

LANCO Infratech Limited  
Financial Year 2008 Results Conference Call  
May 30, 2008

- Moderator: Good afternoon Ladies and Gentlemen. I am Sandhya, the moderator, for this conference. Welcome to the LANCO Infratech Conference Call hosted by Kotak Institutional Equities. 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 participant connected to International Bridge. After that, the question and answer session will be conducted for participants in India. I would like to handover to Mr. Aman Batra. Thank you and over to you sir.
- Aman Batra: Good afternoon everyone. On behalf of Kotak Institutional Equities, we welcome you to the LANCO Infratech Conference Call. Today, we have with us Mr. Suresh Kumar, CFO, of LANCO Infratech; and Mr. Kasturi, General Manager, Investor Relations. Mr. Kasturi will briefly take you through the overview of the performance of the company and then the management will take the Q&A. Mr. Kasturi.
- S. Kasturi: Yeah, good afternoon to all of you, and welcome you to the LANCO Infratech Conference Call, and I am joined in this call by my CFO. He is taking this call from Mumbai. I would begin the call with a small briefing of the results. As you are all aware, we announced the results yesterday, and the results have been excellent in terms of the growth, which the company has been able to record during the year. The consolidated topline growth has been phenomenal. We registered a topline of 32 billion rupees as against 15 billion in the previous year, which is a growth of 102%, but before I get into the nitty-gritties of the, the reasons where this growth came from, I would just briefly explain a principle which has been adopted this year for the recognition of the revenue, which is a changed from the last year, which has an implication for understanding the results. Till the last year, we have been, actually in fact till the last quarter also, we have not been eliminating intra-segment or intra-group revenues, taking the principles of the interpretations from IFRS, and to that extent, we were giving a note in our accounts in the last year and also quarterly, that we are not eliminating those revenues, and therefore, there is a extra profit or a revenue which is there because of non-elimination, but we had actually referred the matter to the Institute of Chartered Accountants India and we were awaiting clarification on this, but because we have not received the clarification till the end of the year, what we have done this time at the end of the year is actually eliminate the intra-segment or intra-group revenues from the topline as well as from the profit. Therefore, because of that, the elimination has happened this year, but even then, the growth has been phenomenal, and in

addition to this, because of the practice which we followed in the last year, there is an impact for the previous year, and therefore, a restatement was required for the previous year's profits, which we have done through adjustment in the opening balance of the P&L and the same has been given in the note also. This is a small background on this revenue recognition principle which we adopted now, so considering that, if you just look at the way the growth has happened in the topline, like I told you 32 billion against 16 billion. One of the major growth has happened in the construction and EPC revenues, which was 13 billion, up from 5 billion in the last year, the power generation also went up to 10 billion from 7.7 in the last year, and the power trading has almost doubled from the 3 billion last year to 6.6 billion this year, and an additional revenue which we have recognized this year, came from the real estate of almost 1.3 billions, so there has been growth in all segments in terms of the topline, and if one looks at the operating profits, again there has been growth in the operating profit across the segments; construction, EPC, the operating profit has gone up, has almost doubled. The power generation, the operating profits have almost gone up by 14%. For the trading business, there has been increase by three times in the operating profits. Now, when one comes to the bottomline, just after the adjustment of the minority interest, the profits were 3.8 billion versus 1.8 billion the last year, which is 104% increase, and if we had actually, like we eliminated revenues, like I told you the intra-company revenues, because of that 290 million has been reduced and therefore this year's profit, after the elimination of that is 3541 millions against 1880 millions last year. So, across the board, the performance has been very good. The increase in the revenues itself came because of growth in some of these specifically the businesses for instance Kondapalli, the revenue has increased by almost 2.7 billion. The increase in Kondapalli's revenue was mainly because of the increased generation. The PLF for the station has improved from 53% last year to 69% this year plus additionally because this station has been running on naphtha for some time, that has added to the topline growth substantially, like I told you LANCO Electric Utility also the increase has been tremendous in the topline at almost 3.5 billion extra in terms of the previous year's revenues. Real estate of course has been completely new revenue recognition, and then construction EPC itself has additionally brought in about 8.6 billion worth of revenue. The main reason for the growth in the construction EPC revenues has been the projects which are under execution, which is particularly Amarkantak which is nearing completion now. Udupi project, which has picked up both in terms of the supplies and the activities in the project itself, and also LANCO Hills, which is in the construction right now, there have been some amount of revenues coming in from the booking of the LANCO Hills construction also. So, that is the reason for the growth in the topline. When one looks at the margins, the operating margins for the year have been 21.3% overall consolidated against 26.14% for the previous

year, which is quite healthy, and if you look at the segmental sort of break up of the margin, while power trading has been more or less on the same as it was the previous, the construction EPC is almost similar, has just gone up a bit, from 20% to 21%, the real estate had shown new margin of 27%, while power generation has actually slightly shown a drop in the margins from 41% to 33%. This is actually because of the, like I told you the generation from Kondapalli coming mainly on naphtha which increases the topline, but does not add too much to the bottomline, and also the margins, so because of that, there is a small drop in the operating margins for the power generation, but otherwise the operating margins are really healthy at 21%, which is what we have been maintaining in terms of the guidance which we have been giving. and if you look at the performances across the power projects, again they all have been performing quite well, and we would I think continue to perform in that manner in the next year also. The construction and EPC growth would continue and continue perhaps more than what it has happened this year, as the order book has now grown to almost 130 billion, from the previous quarter when we announced about 120 billion worth of an order book, the additions to the order book this quarter, this year end now is mainly from Kondapalli expansion, and couple of other projects which we have recently added to the order book, so with this bit of a background, now I hand it over back for the Q&A.

