



“LANCO Conference Call”

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Moderators: Mr. J Suresh Kumar - Chief Financial Officer, LANCO
Mr. S. Kasturi - General Manager (Investor Relations), LANCO.
Mr. Anish Jhaveri - CEO, Antique Stock Broking.

Moderator

Good evening and welcome to the LANCO Conference Call hosted By Antique Stock Broking. We have with us Mr. J Suresh Kumar – Chief Financial Officer, LANCO and Mr. Mr. S. Kasturi – General Manager (Investor Relations), LANCO. With us we also have Mr. Anish Jhaveri – CEO from Antique Stock Broking. For the duration of the conference all participants' 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 any assistance during the conference, please signal an operator by pressing "*" and then "0" on your touchtone telephones. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Anish Jhaveri from Antique Stock Broking. Thank you and over to you Mr. Jhaveri.

Anish Jhaveri

Hi! Thank you. Welcome everyone; on behalf of Antique Stock Broking I welcome all of you to the Q3 FY `09 Conference Call of LANCO Infratech. We have Mr. Suresh who is the CFO and Mr. Kasturi who is in-charge of IR. Suresh thank you very much for joining us today; I request you to throw light on how the quarter being so far and about the visibility going ahead specially in the three main areas of the operation i.e. Power, EPC and Real Estate. So over to you Suresh.

J Suresh Kumar

Thank you Anish. Thank you all investors on the line. Welcome to this conference call, we will talk a little bit from the Q3 results of FY `09 and I will also follow it up with some broad messages on the way we are heading for the next year or so, I would say. And thereafter we can have a Q&A. I will request Mr. Kasturi to , give an overview about the results that we announced a couple of days back and I will take it on from there.

S. Kasturi

Thank you Suresh and a very good afternoon to everybody. We had announced results on January 30th and I hope that most of you would have got an opportunity to look at the results. On nine monthly basis our revenues more than doubled in respect to the previous year's same period. EBITDA in comparison to the previous year for the nine months grew by 41% while the reported Profit After Tax in comparison to the previous year for the nine months was marginally up by 3%. And if we compare the same set of numbers for the quarter, top-line has been showing a very robust growth, EBITDA too grew almost by 40% while the bottomline which was reported was marginally up by 2%. To clearly understand some of the issues with relation to the results there are couple of things which I would like to bring out which we also brought out in our press updates.

First is about revenues, you have to understand that there are three things in the revenues which increases the topline which are , (one) the use of naphtha in some of our power plants, (second) the power trading which we book through our power trading arms which

has grown significant increase in terms of the revenue booking (third) and lastly of course the construction and EPC business itself which has grown significantly in terms of the revenue. Coming down to the margins, on a consolidated basis, the reported margins certainly have come down. However again there needs to be some bit of a clarity in how you understand the change in the numbers because of A) the trading revenues which don't carry much of the margins. B) The sale on account of naphtha which shows revenue in the power projects but does not translate into a significant increase in margins. C) also the fact that carbon credits were booked in the previous year in the same quarter while it was not so in for this quarter. So if you adjust for those margins you can see that the operating margin have come down marginally.

While coming to the construction EPC margins separately, you will see that the construction EPC margins have come down even on the standalone basis from 16% last year to 12% this year. The main reason for drop was the increase in the cost of construction and the procurement during this quarter which has been impacting the margins and going forward we believe that the reduction in the input cost will bring down the costs and therefore probably have a positive impact on the margins. During this quarter, in the property development the margins recognition has been low because of the increased cost and therefore that has also significantly impacted the profits in the subsidiary which is doing property development and also ultimately the consolidation too. So if you consider many of the adjustments in these margins you would see that overall the margins have dropped only marginally.

Coming to the bottomline, again one can see that the reported bottom-line is almost flat. However there are certain adjustments which need to be understood. The first is the adjustment with respect to the change in the accounting policy, the AS-11 applicable for the foreign exchange fluctuations. In terms of a guidance note given by a CA Institute, the accounting policy has been changed so that the recognition of the loss on the foreign currency fluctuations have been taken to a separate account called the Deferred Foreign Currency Fluctuation Asset Account instead of the losses being shown in the Profit & Loss Account. If everybody remembers we have been providing for these foreign exchange losses for two of our subsidiary companies which are running power plants because they had some foreign currency denominated loans. Now those provisions which we had made in the previous quarter in the current year have all being reversed in line with the institutes guidelines and therefore this quarter shows positive implication in terms of the foreign exchange fluctuations. Second impact which one needs to take into account while making a comparison for this quarter and this period versus previous year's period is the elimination of the profits on transactions with associates and subsidiaries which was not done in the previous year but which has now been done from the current year onwards. And therefore that adjustment which needs to be taken into comparison. If

you compare and make adjustments for all the figures then the profits definitely is almost flat as compared to the previous year.

So these are the issues in terms of the numbers and in terms of some of the developments during the quarter other than the financial, the first one was commissioning of small hydel power plant of 5 mega watts in the State of Himachal Pradesh. This was the first hydel plant which LANCO has on its own commissioned. Second is the signing of the sale agreement for Rithwik and Clarion, 2 biomass based stations for which we have made a disclosure in the press note also giving details of the consideration we would be resuming there. The third and the last is also an update on how the recent incidents in the Indian Corporate space have also made us to adopt some new practices. Our Board has recommended an appointment of a joint auditor instead of a single auditor for us and we have a made relevant announcement in the press update and we would be following The Company's Act provisions to finally appoint a joint auditor along with the current auditor which is Price Water House. And that's about all on the update and the financials and the important developments and now I leave the floor for the questions and answers.

