

LANCO Infratech Limited
Second Quarter FY-2008 Results Conference Call
October 29, 2007

Moderator

Good afternoon ladies and gentlemen. I am Sandhya, the moderator, for this conference. Welcome to the LANCO Infratech conference call hosted by ICICI Securities. For the duration of the presentation, all participants' lines will be in the listen-only mode. I will be standing by for the questions and answer session. I would like to hand over to Mr. Gaurav Pathak from ICICI Securities. Thank you and over to you sir.

Gaurav Pathak

Good evening everyone. I welcome you all to the LANCO Infratech Second Quarter FY 2008 Results Conference Call. We have with us Mr. Suresh Kumar, Chief Financial Officer, LANCO Infratech. Over to you Sir.

Suresh Kumar

Thank you Gaurav. Welcome to all to this conference call to discuss our second quarterly results for the fiscal 2008. It has been a good quarter generally across businesses. Quarter-on-quarter, our numbers are looking good vis-a-vis about close to 600 crores of top-line for the quarter of June 2007, this quarter of September we reported a top-line of close to 650 crores. The trend on the bottom-line has been equally strong, and we are seeing a good amount of visibility for the next couple of quarters more so that post-monsoons, in the September quarter, there will be a good amount of work that will happen in the quarters of December and in March as well. So, with this kind of a very broad backdrop, I would like to take you all through some little bit of details as to how we performed in the 6 months ended September 2007.

On an overall basis, the construction and the power operations excluding power trading has reported a turnover of close to 953 crores for the 6 months ended September 2007. The corresponding period of last year, it was 530. We had a decent run on the power trading side of 285 crores versus 147 crores turnover in the previous period. The turnover for power trading in actual numbers would have been higher but for the banking transactions that we had during the quarter of September which did not result in an increase in turnover, although they were significant addition to the bottom-line from the power trading business. In this period of September 2007 also we did not have any carbon credit sales while we had booked about an 80 million number during the six month period of September in the last year. With the result, profit after tax has gone up 36% over the corresponding period of last year. From about 117 crores to close to about 160 crores. After minority interest, our share of the bottom-line at a consolidated level has moved up from about close to 69 crores to 112 crores for the first half. Now, if you look at broadly the way the construction business has performed in this period, you look at the segment results that I am taking for the quarter of September. The construction business has reported a turnover of close to 372 crores versus 91 crores of the corresponding quarter in the previous year, a reasonable jump. For the first half of this fiscal, the construction business has reported a turnover of close to 520 crores versus corresponding turnover of 183 crores in the last fiscal first half. Profit before interest and tax from the construction business has been robust enough. We maintained almost the

same kind of the bottom-line margins. Although we could have earned more in this quarter of September, but because of, you know, delayed and extended monsoon, we have not been able to like book enough turnover for this quarter, but its only got postponed to the December and the March quarters, but for that slight aberration, the construction performance has been reasonably good from our perspective but it could have been better. The only thing we see is the better margins coming in during December and March. Coming back to power, a reasonably good show as we see it, about 276 crores during the quarter of September 2007. Although there is a drop of close to 20% related to the previous quarter, we see some amount of profits being generated at the PAT level. The turnover of last quarter of September 2006 included a significant portion of trading turnover, which as you all know does not generate enough bottom-line. It is more of a top-line kind of a number rather than a bottom-line, but this quarter despite a lower turnover, we have been able to maintain a reasonable quantum of bottom-line that we generated from the power business. Overall, we also did not book some carbon credit revenues that we could have booked, but we postponed it because the receipts were not in place as on the date of reporting, so the revenue generations from carbon credit is what will come in during the quarter of December and to that extent, you know, earnings are not comparable to the previous year on the power side of the business.