Moderator: Shall we go ahead with the question session sir?

S. Kasturi: Yeah.

Moderator: Thank you very much. At this moment, I would like to handover the proceedings to International Moderator to conduct the Q&A for participants connected to the International Bridge. Over to you Diana.

International Moderator: Thank you Sandhya. We will now begin the Q&A session for participants connected to International Bridge. Please press 01 to ask the question. Thank you. Participants to ask the question, please press 01. Thank you. The first question is from Mr. \_\_\_\_\_ UK. Over to you sir.

Male Speaker: Hello, good morning everyone. I maybe did not catch up at the beginning of the call, but I just wanted to...if you could update on 2 issues. Firstly, how real estate sales are going and how encouraged you are about the projects. Secondly, also on the power project side, there has been a lot of talk about capital cost inflation. Could you just run us through how you are managing that? Thank you.

Moderator: Mr. Kasturi, Mr. Suresh's line has dropped from the call. He is connecting back. Can you go ahead?

S. Kasturi: Okay, see, on the real estate side, yes, there has been change in the environment in the sense that the real estate, the demand has been a bit of a pullback, but fortunately for us, what has happened is that we had done the presale and the booking in the last year, at the time when the market was okay, and we had got bookings done at that time, and so we were not affected by this reversal at the moment, but we were to launch the second phase of our bookings, which we have held back, but we are going ahead with the construction of all the bookings which we had done earlier, so there is no immediate impact for us on the bookings for the second phase at the moment. While on the power front, yes the costs are going up and fortunately again whatever orders we have placed earlier with the equipment vendors, they were all firm price contracts, so there was no implication immediately for the increase in the costs for those projects, but going forward as we place more orders from now on, we would have to probably face an increase in the cost sale, which we would also take into account while actually finalizing the tariff with which we would be bidding, would take care of that, the increase cost to certain extent.

Male Speaker: Thank you very much.

International Moderator: Thank you sir. Participants who pose the question, please press 01 to ask a question. Thank you. At this moment, there are no further questions from participants at the International Bridge. I would like to handover the proceedings back to India Moderator, Sandhya. Over to you.

Moderator: Shall we go ahead with the India question and answer session?

S. Kasturi: Yes.

Moderator: Thank you very much sir. We will now begin the Q&A interactive session for India participants. 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, kindly press \*1 now. First in line, we have Mr. Pankaj Sharma of UBS. Over to you sir.

Pankaj Sharma: Good afternoon sir. This is Pankaj.

S. Kasturi: Yeah.

Pankaj Sharma: I have two questions. First is, as you mentioned, the order book is close to Rs. 130 billion.

S. Kasturi: Correct.

Pankaj Sharma: So, my question is that how you see the execution in FY-09 and FY-10 of this order book, and how much you are going to realize in FY-09-FY-10, and secondly, what do you think in terms of margins, are you going to maintain the margins, or are you going to improve them. My second question is on the real estate. Can I have the breakup in terms of sales from the 3 properties, Chennai, Hyderabad, one and two, or if everything is coming from the LANCO Hills, that is I want to clarify.

S. Kasturi: Right. I think I will answer the second question first.

Pankaj Sharma: Yeah.

S. Kasturi: It is primarily LANCO Hills only because obviously we have not started any presales for the Chennai or the other Hyderabad property.

Pankaj Sharma: Okay.

S. Kasturi: It is LANCO Hills only which is right now giving us revenues.

Pankaj Sharma: Right sir.

S. Kasturi: The other, the first question of the order book.

Pankaj Sharma: Yeah.

S. Kasturi: It is very difficult to estimate exactly the way it will move, but the point is if you see the breakup for the order book which I think we have given in the releases.

Pankaj Sharma: Right.

S. Kasturi: If you look at the major components there, it is primarily the projects under execution like Teesta, Anpara, Udupi, and Kondapalli, and if you see the timelines, which we have already mentioned earlier also on the completion schedule for these projects, you will notice that it will be Kondapalli which would see the most of the activities immediately, followed by Udupi and Anpara because the Kondapalli would be getting commissioned July next year, Udupi by the end of the next year, and Anpara at the beginning of the next year after that. So, I think, you should probably look at the fact, that these will be in accordance with the way these commissioning schedules will happen.

Pankaj Sharma: Right.

S. Kasturi: Right?

Pankaj Sharma: Right, and how about margins for the.....

Suresh Kumar: If I can supplement that, the order book also includes Teesta, which is expected to do by 2012 in March, so it will spread over the next 4 years rather than, you know, only in 2009 and 2010.

Pankaj Sharma: Right.

Suresh Kumar: You should assume that on a best-case basis it will be like over the next 3-1/2 years or 4 years, work is for perhaps 4 and 4-1/2 years.

Pankaj Sharma: Thank you. Any guidance in terms of margins in EPC?