J Suresh Kumar

Before heading to Q&A a couple of supplemental from my side. As we are maintaining since last quarter, in all our interactions with our investors and wherever we meet them on a one on one basis, the liquidity position of the group is quite strong. I would say given the fact that most of the projects where we are developing today are financially closed projects except for the LANCO hydro projects we are doing in Uttaranchal which is a small Rs. 500 crores project that we are developing there as a merchant project. Except for that, all other projects that we are executing today are financially closed projects and we have not been affected as much as some of the other corporates have been affected on the liquidity side. Today we run a liquidity position of close to Rs. 1100 crores on our Balance Sheet and it is improved further since December, ever since the disbursements have happened in the month of January further. So our liquidity position today is quite good in our view and we believe that the next couple of years, especially 2009-10 is going to be a year that we would like to look forward to given the fact that we expect almost 2000 mega watts of capacity to come into operations by fiscal 2010. So, 2000 mega watts of operating capacities is going to throw in lot more cash flows to the Group in fiscal `10 onwards and we are clearly looking forward to the next 3-4 quarters. Then most of these 2000 mega watts are going to come into operations.

We are going to start this quarter with Amarkantak Unit 1 which is currently in synchronization mode and is expected to get into commercial operations very soon. We will follow it up with commissioning of the gas turbine, simple cycle of Kondapalli phase II expansion around the Q2 of fiscal 2010 sometime after June 30th 2009. We will follow

that addition with Unit 2 of Amarkantak which is another 300 mega watts of capacity which is expected to be in the October to December time period and thereafter we will commission Nagarjuna which is 1,000 mega watts. So clearly like in next 12-15 months it is going to be very eventful and we are looking forward to all the efforts that we have put in over the last 3 years to come to fruition when all these projects will get into commercial operations. So I will stop here and open up the floor for questions.

Moderator Thank you very much sir. We will now begin the question and answer session. At this time if you like to ask the question, you could press “*” and “1” on your touchtone telephone. If you decide to withdraw from the question queue, you could press “*” and “2”. Participants are also requested to use handsets while asking a question.

The first question comes from the line of Mr. Vishal Sharma of BNP Paribas. Please go ahead.

Vishal Sharma Yes, Good afternoon everyone.

J Suresh Kumar Hi!

Vishal Sharma I have one question, in your buildings that you have disclosed in terms of order book, was there any other project apart from the AP Government orders because even if you eliminate that it looks like as if you have won some more building orders?

J Suresh Kumar We want a couple of projects, building projects only in just about 100 kilometers of Hyderabad at a place called Basra. We won a couple of contracts there and we won a couple of transmission contracts also. So those are by far the additions that we have made.

Vishal Sharma Ok, And second thing I wanted to ask you is when you adjust your power revenues for the crude and the adjustments that is shown on the page 3 of the release, it looks like as if your adjusted revenues is down 10% although your PLF suggest that there has not been a decline in the rate at which it has been running. So it is somewhat confusing there.

S. Kasturi Vishal, sales which you are seeing there for the previous year would also include the sales on account of the carbon credits. You have to remove that to make a proper comparison actually.

Vishal Sharma Alright. And is the EBIT also adjusted for naphtha cost last year or this year in power?

J Suresh Kumar No, it doesn't come at an extra cost, naphtha.

S. Kasturi It's a pass through actually.

- Vishal Sharma** Ok, Ok, that's the reason. And on the page 6 you have shown total debt or you have shown total CAPEX, does that include total debt and equity?
- S. Kasturi** Yeah that total CAPEX is complete. The actual capital expense is in the project.
- Vishal Sharma** Ok, Sir, in that case on LANCO Energy Teesta, your CAPEX is lower than your debt that has been raised. So is that the right thing?
- S. Kasturi** There is some cash left in the Balance Sheet actually.
- Vishal Sharma** So that has been raised in advance of any payments or something or....?
- J Suresh Kumar** No why in advance, it has been raised to fund certain payments to contractors now.
- Vishal Sharma** So it is just a timing issue there?
- J Suresh Kumar** There is no timing issue there; it was as required under the contractual terms and as per the payments to subcontractors.
- Vishal Sharma** Ok, And on the standalone your employee expenses have gone up. Has there been a considerable increase in the number of employees also?
- J Suresh Kumar** You know it could be, we almost at a Group level we have today almost 5000 employees.
- Vishal Sharma** And comparatively last year?
- J Suresh Kumar** Compared to last year we must have been somewhere around 2500-3000 levels.
- Vishal Sharma** Ok, and standalone if you can give us, what is the debt levels at the standalone and the reason for the interest being so high?
- J Suresh Kumar** It is basically working capital debt, we have almost debt to the tune of Rs. 900 crores out, of which some Rs. 550 crores is working capital and the rest is long term, term loan debts and construction equipment debt that we have. But large part of interest increase is on account of full utilization of our working capital limits, largely during the quarter of December when disbursements were kicking in actually. Since then till date we have seen almost out of Rs. 550 crores working capital reduction of almost Rs. 300 crores happening this month itself. So I would say like it was more during the quarter of December when project disbursements were going slow and we have to use our working capital limits to meet the requirements of EPC business because EPC had made commitments to other subcontractors for payments. So that's how the quarter took a significant hit on account of interest.

Vishal Sharma Have you been affected by the change in order rupee fluctuation vis-à-vis the Chinese revenue been where you have ordered all the equipments from Chinese guys and where you had to make payments to the Chinese suppliers and because of which your cost might have gone up?

J Suresh Kumar I think it is all being absorbed by the subsidiaries largely I would say because it is all FOREX variations are to the account of the subsidiary in all the contract structures. What we are doing is sudden depreciation of the rupee has certainly impacted us but all our FOREX liabilities are over the next 3 years and partly will crystallise in 2009-10. And I would say almost 30% will crystallise in 2009-10 and the rest will happen over in 2011-12. But largely the variation is to the account of the subsidiaries, the project companies. What we are trying to do is we are having a mix of supplier's credit and buyer's credit. We are making use of those means of financing to minimize the hit on account of rupee depreciation because we are seeing an interest rate arbitrage over there. So on a net basis we will be like, we will be currently taking 50% of the hit that will happen since September of last.

Vishal Sharma Taking off in the sense I didn't understand.

J Suresh Kumar The difference between say Rs. 42 at the beginning of the fiscal year then rupee was at Rs. 42 to what is now. We will take 50% of that loss today as of today.

Vishal Sharma And the other 50%, we in the sense...?