I would now give you a brief summary of how the subsidiaries have performed during the quarter of September. PLF in Kondapalli have been relatively high because of naphtha firing during the quarter of June, not during the quarter of September. Generally, PLFs have been high, operating margins relatively stable at 40% to 43% mark vis-à-vis the previous quarter. ABAN, had a reasonably good PLF, a good supply of gas that we are getting from Cauvery Basin kept our margins up we maintaining decent margin of 51% or 50% kind of level. The carbon credits of ABAN are likely to be reflected in the current quarter of December. During this quarter of December 2007, Kondapalli has been able to sell some of its carbon credit in the VER market, this is voluntary emission reduction market which is in US. This is an active market where certain projects which don't strictly fall within the Kyoto protocol have a window to sell some of their credits, and Kondapalli has been able to sell some of its past credits in the VER market, and those numbers will also come during the December quarter. Excluding the carbon credits that Kondapalli and ABAN would earn in this current quarter, we are generally enthused about the way Kondapalli and ABAN have generated results over the last couple of quarters. Lanco Electric Utility has been having a good run. Today, we are amongst the top 3 power traders in India. We traded closed to about 1300 million units until the first half of fiscal, and while turnovers have not been high, on the bottom line, it has been pretty strong, despite turnovers being lower compared to the previous quarter of last year.

As far as recent developments are concerned, the uncertainty of the stay order on Lanco Hills is no longer there. I am glad to inform all of you that the stay order has been vacated by the Honorable Chief Justice of AP High Court. Clearly, if you look into the judgment, the matter is more of compensation issue between the petitioners and the Government of AP, and the way the judge has suggested in his judgment, that whoever is the ultimate title owner of this property, they only need to get the compensation that is lying with the government today, so it is only a matter of the compensation going to the ultimate owner of the property. It does not disturb our position in any way nor does it affect the title for the ultimate customers of the residential space and the commercial space, so that is where largely I would say the uncertainty related to the property is

virtually nonexistent as of now, and we have re-started construction and rearranging our construction plan such that we need all our commitments that we have made to all our customers. With regards to power, at the Anpara project, we have taken over the sites as of 27th of October. We started work over there in terms of minor site development and other matters that are required to gear up the project site for the construction work that is expected to begin. We have looked at capacity increase from 1000 MW to 1200 MW, which has been approved by the UP cabinet, and are also awaiting approval from the UP Electricity Regulatory Commission. We will take a call once we have the approvals of the UPERC on this matter. Besides that, we have taken active steps to have a second phase of expansion within Kondapalli and in Amarkantak, so we are adding about close to 400 MW of gas-fired capacity in Kondapalli within the overall site of Kondapalli itself, so we don't need to buy additional land to expand our capacity by another 400 MW. We invited EPC tenders. The way we intend to structure the Kondapalli expansion is to largely cater to the merchant market, and typically to set up a gas-fired top plant, you don't take more than 2 years start-to-finish to complete the project and get it operational. So, tentative plan is to start work from December and target commercial operation beginning from April 2009. Also, we will be taking some active steps in this regards. Amarkantak, the second phase of expansion is going to be in the form of 600 MW expansion which is our unit 3 that we are planning there, and we are taking active steps from the EPC side as well.

In the Construction business, we are actively bidding for external projects. A project which we won recently are in Tirupati, we are looking at 73-crore Vedic University that we are constructing over there for our third-party clients. We are also constructing the new terminal building at the Varanasi Airport which is another addition that we have added to our external projects business within construction. We recently were the lowest bidders for 5 packages of 33/11 KV Sub-station in AP, about 67-1/2 crores of contract. We are actively bidding for many such projects in the external environment with a view to expand our order book from the external businesses as well. With these additions, we have reached close to about 7600-crore kind of order books, executable over the next 3 to 4 years, and we are hopeful of many more to come our way. I will stop here and take questions.

Moderator

Thank you very much sir. We will now begin the Q&A interactive session. Participants who wish to ask questions, please press *1 on your telephone keypad. On pressing *1, participants will get a chance to present their questions on a first-in-line basis. Participants are requested to use only handsets while asking a question. To ask a question, please press *1 now. Participants who wish to ask questions kindly press *1. The first question comes from Mr. Gautam of BNK Securities. Over to you sir.

Mr. Gautam

Hello sir. I wanted to know about the sudden dip in the construction business EBITDA margins. What was the major reason behind that ?

Suresh Kumar

See, Gautam, as you might be aware, construction, by nature is a lumpy business.

Mr. Gautam

Yeah, that is right sir.