Suresh Kumar: I think, see the margins till now have been good. We are not seeing much of upside from here more, given that we already entered into fixed price contracts with our equipment suppliers, so there is no possibility that they could improve, but certainly there are certain pressures that are anyway building up, you never know what will happen on the commodity side. The steel has been like ramping up. We need to take up. Fortunately, a large part of the steel cost is housed in the equipment costing.

Pankaj Sharma: Right.

Suresh Kumar: So, that way, this should not be a huge impact because of steel price increase, but we just want to be careful over there, never know what is going to hit this market suddenly on the commodity side.

Pankaj Sharma: Right, right, thank you sir. Thank you very much.

Suresh Kumar: Yeah, yeah.

Moderator: Thank you very much sir. We have Mr. Suresh with us.

Suresh Kumar: Yeah.

Moderator: Next in line, we have Mr. Ravi Lakhanwala of KR Choksey.

Ravi Lakhanwala: Yes, hello?

Suresh Kumar: Yeah, hi.

Ravi Lakhanwala: Hi, okay sir, I want to know about the Vizhinjam International Container Port Project in Kerala sir.

Suresh Kumar: Yeah.

Ravi Lakhanwala: What is the duration of the project, and what are the implications like and when is it like...what are the implications with revenue and that side sir?

Suresh Kumar: Our revenues, I would say, far out, it will not be earlier than 2013. The reason why is that once the project is awarded to us...

Ravi Lakhanwala: Okay.

Suresh Kumar: We get into a lot of feasibility reports, preparations, and the formalities that we need to complete before we actually take a project from a financial institution for financial closure.

Ravi Lakhanwala: Okay.

Suresh Kumar: So, there is a long process there, so gestation period wise, it is not less than 5-year kind of a gestation.

Ravi Lakhanwala: Okay.

Suresh Kumar: I mean, we are ourselves looking at March or April 2010 for financial closure, it is not as early as March 2009.

Ravi Lakhanwala: Okay.

Suresh Kumar: So, financial closure itself we are planning in sometime April 2010, and it gives 3 years for the first phase to happen, then second phase, and third phase, so it is a long gestation project, so if you want to look at earnings visibility and all, it will not be before 2013-2014.

Ravi Lakhanwala: Okay, okay, thank you.

Suresh Kumar: But it is definitely a great project to win.

Ravi Lakhanwala: Okay.

Suresh Kumar: It is one of the largest trans-shipment and container ports that we are developing on a 33-year concession basis. So, it is an interesting combination of portfolios that we have now over a period of time.

Ravi Lakhanwala: Okay sir. Thank you and all the best for the projects sir.

Suresh Kumar: Thanks.

Ravi Lakhanwala: Yeah.

Suresh Kumar: Thanks so much.

Ravi Lakhanwala: Thank you.

Moderator: Thank you very much sir. Next in line, we have Mr. Abhishek Puri of JM Financial. Over to you sir. Mr. Abhishek, you can go ahead with your question.

Abhishek Puri: Hello?

Suresh Kumar: Yeah, Abhishek.

Abhishek Puri: Yeah, hi sir, how are you doing?

Suresh Kumar: Good, good. How you are doing?

Abhishek Puri: I am great sir. Sir, just a couple of questions on the Dongfang side. We have recently heard a news that Dongfang's turbine has failed in Sagardighi project. It was a 300 MW turbine.

Suresh Kumar: Yeah.

Abhishek Puri: Sir, any flavor from that side?

Suresh Kumar: No, I think, fortunately for us, specification for the Amarkantak project is much different from the specification of Sagardighi. From what I recollect, Sagardighi was more of failure of the blade.

Abhishek Puri: That is right.

Suresh Kumar: Actually the blade broke because of the speed at which it was designed for. Our projects are designed for much better tolerance in terms of speed of the blades and all that, but you know, it is easy to say, until and unless we experience the turbine during operation, it is difficult for us to take a call on the performance side of the equipments.

Abhishek Puri: The few sources in the industry were mentioning that the metallurgical properties of the material used in the turbine were at fault, so how are you controlling the quality of the turbines or the material being supplied by Dongfang.

Suresh Kumar: From what I understand from my technical team is they have made sure that the metallurgy and design specifications of the turbine blade and the turbine itself is per the standards that we have kept for ourselves, and which is much better than the specification of the West Bengal Electricity Board.

Abhishek Puri: Are we looking at some kind of certification from international organizations to ensure for the quality?

Suresh Kumar: Definitely, I mean, Dongfang itself gives guarantees for situations like this, I mean, there is a performance guarantee that is always

given by Dongfang for all the projects that we are executing. There are guarantees in terms of plant availabilities, so that way I don't think there are any concerns for us on that count.

Abhishek Puri: Right, I asked this question earlier also, but in the fourth quarter, on the margin side, construction business, if I look at the consolidated segmental results, construction side is showing the margin of 39.4%.

Suresh Kumar: No, actually, there is a small mistake there. That expenditure that is not....there is a line item which says that unallotable expenditure that is there.

Abhishek Puri: Yeah, that is right.

Suresh Kumar: By mistake, it has been shown.....

Abhishek Puri: ...in the construction side, right okay.

Suresh Kumar: Yeah, it should have come as an expense on the construction side. So, it is not as high as 39%, I wish it was.