J Suresh Kumar In the sense the SPVs will have to bear 50% of that hit rather than taking the entire Rs. 8 hit of the rupee-dollar depreciation, will probably take about Rs. 4 - Rs. 5 as the hit as of today. If tomorrow rupee appreciates then it will automatically flow through the SPV. But we are countering that by getting savings on the interest side when we are opting for buyer's credit and supplier's credit as a means of financing to fund these imports, the interest benefit is also taken by the SPV. So on a net basis it will be a Rs. 4-5 exposure on account of rupee depreciation. And some of the SPVs have also entered into forward contracts with intermediaries and they have covered themselves at levels of 42 and 43. So that is partially also offsetting the losses.

Vishal Sharma And can you quantify how much is your total foreign exchange exposure in terms of payment that you have to give out?

J Suresh Kumar As of today it stands at close to \$400 million.

Vishal Sharma Now all this is for the Chinese equipments?

- J Suresh Kumar** Yeah.
- Vishal Sharma** Ok. I will get back to you. Thank you.
- Moderator** Thank you very much Mr. Sharma. As a reminder participants who wish to ask a question may press “*” and “1” now. The next question comes from the line of Mr. Anirudh Gangahar of Goldman Sachs. Please go ahead.
- Anirudh Gangahar** Thank you for the opportunity, 2 questions from my side. Could you outline the CAPEX for the next 2 years including the debt in the equity portion please? And second is, in revenue recognition norms for real estate you can just explain what this tightening of the norms are? Thank you.
- J Suresh Kumar** Kasturi you want to answer the first question.
- S. Kasturi** On CAPEX?
- J Suresh Kumar** Yeah.
- S. Kasturi** Yes. I will just get the numbers and will give you. You can answer the second one first.
- J Suresh Kumar** The norms with regards to real estate, we are off late seeing the cost catching up with the LANCO’s project and what we felt is we would rather be conservative in our revenue recognition and provide for higher cost upfront rather than allow it to crystalise over a period of time. And given the current bout of interest rates, tightening particularly on real estate side we thought it is perhaps prudent to factor those cost today and tomorrow if say steel prices and cement prices come down further from what they are today then we will take a call on revenue recognition. But the point here is property projects are exposed to lot many risks in comparison to other businesses within LANCO and we prefer to be more cautious in revenue recognition there rather than not provide for certain downsides today. So we are taking it in a conservative way and hopefully we will if commodity prices comes down then we will get the upsides in future. But right now the preferences are like provide for the worst.
- Anirudh Gangahar** You have a certain criterion which....?
- J Suresh Kumar** The criteria remains, there is no change in that criteria. Only thing we have assumed higher cost and therefore lets say in the revenue recognition we were going by a norm of a 40% margins, we decided to like keep it lower, lower it down to 30% recognizing the fact that cost are high. And it is better to provide for higher cost and lower margins today rather than provide for higher margins for the moment.

- S. Kasturi** Anirudh on the CAPEX numbers, next year we will roughly be having a CAPEX, I am talking of 2009-10 and we will be having a CAPEX of about Rs. 5400 crores and we are just talking of the projects which are right now under construction. ,
- Anirudh Gangahar** Sir let me know what is this equity debt would be?
- J Suresh Kumar** It will be largely debt on you know because our share of the equity for all these projects is to the tune of almost Rs. 3400 crores. And we already contributed out of that Rs. 3400 almost Rs. 2400 to Rs. 2500 crores of equity. What we need to provide for is another may be around Rs. 900-1000 crores of equity over the next 2.5 years. And we put in all those equity contributions and therefore we are in a position to draw most of this out of debt from institutions.
- Anirudh Gangahar** And the CAPEX for the coming 3 months if you can just complete the loop?
- J Suresh Kumar** That we will pass it on to you, I don't have it on my recall but Kasturi will send it to you separately.
- Anirudh Gangahar** Ok. Thank you so much.
- Moderator** Thank you very much Mr. Gangahar. The next question comes from the line of Mr. Ankit Sancheti from Birla Sunlife Mutual Fund. Please go ahead.
- Ankit Sancheti** Hello.
- J Suresh Kumar** Hi! Ankit.
- Ankit Sancheti** How are your sir?
- J Suresh Kumar** Good, how are you doing?
- Ankit Sancheti** Fine sir. Just few questions, regarding this Amarkantak, in terms of sale agreement with PTC, what's the status if you can throw some light on that?
- J Suresh Kumar** It is actually subjudice; the matter has been debated and argued in the MP High Court. There is another hearing I believe tomorrow and hopefully we are told that this is the final hearing. So hopefully we will get some feedback in the next couple of days.
- Ankit Sancheti** Because this Power Plant will start in next couple of probably days. So then what will happen? Do, you will sell at an X-price and then how does it happen?

- J Suresh Kumar** Arrangement there is need to sell to MP, one COD is established so right now we are in synchronization mode and probably take some time for COD has announced. So until COD, we are free to do whatever you want with the generation. So until then, hopefully by then there should be clarity on the legal matter.
- Ankit Sancheti** Ok. And in the initial presentation you mentioned that there was a higher power trading revenue booking this quarter. How much was that? I missed that amount.
- J Suresh Kumar** It was almost some Rs. 500 crores, if I remember right.
- S. Kasturi** That's right Rs. 520 crores.
- Ankit Sancheti** And these are all short term tradings?
- J Suresh Kumar** They are at 6 months PPAs.
- Ankit Sancheti** I was just wondering there was a recent circular about CERC which has also kept the long term trading margins. Is that right? Because earlier there is a cap on short term trading, you can't have more than 4 paisa per unit.
- J Suresh Kumar** So there it continues....
- Ankit Sancheti** But for long term also it has been kept?
- J Suresh Kumar** I am not sure as per my knowledge.
- S. Kasturi** I think Ankit what you are referring to is the order which they have given....
- Ankit Sancheti** In the Bhutan case, in Bhutan and PTC case.
- S. Kasturi** I think they have not given as a thing for everybody and they are saying that they will review and see how the they would consider r any capping.
- Ankit Sancheti** I mean if you go through the whole order it looks like that, the norms says that whatever norms are available for the short term, the same is going to be applied for the long term. There is no differentiation between that. Ok, anyway, are you guys doing a long term kind of a....?
- J Suresh Kumar** No, no, we are doing 3 months, 6 months kind of PPAs.