Suresh Kumar

Whatever we could book as turnover, as per the contract that we have with our client, it is always possible that there could be items within the billing which need not have the same operating margin as we have been earning in the past or earning currently. It is always possible that a particular item only has a 5% margin attached to it, there could be others which have 30 to 40% margin attached to it. So during the quarter of September, the bill, certain items where there whose margins were not relatively higher. So, it may be down now, but we may always see a situation in future where when we bill for certain items which are high-margin items, this gets broadly spread over those items as well. Which is why, for example, during the quarter of September, we had to book supply items, which was largely like, I would say not a great margin kind of an item, you know.

Mr. Gautam

What about the future margins ? At what level do we expect them to stabilize in future, EBITDA margins on construction business ?

Suresh Kumar

I think broadly on a year-on-year basis if you see the way the margins are looking, we don't see major aberrations coming in. So, whatever the dip in the margins that you have seen in this quarter will be more than recovered, in the quarters coming going forward. So, I would say like on an overall basis, year-on-year, we don't see major aberrations in the margins.

Mr. Gautam

So, can we expect the EBITDA margins of 19 to 20% going forward in construction business ?

Suresh Kumar

Yeah, reasonable to expect.

Mr. Gautam

Okay, and sir, what about the revenue growth ? What kind of growth we can expect from your construction as well as real estate and power business ?

Suresh Kumar

See, power is mostly stable. It will reflect steady growth. Given the fact that we have stopped firing naphtha now at Kondapalli, so I see a steady kind of growth in power.

Mr. Gautam

Yeah, but in FY09, some of your new power businesses will be operational, so can we expect growth over there ?

Suresh Kumar

When unit 1 and unit 2 of Amarkantak get operational, you will see a significant growth in revenues.

Mr. Gautam

Yeah, that is right sir.

Suresh Kumar

Especially the operating part. The trading turnover will always be there, but you know, it is not a big kicker to the bottom line, but when it comes to construction, given that we have today an order book of close to about 7600 crores executable over the next 3 to 4 years, and we expect some more orders coming our way, especially I am quite hopeful that we will get our property order book coming our way for executing some of the property development projects that we are doing, we expect also some good order book increase coming into some of the power projects that we are going to add to our portfolio, whether it is in the form of Anpara, whether it is in the form of Amarkantak unit 3, or for that matter Orissa project. I mean these are all orders that will add to our order book, and given that these are also projects that would be executable over the next 4 years, we see a good visibility on the construction and EPC side as well.

Mr. Gautam

Can you please quantify the growth number in construction business ?

Suresh Kumar

See, if you take 7600 crores over the next 4 years, on an average, it is close to about 1800 odd crores per annum. So, maybe, you just need to like fine tune it a bit, and see that is a good indicator for you, see how the turnover from construction and EPC would evolve.

Mr. Gautam

Yeah, and sir, what about real estate business, when can we expect revenues to flow in ?

Suresh Kumar

On the current estimate basis, I see that we may book some revenue from property this fiscal. We will probably do it more during the fiscal of 2009, 2010, and 2011. So, I would suggest don't expect much in terms of revenue booking in this fiscal from property.

Mr. Gautam

Okay, and sir, what kind of order book can this property business generate for your construction business ?

Suresh Kumar

See, our spend on property is expect to be close to about 3600 odd crores, purely on construction cost and other services cost that we expect to incur, so this is over life of project, say about 4 years. I would say like we expect LANCO to get 40 to 50% of this potential expenditure. So, assume that, we should get an order book of close to 1500 odd crores coming in from property over the next 3 years.

Mr. Gautam

Okay. Sir, you have planned extension of your power projects. So, when can we expect financial closure happening ?

Suresh Kumar

Kondapalli, certainly we feel like by March 2008, we will be able to achieve financial closure. Largely because this is basically a division of existing operating business of Kondapalli. This has sufficient internal accruals that can be used to fund the project. In addition, we will be applying to institutions to raise debt for the project as well. I feel by March 2008, we should achieve financial closure for Kondapalli.

Mr. Gautam

Okay, and sir, what about fuel linkages ?

Suresh Kumar

We are getting into a gas agreement with couple of gas suppliers, including the bigwigs like Reliance Industries and all. We are discussing with them. We are hoping that we will be to like ink a formal agreement for gas linking.