Abhishek Puri: Haha...haha.

Suresh Kumar: So, there is a small mistake there.

Abhishek Puri: So, what would be the exact number for it, if it is readily available?

Male Speaker: See, it is around 25% mark only.

Abhishek Puri: 25%?

Male Speaker: Yeah.

Abhishek Puri: Okay. Theek hai, I will get back for more questions. Thank you so much.

Suresh Kumar: Yeah.

Moderator: Thank you very much sir. Next in line, we have Mr. Shashi Kiran of Edelweiss Securities. Over to you sir.

Shashi Kiran: Sir, I had a question on the revenue elimination for inter-segmental transfers.

Suresh Kumar: Yeah.

Shashi Kiran: What were the comparable figures for FY-08, sorry FY-07?

Suresh Kumar: FY-07 must be 40 crores, no...inter-segmental, inter-company profit will be 17 crores against 29 of this year.

Shashi Kiran: Okay, and elimination of revenues, have you eliminated any revenues from this?

Suresh Kumar: We cannot eliminate the previous year's revenues now. It is all over. We just adjusted against the results to the extent the results were inflated, we have reduced the reserves.

Shashi Kiran: Okay.

Suresh Kumar: It is a one-time effect, which is not going to happen anymore.

Shashi Kiran: Okay. My second question was on the basis of recognizing revenues from real estate. How do you....can you throw some light on that?

Suresh Kumar: See, what we have done is we have gone by a norm of percentage computation method. We have taken, if 25% of the project cost is incurred, only then we start recognizing revenue for the project, until then it is not recognized, and in the current year, we incurred almost 27% to 28% of the overall project cost for the residential sites, and therefore, we started recognizing revenue, but it is not only this threshold that we use to recognize revenue. What we have done is we only looked at customers who have given 25% as advance, and within that segment only....only the customers who have paid 25% advance and also signed agreements, only those, and only that proportion of revenue we have started recognizing. So, it is much different from what I think other property companies follow. Our recognition I am given to understand is more on the conservative side what we have done relative to what others have done.

Shashi Kiran: Okay.

Suresh Kumar: As a principle, for real estate, we want to be a bit cautious, given the current market condition, so we have preferred to be more conservative on the property side rather than comply with the norm in the industry.

Shashi Kiran: Just one more question on this very point. The total cost of the construction you are saying is will it be on the building by building basis or will it be on all the residential properties?

Suresh Kumar: The entire residential thing. We have not gone by building by building. It does not make sense at all, and not much different also. Construction cost building wise does not vary like from building to building that much.

Shashi Kiran: Okay. What is the total cost of construction for the residential?

Suresh Kumar: From what I remember, it is close to about 1300 to 1400 crores.

Shashi Kiran: 1300 to 1400 crores?

Suresh Kumar: Yeah.

Shashi Kiran: Okay. Thank you sir.

Suresh Kumar: Yeah.

Moderator: Thank you very much sir. Next in line, we have Mr. Amit from Lotus India Asset Management. Over to you sir.

Mr. Amit: Good afternoon sir.

Suresh Kumar: Yeah, hi Amit.

Mr. Amit: Hello sir. Sir, one question, since now you have adopted new norms and eliminated this Infra inter-company profits, just wanted to understand that from next year onwards, would you also eliminate the inter-company revenues from your consolidated accounts?

Suresh Kumar: No, we will do it to the extent it is income from subsidiary. There is some structuring element over here, so as long as the SPVs are not subsidiaries, you need not to have to eliminate. If they are subsidiaries, then you have to eliminate inter-company profit.

Mr. Amit: Sir, not only profits, I was also...I wanted to understand on the revenue side, will we also eliminate the inter...?

Suresh Kumar: Yes, you eliminate revenue as well as inter-group profit.

Mr. Amit: So, next year, when we look at the consolidated results of LANCO, would then that be the completely third party revenues?

Suresh Kumar: Yeah. Correct.

Mr. Amit: Sir, one more question.....

Suresh Kumar: But you know, there is a slight structuring element that you need to consider, if the power projects that we are executing, if during this construction period they are not subsidiaries.

Mr. Amit: Okay, okay.

Suresh Kumar: Then, you don't have to eliminate.

Mr. Amit: Okay, okay.

Suresh Kumar: There are a lot of structuring possibilities that can come in here.

Mr. Amit: Okay, okay sir. Sir, one more thing sir, in your previous presentations, you have mentioned, you have given a list of your power projects, and along with the expected completion date.

Suresh Kumar: Right.

Mr. Amit: Just wanted to re-confirm whether this Amarkantak-I, is it going to come on board on first quarter of this year, or if there is any delay?

Suresh Kumar: See, there is a delay. I am not saying that there is not a delay in Amarkantak. We wanted to commission it by June, but it is not happening. We probably will see it around August, but it is not going to happen in June, but it is not something that we were anticipating. It just happened that we wanted to be doubly sure about Chinese equipment. So, we want to give more time for the equipments to perform and stabilize and go through the grind for the first time before we announce commissioning.

Mr. Amit: Okay.

Suresh Kumar: This is the first time that we are using Chinese equipment.....

Ms. Amit: Right.

Suresh Kumar: .....to a large extent within India.

Mr. Amit: Sir, then, can we also have the expected completion date of the other projects. I will name these projects, and can you just tell me the expected completion?