Ankit Sancheti

With respect to your real estate what is your strategy right now? You mentioned you have increased the cost and you have brought down the margins per se but overall are we going ahead? What's your strategy right now?

J Suresh Kumar

The fortunate part in LANCO Hills is that customers are paying their advances but at the same time we are going through cancellations. But on a relative basis I think we are one of the very few developers in Hyderabad who are going ahead and constructing. And we are not sitting on too much of receivables in our books but approach that we are taking in property is we are restricting ourselves to LANCO Hills in Hyderabad; we are going slow on Chennai. And we are generally going slow in new initiatives and properties. We are focusing all our energies in Hyderabad but very very subdued in the sense that we are not constructing all the towers as earlier envisaged. We initially started with 15, we brought them down to 12 and we are looking at plans to reduce that further just to keep it more in line with demands. And the kind of inventory that we want to keep in our books to meet potential demand for ready possession apartments. But we are technically like achieving new milestones in building. For example we have achieved targets of building 3 slabs in a month which is quite good in terms of building technologies. And therefore like just learning, learning the hard way here but quite subdued. We are not looking at aggressive construction in LANCO specific and we are not in a hurry to launch a new initiative.

Ankit Sancheti

Sir at this current if someone wants to book a property, at what price you are asking right now? It is Rs. 4000 or....?

J Suresh Kumar

It is about, on an average it works to about Rs. 4650 per square foot including I would say the floor rise increase on an average and it is working out to almost Rs. 1.25 crores per apartment on an average.

Ankit Sancheti

How much revenues we have booked in real estate in last, especially for this project in last couple of quarters? And how much of it will be sitting on receivables, I mean to say it is an in-house construction project?

J Suresh Kumar

Receivables, I don't see receivables much because here we are as good as building to the extent we are getting advances from customers. If that requires to like not start building one tower, we are stopping that also. So it is largely, demand supply driven, almost balanced. If you look at I think my receivables from customers is only about some Rs. 70-80 crores if I remember right as of December and I have already collected till date almost Rs. 350 crores of customer advances which is more or less in line with our expectations, given the circumstances.

Ankit Sancheti

Ok. Thanks.

- Moderator** Thank you very much Mr. Sancheti. Participants are requested to limit their questions to one per participant. The next question comes from the line of Mr. Gautam Bafna from B & K Securities. Please go ahead.
- Gautam Bafna** Good afternoon sir.
- J Suresh Kumar** Yeah, hi!
- Gautam Bafna** Sir regarding your order book, how much is coming from contracts from your associates where you need to eliminate profits?
- J Suresh Kumar** I would say like significant portion comes from associates like all the power projects, almost Rs. 9000 crores out of Rs. 11,000 crores is coming from associates, particularly relating to power. And some of the road projects are also coming out of associates, that is about Rs. 800 crores and the rest is external projects.
- Gautam Bafna** So you need to eliminate our profit on those?
- J Suresh Kumar** Our elimination typically happens if those associates are subsidiaries. If they are not only to the extent of, for example say I want 26% in company X, 26% of the profits after tax are eliminated in our accounting books. It is not treated as a subsidiary because LANCO Infratech only owns 26% of that company. So to that extent, there is no 100% elimination.
- Gautam Bafna** So out of your total order book of 113 billion, how much is coming from subsidiaries and like how much is coming from associates where you need to eliminate profits like in percentage terms?
- J Suresh Kumar** I would say predominantly we structured ourselves in such a way that during the construction period all the SPVs are associates of LANCO Infratech and not subsidiaries.
- Gautam Bafna** So how much you have to eliminate revenues?
- J Suresh Kumar** You go by a benchmark of 26%, 26% of the profits that we earn from these order books at the bottomline level will be eliminated as per the accounting standards 21 and 23.
- Gautam Bafna** And it is also eliminated on road BOT projects?
- J Suresh Kumar** Again 26%.
- Gautam Bafna** And sir how much is the booked area in your real estate now?

- J Suresh Kumar** Booked area will be about 2.7 out of 4.2, 2.6 to 2.7 million square feet out of 4.2 million square feet.
- Gautam Bafna** During the last Con Call you mentioned around 2 million of booked area?
- J Suresh Kumar** Come again.
- Gautam Bafna** In the last Con Call you mentioned around 2 million of booked area, so has it increased?
- J Suresh Kumar** No. 4.2 million square feet is the overall booking, may be I am wrong, it may be around 2-2.5 somewhere in that range. Kasturi why don't you give me those details?
- S. Kasturi** Yeah it is between 2 and 2.5.
- Gautam Bafna** And sir regarding this associate structure like, will you be changing your holding going forward during the construction period also? Like right now you are saying you can take a benchmark of around 26%. So may it change during the construction period also?
- J Suresh Kumar** No, during construction period there won't be many changes; largely it will be around, once projects are ready for commissioning.
- Gautam Bafna** Sir, why is this policy for foreign exchange fluctuation is changed?
- J Suresh Kumar** It is more or less in line with what the peer group is following. For example NTPC, NTPC is following a similar policy and in specific case if you want to see the logic, Kondapalli and Aban earn dollar revenue every month. And every month they have a dollar liability so effectively the State Electricity Board is paying for rupee depreciation or appreciation as the case may be. So Kondapalli and Aban gains from rupee depreciation because its topline and bottomline are increased because of dollar depreciation. And because Kondapalli earns revenue in dollars, a virtually a natural hedge and to that extent this kind of a treatment is supported by the expert opinion of the institute. So we basically adopted what the NTPC is following.
- Gautam Bafna** And when will commissioning of Amarkantak and Kondapalli will happen, I mean full commissioning?
- J Suresh Kumar** Amarkantak 300 mega watts should get commissioned this quarter, we are in synchronization mode right now. So very soon we will commission the first 300 mega watts. Then Kondapalli gas turbine is expected to happen in the first quarter of 2009-10 or early second quarter