Mr. Gautam

Okay, but sir, at the kind of rates Reliance plans to sell, is it viable to operate a power project ?

Suresh Kumar

We structured the project, as a merchant project, and in the current demand supply scenario, we feel like a merchant power project can obtain a price of 4.2 dollars per MMBTU.

Mr. Gautam

Sir, what about the financial closure of Anpara project ?

Suresh Kumar

Anpara project's financial closure is underway. We have got sanctions from REC. We are syndicating the balance debt component from other lenders as well. Perhaps, in a month or so, we will have more clarity on where we are on the financial closure. I would say like we are at an advanced stage to achieve financial closure.

Mr. Gautam

Sir, what would be the balance amount which is left for which financial closure is yet to be achieved ?

Suresh Kumar

See, we need to syndicate close to about 3000 crores of debt. Out of which, we have syndicated close to about 1600 crores of debt.

Mr. Gautam

Sir, what is your target for achieving financial closure in your road BOT project ?

Suresh Kumar

Soon. By November, we should be done.

Mr. Gautam

Okay. Thank you very much sir.

Suresh Kumar

Pleasure.

Moderator

Thank you very much. Participants who wish to ask questions, may kindly press *1 on your telephone keypad.

Gaurav Pathak

Ms. Sandhya, I would also like to ask a couple of questions. Can I go ahead ?

Moderator

Please go ahead sir.

Gaurav Pathak

Sir, on the construction orders that you have taken from the outside, you know, I just wanted to ask strategically you have taken, all these orders are like small orders, less than 100 crores each. So, are you like targeting these kind of orders and also from the outside infrastructure basket, you are looking at some big orders coming as well.

Suresh Kumar

What we are doing is, we are selectively getting into external projects, where we believe margins are reasonably good and not cut throat as we are experiencing in other external project bidding. If you see the direction, it is with an intent to like be ready to bid for larger projects. For example, the sub-stations work that we bid for is one step in that direction because we see a lot of transmission projects which are going to come up for bidding in a big way, so we are basically gearing up to participate in those projects as well. There is a good amount of push that is coming from the rural electrification sites where rural electrification contracts are being awarded in many large numbers. So, we are gearing up for that initiative going forward. Varanasi airport is just more to understand what typically is done in any airport upgradation project.

Gaurav Pathak

So, basically, what kind of an IRRs are you looking at external projects because you are making decent returns on the internal project.

Suresh Kumar

I would say like it is not great in terms of margins compared to internal. The external projects we are looking at somewhere in the range of 9 to 10% margin kind of levels, but you know, these are not very working capital intensive, these are reasonably easy on working capital, on an IRR basis or on a return on investment basis, they are pretty attractive.

Gaurav Pathak

Okay. Regarding that JV that you have done on the port front, Gulftainer, any new developments, are we expecting some kind of an order flow or new project coming in from there?

Suresh Kumar

I can't promise whether this will definitely result in some award of contracts to us on a BOT basis, but the fact is that we have qualified for 2 port projects for which we need to bid for, so we will wait and watch. We will look at the economics of each of these projects, and if we happen to win, we will add it to our list of infrastructure projects that we want to develop.

Gaurav Pathak

Okay, what is the scope of these projects ? What size ?

Suresh Kumar

These are reasonably large. I would say about in the 1500 crores plus kind of project size. They are reasonably large within the port space.

Gaurav Pathak

Okay, and are you in the near term expecting any new power plants from the coal blocks that you have been allocated ?

Suresh Kumar

Yeah. We are awaiting a formal letter from the Government of India, allocating us 2 coal mines in Orissa, so we anticipate the communication happening any time, and if we get that formal letter, we expect to add about 1000 MW of projects linked to our captive coal block that will be allocated to us.

Gaurav Pathak

Okay. Ms. Sandhya, is there any other question ?

Moderator

I repeat, participants who wish to ask questions, may kindly press *1 on the telephone keypad. We have a question from Mr. Shalabh Agarwal of Sundaram BNP Paribas. Over to you sir.

Shalabh Agarwal

Good afternoon sir.

Suresh Kumar

Yeah. Hi, Shalab.