Suresh Kumar: Except for Amarkantak Unit-1, we are not expecting much change in other projects. There could be a delay in some of the hydro projects that we are doing, but if you look at all the coal projects, apart from changing Amarkantak from June to second quarter, we have not seen any changes to that execution status. Nagarjuna, for example, is on course. Anpara is on course. As of now, there is no need for us to re-visit those timelines, except for Amarkantak Unit-1.

Mr. Amit: Amarkantak-II on schedule? I mean, are we on schedule for Amarkantak-II?

Suresh Kumar: We are anyway saying it is December 08.

Mr. Amit: Sir, of most of these projects, which are mentioned over here, which are the projects where the key equipment orders are yet to be placed?

Suresh Kumar: Except Baban, all other projects we have placed equipment orders, except Baban?

Mr. Amit: Except?

Suresh Kumar: Except the Orissa project that we are doing, all other projects that we are executing, we have already placed the equipment orders.

Mr. Amit: Sir, in terms of financial closure, which are the projects financially yet to be achieved?

Suresh Kumar: It is only the Uttaranchal project, the hydro project, 152 MW that we are doing in Uttaranchal, that is one that is pending closure, and the Orissa project, 2640 MW.

Mr. Amit: Sir, recently, there was news that your UP project which you have won recently is going to go for a rebidding, any thoughts on that?

Suresh Kumar: The official message is that they were not very happy with the tariff that finally emerged through the competitive bidding.

Mr. Amit: Okay.

Suresh Kumar: So, the official line from their side is they want a lower tariff, and that is why they want to re-bid. I believe the date has been announced. Sometime, in June, they want to like call for re-bid, so we will see when we bid again where the tariff emerges.

Mr. Amit: In that case, will be bid lower?

Suresh Kumar: No, we don't know, right, I mean, they also have changed. It depends, if they change the norms slight for RFP, then we will have to see whether the assumptions that we made in the earlier bid still continues or not. If that warrants a reduction or increase in tariff that we bid, then so be it.

Mr. Amit: Sir, in your existing power project, we were observing that your ROC's and ROE's are very high, as high as 25%, right. Now, in the case of the new projects that are coming on board, what kind of ROC's and ROE are you looking at?

Suresh Kumar: They will not be as high as what they are, but typically the way we structure the project is such that at least we earn a minimum 20% ROE for the project.

Mr. Amit: Yes.

Suresh Kumar: That is the base case that we prefer to work on.

Mr. Amit: Okay.

Suresh Kumar: We don't bid for projects where it is sub-20% ROE. So, I guess, the norm for the future will be that the minimum ROE's will be

maintained, and if there is a merchant play in some of the projects, then there is an upside to the ROE number.

- Mr. Amit: Sir, the last question is that in the segmental breakup of your results, there is an item of infrastructure development, that the capital employed is 1038 crores, what does this pertain to?
- Suresh Kumar: 1038 crores or 1003 crores?
- Mr. Amit: It is 1038 crores, assets and segment liabilities under capital employed, there is an item of infrastructure development.
- Suresh Kumar: This will include...see, infrastructure development includes power and the road project that we are developing.
- Mr. Amit: But power is already separately there, I think. Construction is also separately there.
- S. Kasturi: No, I think, there is some classification issue there. I think we will get back with the clarification on that, you know.
- Mr. Amit: There is also some....there is only 1.2 crores profit from infrastructure development and the capital employed under infrastructure development shows as 1040 crores.
- S. Kasturi: No, I think, there is some classification issue. We will just get the clarification and get back to you.
- Mr. Amit: Okay, okay. Thank you sir.
- Moderator: Thank you very much sir. Next in line, we have Mr. Pankaj Sharma of UBS. Over to you sir.
- Pankaj Sharma: Yeah, hi. It is a followup question on trading side. Could you give me the idea about the units you traded in the subsidiaries in FY-08?
- Suresh Kumar: For the full year, FY-08, it is about 2 billion units that we traded. Part of it is banking and the rest of it is actual billings that we made, but it was a good mix between banking and non-banking trades that happened.
- Pankaj Sharma: Okay, and how it would stand in terms of market share among the different businesses?
- Suresh Kumar: About 12.5% for the fiscal 08 was our market share. We are No.3 in the ranking. No.1 in the private sector.
- Pankaj Sharma: Okay.
- Suresh Kumar: But No.3 overall. PTC first, NTPC is trading on second.

Pankaj Sharma: Yeah.

Suresh Kumar: We are third in terms of volumes.

Pankaj Sharma: Right, thank you sir.

Suresh Kumar: Yeah.

Moderator: Thank you very much sir. Next in line, we have Mr. Gautam from BNK Securities. Over to you sir.

Mr. Gautam: Good afternoon sir.

Suresh Kumar: Good afternoon.

Mr. Gautam: Hello?

S. Kasturi: Yeah, good afternoon Gautam.

Mr. Gautam: Sir, wanted to know about the current status of your real estate project like how much area is booked right now?

Suresh Kumar: Property project we have about 1200 customers.

Mr. Gautam: Okay.

Suresh Kumar: As on today.

Mr. Gautam: And sir, that constitutes of how much like in terms of square feet?

Suresh Kumar: About 3.2 million square feet.

