

Conference Call Transcript

Event: Lanco Infratech Limited Conference Call

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Lanco Infratech Limited

CORPORATE PARTICIPANTS

Suresh Kumar

Chief Financial Officer - Lanco Infratech Limited - Mumbai

S. Kasturi

Lanco Infratech Limited - Hyderabad

PRESENTATION

Shikha - Moderator

Good evening ladies and gentlemen, I am Shikha, the moderator for this conference. Welcome to the conference call of Lanco Infratech Limited. Mr. S. Kasturi is your call leader today. For the duration of the presentation, all participants' lines will be in the listen-only mode. After the presentation, the question and answer session will be conducted for the participants in the conference. Now I hand over the floor to Mr. S. Kasturi. Thank you and over to you Mr. Kasturi.

S. Kasturi – Lanco Infratech Limited - Hyderabad

Good evening to everybody and welcome to the conference call of Lanco Infratech on the financial results for the year 2006-2007. We have Mr. Suresh Kumar our CFO, on the line. He will first brief you on the financial results and the performance highlights for the year 2006-2007. That would be followed by a Q&A session. Thank you and now over to Mr. Suresh.

Suresh Kumar – Chief Financial Officer – Lanco Infratech Limited – Mumbai

Good evening all. Welcome to this conference call. I am happy to announce that we registered a consolidated result on the total income side of about 1650 crores as against 148 crores of last year, full year. On the bottom line, we are at around 188 crores for this fiscal 2007. On our quarterly basis at a consolidated level for the quarter of March 2007, we have declared about 500 crores of consolidated top line and consolidated bottom line of about 57 crores for this year. Segment wise power has contributed to around 1067 crores, which includes the turnover of our trading subsidiary, Lanco Electric Utilities Limited. That turnover was about 320-odd crores excluding that from our other operating subsidiaries Kondapalli, ABAN, Clarion and Rithwik they have contributed close to about 700-odd crores.

Construction side total income for the year is 526 comprising both income from our construction and our EPC businesses. At a PBT level consolidated 247 crores from our power business while construction contributed 97 crores. In the press release that we distributed over the weekend we have given summary numbers of our operating subsidiaries. If you have gone through it you may please note that despite the actual PLF of Kondapalli for the year at around 54% our availability factor for the plant has been as high as 86% and we earn our revenues based on availability rather

than on actual PLF. So Kondapalli has been able to maintain a good level of profits, despite the fact that the PLF have been low this year. The Profit After Tax for Kondapalli was Rs. 1014 million.

At the balance sheet level, our net worth on a consolidated basis including minority interest is about close to 1900 crores. Debt at a gross level is 1700 crores while I should factor the cash and cash equivalents to about 500 crores of cash equivalents that we have on a consolidated basis. So if you look at it from a debt-equity perspective as of March 2007 we are quite reasonable both on gross debt and net debt basis. Major highlights during the fiscal 2007, the current order book for the construction business is standing at about, close to 5200 crores and represents a small portion of the order that we expect in this coming year that is fiscal 2008. So in terms of the growth in the order book we are going to see a lot of visibility in growth over this fiscal 2008.

As far as Sasan is concerned we are expecting communication from PFC and the Government of India with regard to the bid that we won in early December. So as soon as we get some feedback from the government we will update all our investors. I will stop over here and hand it over to the investors, analysts for questions.

Shikha - Moderator

Thank you sir. We will now begin the question and answer interactive session for the conference participants connected to audio conference service from Airtel. Participants who wish to ask questions may please press "*" "1" on their touchtone enabled telephone keypad. On pressing "*" "1" participants will get a chance to present their questions on a first-in-line basis. To ask a question please press "*" "1" now. First question comes from Mr. Gautham from BNK Securities, New Delhi. Mr. Gautham you may ask your question now.

Gautham – BNK Securities – New Delhi

Hello sir.

Suresh Kumar – Chief Financial Officer – Lanco Infratech Limited – Mumbai

Hello.

Gautham – BNK Securities – New Delhi

Sir could you please provide us the balance sheet number on standalone basis?

Suresh Kumar – Chief Financial Officer – Lanco Infratech Limited – Mumbai

What is the number that you need on a standalone basis, all the balance sheet numbers?

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Gautham – BNK Securities – New Delhi

Debt then gross flow, then current asset and current liabilities also the cash in hand?

Suresh Kumar – Chief Financial Officer – Lanco Infratech Limited – Mumbai

On a standalone basis, the net worth of the company will be around 1400 crores. On the asset side total assets are about 1550 crores. Predominantly represented by investments of about 1340 crores and about 80 crores of fixed assets and 125 odd crores of net current assets. Cash on the balance sheet is 267 crores and liquid investments of about 95 crores.

Gautham – BNK Securities – New Delhi

My next question is regarding your real estate plans. Sir can you throw some light on that?