- Gautam Bafna** And full commissioning sir?
- J Suresh Kumar** Full commissioning with steam on the combined cycle will be around March 2010.
- Gautam Bafna** And what's the status on other power projects like Teesta, your hydro power plants, Anpara...?
- J Suresh Kumar** All execution is going on we expect as we mentioned earlier Anpara should happen around August to December 2010 and Teesta is also going as per the plan but may be around May 2012 to September 2012 that's the time frame for Sikkim commissioning.
- Gautam Bafna** That's it from my side. Thank you very much.
- J Suresh Kumar** Thank you.
- Moderator** Thank you very much Mr. Bafna. The next question comes from the line of Mr. Pankaj Sharma from UBS. Please go ahead.
- Pankaj Sharma** Hi! Good evening.
- J Suresh Kumar** Good evening Pankaj.
- Pankaj Sharma** Hi! How are you sir?
- J Suresh Kumar** Fine. What's up with you all?
- Pankaj Sharma** Yeah. Ok. Thanks sir. Sir two questions sir, could you please update us on the withdrawal from the Tillya UMPP Bid? And second question would be the status on increasing the capacity of Anpara from 1000 mega watts to 1200 mega watts, what is the status there? Has the regulator approved it or going on there?
- J Suresh Kumar** Well I will answer the second question first. Basically Anpara, the regulator has approved the increased in capacity and we are in the process of working towards entering into a power purchase agreement with UP discoms for 200 mega watts and once the PPA is in place then we will place it with the regulator for approval? So the expansion of Anpara is going through the formalities there. The reason for withdrawal of Tillya, I thought is perhaps the simple answer because we didn't want to add more risk by looking at such a large project and we were counseled by our partner Genting to consider withdrawing because of the current financial crisis that is spreading across the world. We thought it will too much of a stretch to assume that a project of this magnitude would go through a successful financial closure. So we didn't want to you know have that uncertainty to

cause an overhang on LANCO as overall. We thought might as well stay away and in any case there are many other opportunities that are coming, that will come our way. I mean it is not the last of the UMPPs that will come up for bidding. There are 5 more projects which will come up for bidding so we will look at those opportunities then and in any case in the mean time the Balance Sheet of LANCO will get even stronger by fiscal 2010. Once all these projects are commissioned in various stages of operation. So we thought like we have enough time to look at opportunities from ultra mega. Meanwhile it is not that we don't want to look at opportunities but we look at smaller ones, we won't look at such large ones for the moment. But once the Balance Sheet looks even stronger than the day we are today we will look at ultra mega later.

Pankaj Sharma

Sure sir. Thanks.

Moderator

Thank you very much Mr. Sharma. The next question comes from the line of Mr. Sachin Kasera from Lucky Securities. Please go ahead.

Sachin Kasera

Good afternoon sir.

J Suresh Kumar

Good afternoon.

Sachin Kasera

Just wanted to check with you about the price that you see for merchant power projects in the future? How do you see the price of merchant power shaping up over the next couple of quarters and then over the next 3-4 years?

J Suresh Kumar

Even in the current environment we are seeing power trading happening at Rs. 5.5-6 and even Rs. 7 and genuinely there are deficits in the system and we expect these deficits to continue even assuming a low GDP kind of an environment. So there is definitely going to be a huge gap between demand and supply. And we are seeing a decent merchant market environment to continue atleast for the next 3-4 quarters for sure.

Sachin Kasera

And beyond that?

J Suresh Kumar

Beyond that also I somehow personally believe that until 2016 you are going to see a good merchant environment.

Sachin Kasera

So when you say 2016, what would be a good number to work with from our angle?

J Suresh Kumar

You guys are the best judge that all I can say is environment is pretty conducive for merchant plants.

Sachin Kasera

So say a number of about Rs. 4, Rs 4.5 that is a sustainable number?

J Suresh Kumar I don't see the reason why.

Sachin Kasera Why not you mean?

J Suresh Kumar Why not, yeah.

Sachin Kasera Alright. Thank you very much.

Moderator Thank you very much Mr. Kasera. The next question comes from the line of Mr. Aman Batra from Kotak. Please go ahead.

Aman Batra Hello.

J Suresh Kumar Yes Mr. Aman Batra, how are you doing?

Aman Batra Fine sir. Some small questions, any update on the pending financial closures?

J Suresh Kumar Only LANCO Uttaranchal is going through financial closure, hopefully by March Rs. 400 crores of debt will be tied up for that project. We have already got sanctions to the tune of almost Rs. 250 crores, balance we are in the process of syndicating. So by March Uttaranchal should be closed and we are just waiting for Amarkantak to be operational Unit 1 and then we propose to approach financial closure for Units 3 and 4.

Aman Batra Ok. And another small thing on, can you give us the cash position and the debt position in the standalone companies as of December?

J Suresh Kumar Cash position at standalone level is I think Rs. 300 crores of cash and cash equivalents in the form of investments and all liquid investments and debt is Rs. 900 including, Rs. 550 of cash credit.

Aman Batra Fine. Thanks a lot.

Moderator Thank you very much Mr. Batra. The next question comes from the line of Mr. Bhargava Bhudhadev from Noble. Please go ahead...

Bhargava Bhudhadev Good afternoon sir.

J Suresh Kumar Good afternoon.

Bhargava Bhudhadev Sir could we get a breakup of projectwise of your revenues in the construction segments? Would it be possible to give that? Or probably you can send by email.