Mr. Gautam: Okay.

Suresh Kumar: We were earlier 1500. We lost about 300 customers actually. We lost 400 customers, we gained back 100.

Mr. Gautam: Okay.

Suresh Kumar: Because of the WAQF board issue that came up in October and in November, and also when the property market went a bit soft, we saw some cancellations.

Mr. Gautam: Okay, and sir, in the current quarter, the real estate revenue, that is for like how many square feet?

Suresh Kumar: How many?

Mr. Gautam: How many square feet for you have booked the revenue?

Suresh Kumar: You don't go by that. You go by a norm of...see actually, it will be a bit difficult for you to like go by a norm like this because different thresholds that we have taken. We assume first is we will recognize revenue if and only if at least 25% of the cost incurred, that is one. Second is we have gone with a benchmark where we will recognize revenue for customers who have paid at least 25% as advance and also enter into agreement.

Mr. Gautam: Okay.

Suresh Kumar: So, there are lot of variables that will creep into this revenue recognition policy that we have started. It is a function of how many customers pay advances, how many will sign the agreement and so on and so forth, so it is like you have multiple variables. It is not just variable.

Mr. Gautam: Okay, okay.

Suresh Kumar: So, I would suggest like, I mean, the policy is slight more complicated than what is followed in the industry.

Mr. Gautam: Okay sir. Sir, regarding the new policy adopted by you for revenue and profit recognition, in that case like that your existing powers are there or like your real estate project, which are your subsidiaries, from there construction revenue will not come?

Suresh Kumar: It is.....

Mr. Gautam: Like sir, Kondapalli power plant you are going for expansion, so.....

Suresh Kumar: Yeah, to that extent, the revenue will be eliminated.

Mr. Gautam: Okay.

Suresh Kumar: Through the AS-21 adjustment.

Mr. Gautam: Okay, and same will be applicable for your real estate project also here.

Suresh Kumar: Real estate because it is revenue in nature, it should not affect the overall number.

Mr. Gautam: Okay, and sir, when is LOI expected on the port project you have gone in Kerala?

Suresh Kumar: LOI, they are going through security clearance. As soon as security clearance is done.....

Mr. Gautam: Okay.

Suresh Kumar: .....they will formally give us a Letter of Intent.

Mr. Gautam: Okay, and sir, what is the guidance for FY-09 and FY-10 for revenues as well as earnings?

Suresh Kumar: Actually like it is better to stay away from guidance for the moment. Let us see how the next couple of quarters shape up because, you know, it is a bit volatility on the commodity side, so let us be a bit careful, although like we have covered ourselves largely by getting into fixed contracts with Dongfang, you know, we rather be a bit cautious now on guidance, but definitely we will do better than 2008.

Mr. Gautam: Okay. Sir, wanted to understand the high margins in your construction business in this quarter. Was this because like your Amarkantak project reaching final stages?

Suresh Kumar: The margins is typical of our business. The margins that we make on in-house contracts are much higher than typically what we have made on external contracts, so that way I would say like it is in line with the margins that we make on internal projects, but it is not as high as 40% as the numbers are saying. It is not actually 40%, there is a mistake in that.

Mr. Gautam: Yeah, I guess, it is around 26% to 27% this quarter.

Suresh Kumar: It is fine, it is normal.

Mr. Gautam: But normally your margins are around 20% level.

Suresh Kumar: See, that is what, the construction you should be careful on certain things. Sometimes, buildings happen on a very lumpy basis. It is not very necessary it will now...say for example this quarter we made, for the last 2 quarters, we made higher margins, it does not mean that June quarter, we will maintain these kind of margins at the same level.

Mr. Gautam: Okay.

Suresh Kumar: So, it is very lumpy, and quarter on quarter, it is difficult to like, you know, predict what will be margins for each quarter.

Mr. Gautam: Okay.

Suresh Kumar: We look at it more on a year-on-year basis and make sure that there are no like, what you call, major surprises. So, that is how we see, but it is difficult for us to like look at it on a quarter-on-quarter basis. It is completely a factor of how much work is done and what was the cost that is incurred for that quarter relative to the kind of work that is being done and recognize it.

Mr. Gautam: Okay. What is the status of the Vamshi hydropower project?

Suresh Kumar: Basically, commissioned from July onwards. In July, one 5 MW unit will be commissioned, and I am told by July the second one will also be commissioned, and the third and fourth will be around August – September.

Mr. Gautam: Okay, fine sir, thank you very much.

Suresh Kumar: Yeah.

Moderator: Thank you very much sir. Participants who wish to ask questions, may kindly press \*1 on the telephone keypad. Next in line, we have Mr. Shiladitya of ICICI Prudential. Over to you sir.

Mr. Shiladitya: Good afternoon gentlemen.

Suresh Kumar: Good afternoon sir.

Mr. Shiladitya: Just wanted to understand what is happening in terms of execution like I think we discussed this before, Amarkantak, you said that there was some delay because you said you were using Chinese equipment for the first time. Could you get more granular on as to what is happening. Secondly, just wanted to understand what is happening in terms of the pricing arrangement with the Chinese, just because of...what we understand is, see this is huge portion, raw material cost for the players, again the Chinese currency is also appreciating, in that environment, how is the pricing behaving?