Suresh Kumar – Chief Financial Officer – Lanco Infratech Limited – Mumbai

What we have got during the year is we have got our SEZ notification in place for our 25 acre IT SEZ in the Hyderabad property. All our design engineering and all has been completed. The aim is to open up booking in the first week of June of this quarter and as soon as we get some success when we open our bookings for the property we will inform all concerned.

Gautham – BNK Securities – New Delhi

What is the total developed area?

Suresh Kumar – Chief Financial Officer – Lanco Infratech Limited – Mumbai

We are going to develop about close to 19 million square feet over the next four years in this 100-acre project that we are developing in Hyderabad, the mix of which we see about close to 8 million square feet of residential, 8.5 million square feet of IT park and about close to 2.5 million of entertainment, hotels and mall. That is what we are planning. This excludes a parking that we are also going to offer to our customers and typically parking facilities that we are going to create is close to about 10 million square feet, so all in all about 29, but the main revenue is going to come from selling and leasing 19 million square feet.

Gautham – BNK Securities – New Delhi

What about other properties, you have got some land in Ocean Park and also in Vizag?

Suresh Kumar – Chief Financial Officer – Lanco Infratech Limited – Mumbai

Ocean Park we have not firmed up our plans on development. We are going to have a look at them in the third quarter of this fiscal year and we will announce our plans then. Vizag there has been a delay on the government's side in terms of handing over the site to us and the award to us so we are waiting for the government to issue its letter of award again.

Gautham – BNK Securities – New Delhi

Sir there was some litigation regarding that, is that litigation over or still pending?

Suresh Kumar – Chief Financial Officer – Lanco Infratech Limited – Mumbai

Regarding Vizag?

Gautham – BNK Securities – New Delhi

Yes sir.

Suresh Kumar – Chief Financial Officer – Lanco Infratech Limited – Mumbai

Vizag litigation is over. We are awaiting the order of the government to re-allot the land to us. The litigation between another third party has got resolved, so we are awaiting the order of the government now.

Gautham – BNK Securities – New Delhi

Okay sir. Sir in your current order book of 5200 crores the top five orders can you give me the numbers also for those orders like how big they are?

Suresh Kumar – Chief Financial Officer – Lanco Infratech Limited – Mumbai

Close to 3500 crores is coming from the Nagarjuna EPC orders that we won. Close to 900 crores is for our Amarkantak projects and the rest are all the hydros and some external projects that we are doing for various other third parties. So largely like Nagarjuna and Amarkantak will take a major share out of the 5200 that we have today.

Gautham – BNK Securities – New Delhi

What percentage of order book will be from outside order?

Suresh Kumar – Chief Financial Officer – Lanco Infratech Limited – Mumbai

About 95% is internal 5% is external today.

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Gautham – BNK Securities – New Delhi

Sir where do you see yourself in terms of revenues and EBITDA margin, next year?

Suresh Kumar – Chief Financial Officer – Lanco Infratech Limited – Mumbai

I think we have a good visibility on growth for our numbers both top line, bottom line. As I said, during my summary we expect our order book to increase from the current levels of 5000 to upwards of 10000 crores by the end of fiscal 2008. Projects I mean Nagarjuna, Amarkantak and all are quite advanced in terms of construction and the new projects will definitely come into the picture. We will see a good growth in our earnings from our construction and EPC business. Since we are going to start booking from property also in this quarter we will see some additions to our bottom line as well and top line for sure. I think definitely we are going to see some good growth this year as well, definitely more than 50% for sure.

Gautham – BNK Securities – New Delhi

Sir what about operating margins?

Suresh Kumar – Chief Financial Officer – Lanco Infratech Limited – Mumbai

Operating margins are robust, I mean current quarter trend, and the full year trend we expect it to continue to be maintained if not better.

Gautham – BNK Securities – New Delhi

Thank you very much sir. I will come back later for followup questions.

Suresh Kumar – Chief Financial Officer – Lanco Infratech Limited – Mumbai

No problem.

Shikha - Moderator

Thank you sir. Participants who wish to ask questions may please press “*” “1”. Next question comes again from Mr. Gautam from BNK Securities, New Delhi. Mr. Gautham you ask your question.

Gautham – BNK Securities – New Delhi

Sir what are your resource addition plans for the next few years in terms of fixed asset and employee additions?

Suresh Kumar – Chief Financial Officer – Lanco Infratech Limited – Mumbai

Employees for fiscal 2008, see we are today at around 1200 employees. We want to reach by end of March 2008 somewhere around 2500 mark. While fixed assets, it depends on the progress of each project but I think what we are planning is to add about another \$500 million of assets in this fiscal.

Gautham – BNK Securities – New Delhi

But sir, for the kind of expansion plan you have this much fixed assets will be sufficient for you?

Suresh Kumar – Chief Financial Officer – Lanco Infratech Limited – Mumbai

Anyway we need to add capacities over the next three years. So on the fixed assets side I cannot grow beyond a particular number. As far as the employees are concerned I think a large portion of the employees will be required when all our power plants actually start operations.