- J Suresh Kumar** You connect with Kasturi, he will help as much as he can.
- Bhargava Bhudhadev** Ok. Second last question would be that the CAPEX of all the power projects put together as on 31st December is about Rs. 6500 crores. So what would be the figure as on 31st March 2008? If it is possible to give that?
- J Suresh Kumar** Kasturi, see what you can give.
- S. Kasturi** Yeah I will give you that.
- Bhargava Bhudhadev** Ok sir, no problems. Thank you.
- Moderator** Thank you very much Mr. Bhudhadev. The next question comes from the line of Mr. Jitesh Bhanod from ICICI Securities. Please go ahead.
- Jitesh Bhanod** Good evening everyone.
- J Suresh Kumar** Good evening.
- Jitesh Bhanod** Sir my question would be regarding the new CERC policy, sir how many projects actually does get impacted because of the new policy?
- J Suresh Kumar** Anything more on the positive side will be impacted, Nagarjuna is the one that comes top of the line, top of the mind and may be future projects like Orissa and Amarkantak 3 and 4.
- Jitesh Bhanod** And sir can you give me some kind of perspective on the 80IA benefit, how many projects will qualify for exemption?
- J Suresh Kumar** Atleast whatever my limited reading of the new guidelines do not impact 80IA in any way because most of the projects that we do. This is not the projects that we do on our Balance Sheet, these are all independent IPPs and they are always housed in a separate company. Each company would have the benefit of 80IA in the current form it is. So you will probably see the disconnect happening in other companies where projects are on their Balance Sheet. Like for example NTPC or for that matter I think Tata Power. So unless you structure the project in such a way that it is housed in a separate SPV. Otherwise there is a doubt that has been created by the existing guidelines that have come into force. It will not affect any of the projects in LANCOs portfolio because they are all housed in separate SPV.

- Jitesh Bhanod** Ok sir so can we assume that the actual rate of return on equity would be around 23% for these projects?
- J Suresh Kumar** Almost that, yeah, including the operational efficiencies etc, etc.
- Jitesh Bhanod** Sir because as far as our understanding goes we had a chat with the regulator and they clarified that 80IA benefit would be retained by the generator?
- J Suresh Kumar** I mean, I didn't see why there was a disconnect there.
- Jitesh Bhanod** Ok. That's it I think. Thanks.
- Moderator** Thank you very much. The next question comes from the line of Mr. Sumit Agarwal from HSBC. Please go ahead.
- Sumit Agarwal** Hi sir, how are you?
- J Suresh Kumar** Hi!
- Sumit Agarwal** Sir just wanted to understand our EPC margins going ahead, we have seen a significant deterioration in the EPC margins this quarter, primarily it might be because of higher cost. Where do you see your EPC business stabilizing and going ahead?
- J Suresh Kumar** As I see it I think the last couple of quarters is the time which we weathered the, I would say appreciably well. Now what we have seen is that since commodity prices have cooled off and coming down on a day to day basis. Atleast we have seen the next 4-5 quarters to be a quite positive, in the sense that, I would say like almost 30-40% of our contracts we have not yet closed particularly on the balance of plant contracts that we parcel out to subcontractors. We are 40% open, 30-40% open across various projects except the projects which are in advance stage like in Nagarjuna I think we are about 25% open and therefore what we are seeing is, we are in a position to negotiate these contracts which are open and command may be much better pricing than what it was say 6 months back or 9 months back. So we are quite hopeful that you know the last couple of quarters where we faced margin pressures, we have probably not faced it, and we probably get higher margins going forward. Atleast that's a hope and looks like, we are looking forward to those upsides.
- Sumit Agarwal** Sir does it mean that probably going ahead you would look; look for say cost plus basis for your internal projects?

J Suresh Kumar Unlikely, because I don't see that getting approved by institutions particularly as large lenders to the project, I don't think they would agree to a cost plus kind of a contract because that opens up exposures to them.

Sumit Agarwal Sir also just wanted to understand, the status of Amarkantak 1, if I remember it was supposed to be operational in Q3. What is the reason for those delays? First I think it was September then it shifted to Q3.

J Suresh Kumar Nothing alarming I would say it is only that we are trying to be doubly sure about Chinese equipment. It is going to be the first equipment that's going to within LANCO. This is the first time LANCO is operating on Chinese equipments and given the negative history that we have seen in the case of Sagardigi and Yamuna Nagar and all, just want to be doubly sure on the quality of the equipments and performance of the equipments. We are performing test which are longer than the norm. So we just want to make sure that no untoward incident happens once we announce synchronization and commissioning. So that's the mindset that we have, anyway it is going to happen anytime now. We will announce synchronization very soon and we are in advance stages.

Sumit Agarwal Sir does it mean that going ahead most of the projects which have been based on Chinese equipments will undergo the similar testing and hence there might be possible, say a quarter in terms of finance synchronization to the credit?

J Suresh Kumar Not necessarily, this is more of what we call , we are taking extra precautions here and once we have gone through the curve in one project, we will use this learning to make sure that we don't go through similar process in other projects. It is more of initial learning and you have to go through that initial. You need to spend some extra time in your first project and once you are thorough in that exercise, it gets easier for you to manage subsequent projects.

Sumit Agarwal Sir just one housekeeping question. Your equity commitment is something like Rs. 3400 crores and you have already provided for something like 2000. I just wanted to know what is the corresponding debt you were planning to raise with this Rs. 3400 odd crores. And how much has been tied up and how much has been received?

J Suresh Kumar Can you please repeat the question Sumit?

Sumit Agarwal Sir you said the number of equity of something like Rs. 3400 crores as equity requirement...

J Suresh Kumar Our share.

Sumit Agarwal Yeah your share.

Sumit Agarwal Can I have the similar number for the debt requirement, the contribution from the debtor?

J Suresh Kumar The debt figure that we are giving, that Kasturi will give you his gross; it is not our share of debt. So I will tell him to pass you that information.

Sumit Agarwal Ok. Not a problem sir. Thanks a lot sir.

J Suresh Kumar Thanks.

Moderator Thank you very much Mr. Agarwal. The next question comes from the line of Mr. Shankar K from Edelweiss. Please go ahead.

Shankar K Hello sir.

J Suresh Kumar Hi.

Shankar K Just a couple of cosmetic ones. In Q2 if I am not mistaken you had a working capital of around outstanding of Rs. 500 crores at that point of time which has gone up close to Rs. 900 crores in this quarter.

J Suresh Kumar In Q2 I didn't have that kind of working capital, I just had some, I thought only about Rs. 300 odd working capital utilized by that and rest of it was term loan debt.

Shankar K And secondly on the real estate front like you are saying that the profitability margins were subdued because of higher cost that you have booked. These are actually provisions that you have made or your actual expenditure that you have incurred?