Suresh Kumar: Okay, can I answer your second question first?

Mr. Shiladitya: Surely sir.

Suresh Kumar: Okay, see, typically Chinese are once they have entered into a contract, whether it is on a fixed price or a variable price, they honor whatever they have committed earlier. They have never taken a stand that just because the raw material costing is against them, they have not pushed for change in contract terms. So, fortunately for us, the projects of Amarkantak, Nagarjuna, Anpara, all are projects where contracts have been signed, sealed, and delivered. There is no question of they wanting to revisit the contract because steel prices for example have gone against them.

Mr. Shiladitya: See sir, where I am coming from is because globally what we are seeing even contracted steel prices or steel manufacturing are putting surcharges because the raw material costing in pushes so much, therefore the concern is that....

Suresh Kumar: I am not saying that there is no pressure on Dongfang. There is definitely pressure on Dongfang on finding a mechanism to like pass on those costs.

Mr. Shiladitya: Exactly.

Suresh Kumar: But it is not for projects where they have already entered into contracts. They will only maybe push for a higher price for the new contracts that have been executed.

Mr. Shiladitya: Sir, is it fair to assume that for player like Dongfang or particularly in this case Dongfang, they are making much lower margins than what they had anticipated when they have taken your order.

Suresh Kumar: That is right.

Mr. Shiladitya: And that cost push is not coming.....

Suresh Kumar: Dongfang....

Mr. Shiladitya: And that cost push is not coming to you?

Suresh Kumar: No. It cannot. Contractually, it cannot come in nor is Dongfang pushing this.

Mr. Shiladitya: Right, right.

Suresh Kumar: That is what I said. I started by saying that they are honoring the contract that they have already executed.

Mr. Shiladitya: Right, right.

Suresh Kumar: Wherever contract has not been executed, they are discussing possible ways of increasing the price.

Mr. Shiladitya: And what is your perception, how much price hike they are trying to take?

Suresh Kumar: See, ultimately the chief component in any boiler turbines in the factory is not more than 5% to 6% increase.

Mr. Shiladitya: Okay, okay.

Suresh Kumar: So, it is not that just because steel has gone up 50% over the last 4 months, it does not mean BTG pricing has gone up 50%.

Mr. Shiladitya: Right, right sir. That given, just trying to get a sense of what is the price hike they are talking about?

Suresh Kumar: It varies from project to project, customer to customer.

Mr. Shiladitya: Right, no, in discussions with you people, what we are more concerned about what there will be the increase in your CAPEX cost for you.

Suresh Kumar: If it is their new project, we are factoring in the potential possibility that it will increase.

Mr. Shiladitya: How much, what is the extent?

Suresh Kumar: I can't discuss that.

Mr. Shiladitya: Right.

Suresh Kumar: But we are taking into consideration.....

Mr. Shiladitya: That you are also assuming certain price inflation.

Suresh Kumar: That is right, that is right.

Mr. Shiladitya: And sir, in terms of delay, what is happening? Hello?

Suresh Kumar: Can you repeat your question?

Mr. Shiladitya: In terms of the delay for Amarkantak-1.

Suresh Kumar: It is more because we wanted to give their equipment more time to run before getting comfort that this equipment will not repeat the same way it has happened in Sagardighi for example. So, we just want to like be doubly sure that this equipment is running well, able, and is capable of being available 90% of the time.

Mr. Shiladitya: Right, right. Okay, sir, again coming back to this question of delays, you know, across the board, we are seeing slippages in terms of project execution. What gives you the confidence that other projects, you know, you will be able to commission on time?

Suresh Kumar: Our experience is in the coal-fired power plant or a gas-fired power plant. Slippages are very normal, and it won't be extraordinary slippages. You will see it is happening say in June like in our case, instead of happening in June, it is happening by December.

Mr. Shiladitya: Right, right.

Suresh Kumar: Therefore, for coal-fired power plant, a 2-3 month delay here and there is fine, it is normal.

Mr. Shiladitya: Correct.

Suresh Kumar: Okay, and it is fine, it is not a big deal. The issue of execution I feel is more in hydro, that is on coal.

Mr. Shiladitya: Right.

Suresh Kumar: So, it is fine, 2 to 3 months here and there just does not matter.

Mr. Shiladitya: Right. You know, sir, we are talking to a lot of people, and they are saying that simply vendors are not available to execute, and that is something that is hurting even if you look at NTPC, across the board, there have been slippages.

Suresh Kumar: Fortunately, for us, these 50% of the problems of NTPC or any other pure developer, 50% of those problems are not there because we have our own....

Mr. Shiladitya: In-house, yeah.

Suresh Kumar: In-house construction team, so we can manage our...at least to the 50% of the project execution. We are less frisky that way.

Mr. Shiladitya: Fair enough.

Suresh Kumar: Or less exposed to that potential problem.

Mr. Shiladitya: Fair enough sir. In terms of real estate sir, you mentioned that there have been sudden slippages, sudden delay in terms of booking the second phase.

Suresh Kumar: Yeah.

Mr. Shiladitya: In terms of demand environment, as in, what is happening is, so what are you planning to do, would you be willing to take price cuts to boost demand?

Suresh Kumar: As of now, Hyderabad is a different market in my view, not as price sensitive as Chennai market or the Bangalore markets.