Gautham – BNK Securities – New Delhi

In that case would you be leasing equipments or would you be subcontracting work?

Suresh Kumar – Chief Financial Officer – Lanco Infratech Limited – Mumbai

It is a mix of both. It is not that we will do completely in-house work, we will subcontract part of our contracts as well and we will also be like taking equipment on lease, also buy equipment on our balance sheet as well some critical equipment.

Gautham – BNK Securities – New Delhi

Sir in the current year other income was quite high. Sir, what was source of that other income?

Suresh Kumar – Chief Financial Officer – Lanco Infratech Limited – Mumbai

Largely IPO funds.

Gautham – BNK Securities – New Delhi

Interest on IPO funds?

Suresh Kumar – Chief Financial Officer – Lanco Infratech Limited – Mumbai

That was a major portion of close to about 12 odd crores out of the consolidated 41 and we had a loss of

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profit insurance claim, in one of our subsidiaries Lanco Kondapalli it was shut for about two months. So the loss of profit policy was there. So we got some insurance revenue over there. That is basically a loss of profit policy. There was loss of profits because of shut down for which we had covered ourselves on a loss of profit. So next year it will be converted into an operating kind of a revenue. So except for that 14-odd crores of insurance claim if you adjust for that because that is a loss of profit policy, if you adjust for that other income is quite reasonable.

Gautham – BNK Securities – New Delhi

Okay sir and sir what is the status of Teesta project?

Suresh Kumar – Chief Financial Officer – Lanco Infratech Limited – Mumbai

Teesta project is very close to achieving a financial closure. One lender has not yet signed for the loan document, all others have. So we just hope that in a day or two we will sign the documents.

Gautham – BNK Securities – New Delhi

Sir, when do you plan to complete this project?

Suresh Kumar – Chief Financial Officer – Lanco Infratech Limited – Mumbai

As per the appraisal of an ICICI bank they have factored in a four-year construction period. So we will aim to achieve it earlier than what is been appraised by...

Gautham – BNK Securities – New Delhi

Is it a run of the river project or a dam project?

Suresh Kumar – Chief Financial Officer – Lanco Infratech Limited – Mumbai

It is not a dam-based project, its run of the river project.

Gautham – BNK Securities – New Delhi

Sir what is the status of Anpara project?

Suresh Kumar – Chief Financial Officer – Lanco Infratech Limited – Mumbai

Anpara we filed applications for financial closure with a very large financial institution and they are going for an appraisal process.

Gautham – BNK Securities – New Delhi

Sir, then when do you plan to order for equipment for this project?

Suresh Kumar – Chief Financial Officer – Lanco Infratech Limited – Mumbai

Well we have also called for EPC tenders for this project and we hope to announce the EPC contract soon and ordering for equipment will begin once (inaudible) that is around September 2007.

Gautham – BNK Securities – New Delhi

Okay sir, and sir what is the current interest rate you are paying on marginal debt?

Suresh Kumar – Chief Financial Officer – Lanco Infratech Limited – Mumbai

During construction it is about 10.5%, on a weighted average basis and once construction of each power plant is over there is a 50 basis point reduction straight.

Gautham – BNK Securities – New Delhi

And sir what about the construction business?

Suresh Kumar – Chief Financial Officer – Lanco Infratech Limited – Mumbai

Construction is not much. We just have 70 crores loan in our construction business and there the rate is around 10.25-10.50.

Gautham – BNK Securities – New Delhi

And sir what was your total equity contribution required in all your SPVs put together from Lanco?

Suresh Kumar – Chief Financial Officer – Lanco Infratech Limited – Mumbai

On a gross basis it will be about close to 2500 crores and after you factor in all the internal accruals that we will earn over the next four years. The net equity requirement for which we need to source from external parties will be about 1000-odd crores. Our IPO covers that source.

Gautham – BNK Securities – New Delhi

Sir would you be looking for market for this equity infusion?

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Suresh Kumar – Chief Financial Officer – Lanco Infratech Limited – Mumbai

Not in the near term .

Gautham – BNK Securities – New Delhi

Okay sir. Thank you very much.

Suresh Kumar – Chief Financial Officer – Lanco Infratech Limited – Mumbai

Yes.

Shikha - Moderator

Thank you, sir. Participants who wish to ask questions may please press “*” “1”. At the moment there are no further questions from participants, so now I hand over the floor back to Mr. Kasturi for the final remarks.

S. Kasturi – Lanco Infratech Limited - Hyderabad

Thank you, very much to all the participants, and if you have any further queries you can always feel free to contact me or Suresh. Thank you.

Suresh Kumar – Chief Financial Officer – Lanco Infratech Limited – Mumbai

Thank you.

Shikha - Moderator

Thank you sir. Ladies and gentlemen, this concludes the conference call. You may now disconnect your lines. Thank you for connecting to audio conference service from Airtel and have a pleasant evening.