J Suresh Kumar We estimated higher cost...

Shankar K Largely provisions.

J Suresh Kumar Yeah, eventually cost will catch up so it is the best estimate that we have made about what is the cost that is expected as of today and in future.

Shankar K And this is largely pertaining to materials, raw materials?

J Suresh Kumar Yeah, materials, labour.

Shankar K And basically you plan this is the kind of expenditure, this hike and expenditure that you would incur for the subsequent tenure of the project and that's what you have evened out?

J Suresh Kumar On a conservative basis.

Shankar K Now secondly because you also rightly mentioned about market is pretty tight as far as the real estate is concerned, all the projects and all. First of all, what is the visibility in terms of the customer advances, self financing your entire project or incase if there is slight mismatch then what is the backup?

J Suresh Kumar Backup is we have undrawn funds to the tune of almost Rs. 600 crores if I mistake not which we can draw upon. And our advances from customers are not bad at all compared to what's happening around Hyderabad. I mean we are one of the only two developers who have funding and who are going out and constructing. Atleast you see a lot of activities going on in our site and one more developer. So I would say like, we have seen a lot of visibility from customers in terms of they being in a position to write the cheque for every milestone. Of late what we have done is we have been rewarding these customers who have been paying on time and we have been extending some early payment rebates and all that. So that is also positively impacted our cash flows from customers, as in customers who were you know defaulting on installments have also started paying. So we are looking forward to the last two months of positive impacts but we got on the advances side. And we are going ahead and fortunately we have funds tied up, our liquidity position is also good on the property side. So we are going ahead but as I said in a subdued note we don't want to build all the residential towers and sit on inventory. Definitely we don't want to convert cash into cement and bricks; we want to be as liquid as possible to ride this wave. We have been very cautious in our approach.

Shankar K Just one more clarificatory question on this, till last quarter end you didn't have any receivables?

J Suresh Kumar I didn't say that, I remember having said in the last quarter, it is marginally there. I never said that it is not there at all. It is there, not significantly, I mean like lets say 2 months of receivables is what we may be carrying at current Rs. 8 crores odd number.

Shankar K And out of the 4 million after the original cancellation of around 1 million, the overall booking stands at 3 million and 2.2...

J Suresh Kumar Yeah 2.5. Earlier it was somewhere between 2-2.5 is what the current bookings are at.

Shankar K So it is 2-2.5 are the people who are continuing to pay on time.

- J Suresh Kumar** Yeah.
- Shankar K** So the outstanding continues to be 3 million? The original out of the 4.2 that you did originally....?
- J Suresh Kumar** What we will be building will be I think 3 million square feet and out of which 2-2.5 million square feet will be customers who are paying.
- Shankar K** And lastly on the equity commitment over the next 12 months, is there any kind of a guidance that you have? Do you have any kind of CAPEX committed that you need to do?
- J Suresh Kumar** As Kasturi was saying from Rs. 6000 odd crores needs to be funded for the existing projects which are financially closed and we have already contributed substantial part of the equity for all these projects.
- Shankar K** Yeah apart from that 2400 which you have already done, is there any imminent requirement for the next 12 months?
- J Suresh Kumar** Doesn't look like to me. Because technically these Rs. 2400 crores of equities that we have put plus what the partners have put that will sustain because it technically says assuming say between us and the partners we put in Rs. 3000 crores of equity into all these projects. Technically I can go on and take debt of almost 4 times that.
- Shankar K** Now assuming that some of your financially about to get closed projects, get done so in that case you will require some equity funding, right?
- J Suresh Kumar** But then I have internal accrues kicking in no.
- Shankar K** I understand that so I just wanted to know what the number in that regards is I am saying that? I know for your existing projects you don't need to do anything for the next 12 months but for some of them which you are pursuing to get closed because like you also mentioned that real estate you won't require money. So the only probable reason is this way, so is there some kind of a number in hand or it might in that sense?
- J Suresh Kumar** There will be some equity requirements but what you are saying it is not going to happen before April 2010. Look at like this Amarkantak 3 and 4 is the one that we expect to achieve financial closure by September '09. But Amarkantak 3 and 4 will not need further infusion of equity because Amarkantak 1 and 2 will be generating cash flows, it will be generating equity cash flows. And those equity cash flows will go in as equity into those projects. More or less the Brownfield expansion that we are doing. So incrementally I am

not seeing any reason why Amarkantak 3 and 4 will call for additional equity from LANCO Infratech and its partner.

Shankar K

Ok. That's all from my side. Thanks.

Moderator

Thank you very much Mr. Shankar. The next question comes from the line of Mr. Avinash Agarwal from Sundaram BNP. Please go ahead.

Avinash Agarwal

Hello sir. You mentioned about sharing of some FOREX losses with your subsidiaries, could you just explain that again sir?

J Suresh Kumar

NO. It is not sharing, the responsibility, the obligation and the entire depreciation or appreciation of the rupee is to the account of the SPV as the project company is what I meant by that. Say for example I have a contract with my SPV, where the BTG is to the account; the BTG is denominated in dollars between EPC and SPV. The contract is that the SPV will give us the dollar equivalent in rupee terms for importing the equipment. And so therefore it is factored in the project cost of the SPV overall. Any fluctuations in the dollar-rupee are to the account of the SPV. The EPC is protected from all these fluctuations, that's what I meant. Is it clear?

Avinash Agarwal

Yes sir, that's clear sir. I also wanted to understand one more thing, you were mentioning something about some amount between September and today and you had said that we have taken about 50% of it. There was a....

J Suresh Kumar

April say the rupee-dollar was at Rs. 42 to a dollar as on 1st April 2008 and now it is say Rs. 50. The difference of Rs. 8 technically is the exposure that the SPV was to take. Right. But because the SPV has taken some buyer's credit and some supplier's credit, it has got some lower interest rates because of which there was a saving in interest cost for the SPV. If you net off that saving, the SPV would have a net exposure say around Rs. 46-47 per dollar after taking into account the credit of interest saving. See typically when the SPV is appraising its project; it would look at a particular rupee-dollar parity plus depreciation Year on Year. The interest that it considered would be the current interest rate of say 12-12.5%, 13%. Instead of drawing on the term loans if the SPV has taken say a buyer's credit or a supplier's credit at all in cost of say 7% or 8%. The 4.5% saving interest during construction would be set off against the depreciation of the rupee and there will be a net amount of say Rs. 46-47 kind of an exposure. So there is some optimization that goes on in financing.

