close to about 200 odd crores.

Mr. Jitesh:

Okay. And sir last question would be with regards to kind of our power project portfolios are pretty when it comes to pipeline, but are we looking at something else as well when it comes to going ahead like other infrastructure projects in roads and may be in solar as well?

Mr. Suresh Kumar:

Certainly, we are looking at opportunities in the non-power infrastructure space like roads, transmission, MRTS, etc. But you know given the size of the opportunity in power itself, there is so much, I mean if you look at a long-term vision, vision for 2015 is that we should be a 15,000 megawatt operating company. So, certainly like there is enough action that is going on in power and we are constantly on the look out for opportunities that will enhance our portfolio and achieve that objective of 15 GW by 2015. Having said that, we have also built a good team in the non-power infrastructure space to look at roads, transmission and other initiatives. But you know we will certainly look at those opportunities if it adds value to us overall in our business and also add significant amount of shareholder value. So, it will be on our terms therefore and we will not you know bid very aggressive and you know expose ourselves to some risks over there. So, it is like very measured approach that we are taking to increase our portfolio in the non-power infrastructure space.

Mr. Jitesh:

Okay, sir. Thanks and congratulations best of luck forward going ahead with your vision.

Mr. Suresh Kumar:

Thank you. In the interest of time, I would request if you all can restrict to one more question and if you all want you all can separately get on off line and talk to my team in investor relation.

Operator:

Sir, now you want me to take one question or you want to . . . .

Mr. Suresh Kumar:

May be max 2, if can request the participants.

Operator:

Participants are requested to restrict to two questions at a time please. Thank you.

Mr. Suresh Kumar:

Not at the time, not more than two questions now, and we can discuss off line after that.

Operator:

Okay sir. Next in line, we have Mr. Arun Jain from Shubhkam Capital. You can go ahead.

Mr. Arun Jain:

Sir, my question pertains to again your depreciation methodology. You mentioned that all the projects from thermal category will be in the same level of depreciation methodology. So, sir, I understood that in merchant you can charge any depreciation, but what will happen to your PPA kind of prices. Will your client accept this kind of prices?

Mr. Suresh Kumar:

See, in the CERC max you will get is 5.28 in tariff and therefore to the extent of 10% you will not get realization, that is okay, it is like one off, not in all projects it is like that because most of the projects that we have is bidded out tariff, even though it is on PPA they are bidded out. So, it is okay, you can live with some things in life.

Mr. Arun Jain:

I think again I am confused sir, because in bidded you have . . .

Mr. Suresh Kumar:

What I will do is, it is a big subject. Just if you can get off line and spend some time with Saurabh then you will get the logic, it is a big subject, I do not think I can give you an answer right away.

Mr. Arun Jain:

Okay. What level of debt equity you will be comfortable because already you have crossed 4.5 if you exclude your minority interest in FY10 figure. So, what level you will be comfortable in your debt equity level?

Mr. Suresh Kumar:

If you exclude minorities and all then, obviously it will grow and may go to 6 or so, but that is not the approach that I would take when I am looking at my debt equity. Clearly like, I think our debt equity levels are healthy and given that projects are getting into operation mode, partly operational and getting to operational mode over the next couple of quarters, I think earnings visibility is good enough to give me a comfort that my overall debt equity on a gross or net whatever you take, I do not think it is likely to go beyond 3. So, I think we are pretty much comfortable, and I think it is nothing out of the ordinary I would say.

Mr. Arun Jain:

Okay. One last question, can we have Amarkantak I fourth quarter sales number sir.

Mr. Suresh Kumar:

You can talk to Saurabh. He can walk you through.

Operator:

Thank you. Sir, you want me to pick one more?

Mr. Suresh Kumar:

Okay, last one.

Operator:

Sure sir. Next we have Mr. Gautam from BNK. You can go ahead.

Mr. Gautam:

Sir, my questions have been answered, thank you.

Mr. Suresh Kumar:

Okay.

Operator:

Thank you.

Mr. Suresh Kumar:

It has been a pleasure from my side and on behalf of team Lanco here it has been a pleasure to have you all on this call and hopefully we have addressed most of the concerns or questions that you have all had, and if there is anything that you need to discuss, please feel free to discuss with Vibhu and Saurabh. We will be happy to take it off line. Thank you Credit Suisse, thank you Amish, and thank you Hema.

Mr. Amish Shah:

Thank you sir.

Operator:

I would like to hand the floor back to Mr. Amish Shah for final remarks. Over to you, sir.

Mr. Amish Shah:

Yes, Hema, thanks. I would like to thank the management of Lanco also for taking the time out for the call. Thank you all for attending as well. Thank you.

Operator:

Thank you sir. That does conclude our conference for today. Thank you for participating. You may all disconnect now.