Shalabh Agarwal

Sir, I have a question on the transmission side. You were saying you are gearing up on the projects which might come up on the transmission side. Can you just take us through what kind of, you know, how is the company planning to tap this opportunity, and you know, because I believe there would be pre-qualification criteria to bid for those projects, and with the limited experience in this field, how is the company planning to, you know, gear up for these projects ?

Suresh Kumar

Shalabh, you should be aware that the entire transmission network that we are building for Amarkantak evacuation, is being done by ourselves.

Shalabh Agarwal

Okay.

Suresh Kumar

So, that is almost 30 km transmission line that we are setting up for the Amarkantak unit I & II. So, 60 crores kind of an expenditure is what we have incurred. So, that is one part of the entire gearing up. The second part is, we are also doing the transmission

network for evacuation of the Nagarjuna power project from Mangalore to the local KPTCL sub-station, 80 km stretch that we are putting together.

Shalabh Agarwal

How much Sir ?

Suresh Kumar

80-km stretch. Similarly, the rural electrification projects that we are doing within the transmission space, we recently were the lowest bidders. That will give us a good amount of knowledge on the way of costing work of our projects of a similar nature. Okay.

Shalabh Agarwal

That is right.

Suresh Kumar

Last August, if I remember right, we had bid for a couple of projects on the Western grid, transmission projects. These are the BOT projects that were ultimately won by Reliance Energy. We had qualified for all the 4 projects that we bid for. We were, I think, the L4 bidder after GMR and China Light. So, we pretty much understand the space, and we feel that we are well geared up to meet whatever comes out going forward from the northern grid and the western grid projects that are coming up for bidding.

Shalabh Agarwal

Okay. Sir, which are the other infrastructure areas, you know, which company is looking at to get into now going forward ?

Suresh Kumar

We are actively looking at transmission BOT as an important focus area.

Shalabh Agarwal

Right.

Suresh Kumar

We are looking at ports in a big way, and maybe at the right time we will look at bidding for projects within the airport space as well, but roads are another sector. We are seeing a good amount of projects that are coming up for bidding beginning November end. November, December, and January, we are seeing quite large number of projects which are coming up for bidding. As part of NHAI's phase 6 I think. So, we are bidding for those projects. We have already qualified for 4 of them, and we are actively looking at all the 4 projects.

Shalabh Agarwal

Okay.

Male Speaker

Have you bid alone or you are bidding with somebody in a joint venture for the NHAI projects ?

Suresh Kumar

Some we have bid alone and some with some financial and technical partner.

Male Speaker

In terms of airport projects, what is the kind work that is being bidded out at this point in time in the airports.

Suresh Kumar

What is the ?

Male Speaker

What is the quantity of work that is being bidded out in the airport space ?

Suresh Kumar

Basically, as a contractor, we are looking at couple of projects, purely as a contractor. Varanasi Airport is one of them. We have couple of more projects that are coming up for bidding soon. We expect to actively participate in those projects, but when it comes to like airport projects as a developer, we are seeing couple of options coming up in Navi Mumbai, Greater Noida, and the Tier II and Tier III cities like Vishakapatnam and Jaipur and Amritsar. You know, there are couple of options that are evolving in those areas too where it is more of a modernization, upgradation, privatization kind of projects that are coming there.

Male Speaker

On the real estate front, you have any other projects to add to, you would like to talk to us about ?

Suresh Kumar

I think right now we are focused on Hyderabad and Chennai for two of our developments. We are actively looking at regions like Bangalore and some parts of Chennai too to expand our portfolio there. Maybe in due course, we will announce.

Male Speaker

Thank you Sir. All the best to you.

Suresh Kumar

Yeah. Thank you.

Moderator

Thank you very much Sir. At this moment, there are no further questions from the participants. I would like to hand over the floor back to Mr. Gaurav Pathak for final remarks.

Gaurav Pathak

Yeah. I would thank everyone for taking the time out to be there on the LANCO Infratech Conference Call. Special thanks to the management for being here for the call. Have a good day everyone, thanks.

Suresh Kumar

Thank you.

Moderator

Ladies and gentlemen, thank you for choosing WebEx Conferencing Service. That concludes this conference call. Thank you for your participation. You may now disconnect your lines. Thank you and have a nice day.