Avinash Agarwal

Ok sir. Thanks.

- Moderator** Thank you very much Mr. Agarwal. The next question comes from the line of Mr. Murtuza Arsiwala from Kotak Securities. Please go ahead.
- Murtuza Arsiwala** Yeah, Hi sir, I just wanted one clarification, in your consolidation procedure, in your revenue line there is an elimination of about 1.8 billion. So that would be construction revenues which are being eliminated on account of subsidiaries?
- J Suresh Kumar** Yeah
- Murtuza Arsiwala** *And then in the profit line when again, in the bottomline there is elimination of about 318, that would only be associates, right?*
- J Suresh Kumar** Yeah.
- Murtuza Arsiwala** So that would be only associates, proportionate share of associates?
- J Suresh Kumar** Correct.
- Murtuza Arsiwala** Whereas in the revenue line the entire share of subsidiaries?
- J Suresh Kumar** Yeah and there is a note also, note no. 6 which explains how much has been eliminated towards subsidiaries and how much has been eliminated towards associates? It will be anyway clear but note no. 6 talks about how much has been eliminated for subsidiaries also.
- Murtuza Arsiwala** Ok. Fine. Thank you so much sir.
- Moderator** Thank you very much Mr. Arsiwala. There is a followup question from Mr. Sachin Kasera from Lucky Securities. Please go ahead.
- Sachin Kasera** Sir just wanted a clarification again on the merchant power prices; typically merchant power gets sold at the peak hours, right? So what about the rest of the time or is the realization going to remain high across for an average?
- J Suresh Kumar** No. When you look at peak time is not Rs. 4.5, peak time will be even higher than that. When I say Rs. 4-4.5 it is on an average basis.
- Sachin Kasera** And is there any risk that at some levels the regulators step in and kind of cap out the merchant power prices?
- J Suresh Kumar** They are anyway capped out.

- Sachin Kasera** Could you talk a little bit about that, I am not familiar with that?
- J Suresh Kumar** Kasturi why don't you explain, the UI mechanism to Sachin.
- S. Kasturi** Yeah actually Sachin, one thing is that regulator has some of the models saying that he wants to cap the merchant rates at Rs. 5 and Rs. 6 but he hasn't actually given a final order on that. But he said that he will like to rationalize that in line with the UI charges and also probably look at the review of the UI charges. And he has recommended that kind of advice to the Government for a review the UI charges and then give a final cap on the merchant review. As of now he hasn't actually given the decision on that capping itself.
- Sachin Kasera** And is that anticipated in the near future?
- J Suresh Kumar** Why not? Anything is possible.
- Sachin Kasera** One other question sir, for all of our power plants, the transmission lines and the transmission infrastructure is in place already? In the sense that is there any risk that any of our power projects does not come up with an associated power evacuation in infrastructure?
- J Suresh Kumar** That's the risk so which is why we are making sure that transmission infrastructure is in place around the time when the projects are commissioned.
- Sachin Kasera** So there is a full plan for each of the projects?
- J Suresh Kumar** Oh! Clearly. We won't do anything without that plan being in place.
- Sachin Kasera** Thanks a lot.
- Mitul Mehta** Sir this is Mitul Mehta, sir how does the total power capacity of LANCO? How much would be merchant and how much would be PPA...?
- J Suresh Kumar** I would say on a long run basis, 25% would be merchants and 75% would be long term. Now it would probably be, if you look at say for example Kondapalli as merchant, I think that's what the plan is phase 2. Say 2009-10 assuming that we have 2500 mega watts of operating capacity. I would say like about close to 400 mega watts will be merchant and the rest is long term.
- Mitul Mehta** Currently sir at what prices we have contracted our merchant capacity?
- J Suresh Kumar** No we have not yet contracted our capacity.

Mitul Mehta Thank you sir.

J Suresh Kumar Yeah.

Moderator Thank you very much. The last question comes from the line of Mr. Gautam Bafna from B & K Securities. Please go ahead.

Gautam Bafna Sir just one clarification on elimination of revenue from associates. Why was it low in the previous financial year?

J Suresh Kumar Not so many transactions with subsidiaries on the associates. If you look at it like this, last year my turnover was X amount, this time it is 2X.

Gautam Bafna Yeah but I am talking about relative terms only? This data has increased significantly from previous year and last year also the order book was primarily from your subsidiaries and associates?

S. Kasturi Gautam the point you are trying to make, the elimination on account of the associates specifically and the transactions in associates is more this time particularly of Udupi. Last year if you see most of them were subsidiaries only.

Gautam Bafna If they were subsidiaries they should have been eliminated in the consolidation?

J Suresh Kumar They were eliminated.

S. Kasturi They were eliminated, it would appear separately as an item.

Gautam Bafna Ok sir.

Moderator Mr. Bafna you have got any further questions?

Gautam Bafna No thanks.

Moderator Thank you. That was the last question; I would now like to hand the floor back to Mr. Anish Jhaveri for any closing comments.

Anish Jhaveri Hi, Good evening everyone. Thank you very much for coming along and I sincerely thank LANCO for coming out very clean and neat on questions that were asked. So wishing you all the best. I am sure there is enough clarity in the company to take it forward. Thanks Suresh.



J Suresh Kumar

Pleasure Anish. Thank you very much for hosting this call and thank you all the investors who participated, took their time out and we are quite hopeful that we have been transparent and I met all your expectations on disclosures. Any questions, any followups please be in touch with Kasturi and we will take it from there.

Anish Jhaveri

Ok.

Moderator

Thanks very much Mr. Suresh Kumar, thank you very much Mr. Kasturi and Mr. Anish Jhaveri. On behalf of Antique Stock Broking that concludes this evening's conference. Thank you for joining us and you may now disconnect your lines.