Mr. Shiladitya: Right.

Suresh Kumar: So, that way, touchwood we have not reduced our price points. We have in fact been pushing for an increase actually because the way steel has moved, and the way the cement has been moving, so we have been pushing for actually an increase with marginal success, but still we maintained our pricing level.

Mr. Shiladitya: Right sir. Thank you so much sir.

Suresh Kumar: Yeah.

Moderator: Thank you very much sir. Next in line, we have Mr. Vishal Sharma of BNP Paribas. Over to you sir.

Vishal Sharma: Yes, good afternoon. Can you hear me? Hello?

S. Kasturi: Hi Vishal.

Suresh Kumar: Good afternoon.

Vishal Sharma: Good afternoon. My question is on the Genting partnership. We have been hearing a lot that Genting is wanting to exit the power business, and I know they have been in partnership with you in few of your projects. So, how is that going to affect, first thing, in your existing projects like LANCO Kondapalli and others, and have you entered in any, are there any potentials bids that you have entered with them that are waiting to be approved or given out?

Suresh Kumar: See, we have not heard anything about Genting wanting to do anything with its portfolio in India, whatever maybe happening is perhaps on the International side, we are not aware of it. We have not been having any discussions on their existing interest in Kondapalli and ABAN, so if it comes, then we will look at it and take a call what to deal with it, but I don't see anything happening in Kondapalli and ABAN. At the same time, we sit together with them for Tilaiya. I don't know, I mean, it is difficult to say how it will pan out, but I would say like eventually if it happens then the successor of Genting will have an option to work it out.

Vishal Sharma: Okay, my next question is on what are your funding requirements, what is your CAPEX in FY-09 and FY-10, and how much is going to be spent at this standalone level, how much do you need for your investments as equity in subsidiaries and how are you going to fund that?

Suresh Kumar: Standalone, there is not much of CAPEX, this is largely construction equipment, which will anyway be funded either out of construction equipment financing or alternatively through a lease structure. So, at the standalone at LITL level, minimal CAPEX, but largely funding is for funding the equity contributions in all the projects, and as it stands today, it will be done predominantly out of internal accruals until 2010, and if the merchant opportunities of Kondapalli and other projects kick in, by then, some more internal accruals that we can generate.

Vishal Sharma: And can you put a number to it in FY-09 or FY-10?

Suresh Kumar: Kasturi will definitely give you those details.

Vishal Sharma: Okay, alright, thank you very much.

Suresh Kumar: Yeah.

Moderator: Thank you very much sir. Next in line, we have Mr. Krudant from Valley Quest Research. Over to you sir.

Mr. Krudant: Hello sir.

Suresh Kumar: Hi.

Mr. Krudant: Going forward, what will be your operating margins?

Suresh Kumar: For construction, you should look at a range of 18.5% to 20%, just to be safe.

Mr. Krudant: Okay.

Suresh Kumar: For the in-house construction business.

Mr. Krudant: Okay.

Suresh Kumar: For the external order book, presume it will be around 10 odd percent, 10 to 11%.

Mr. Krudant: Okay.

Suresh Kumar: For property, keep these numbers, whatever we have earned for this fiscal, we will continue with those margins.

Mr. Krudant: Okay.

Suresh Kumar: For power, you go by what we have earned in fiscal 08, go by those margins.

Mr. Krudant: That is around 33%.

Suresh Kumar: 33, yeah.

Mr. Krudant: And power trading around 1%.

Suresh Kumar: Power trading is 1%, yeah.

Mr. Krudant: And sir, of that your 130 billion rupees order book, how much is in in-house and how much is external?

Suresh Kumar: Largely in-house, I would say about 1500 will be external, and balance is internal.

Mr. Krudant: 1500 external...yeah. Okay, and sir, one more last question. Sir, I don't know exactly, what is your land under development, total area under development?

Suresh Kumar: LANCO is about 100 acres, and Chennai is about close to about 80 odd acres.

Mr. Krudant: 80 acres, okay, thank you sir.

Suresh Kumar: Yeah.

Moderator: Mr. Krudant, are you done with your question?

Mr. Krudant: Yeah.

Moderator: Thank you very much sir. Next in line, we have Mr. Hari Shankar from Credit Suisse. Over to you sir.

Hari Shankar: Good afternoon sir. Just wanted a small clarification. Correct me if I am wrong, but I thought you said that during the construction period, the power SPV's because they will not be subsidiaries, the revenues will not be eliminated or something of that, or something to that extent?

Suresh Kumar: Yeah. If they are subsidiaries, it will be eliminated. If they are not, they won't be.

Hari Shankar: As in if they are not 100% subsidiaries, they will not be eliminated.

Suresh Kumar: No, it is nothing to do with 100%, as long as it should not be a subsidiary.

Hari Shankar: And also, with regards to your construction margins, when you say that your margins for the internal orders are going to be higher, would you see them sustainable in the long run, given that the capital cost for power projects is going to keep increasing, so would you not cut down on the margins?

Suresh Kumar: The projects which are part of the order book today, they are all contracted out, so there is a reasonable fix on the equipment contract that we have entered into, there is a reasonable fix on our margins there, so I mean, if you look at our current order book, it is fine. You know, you look at the trend as well. Six to nine months back, all power developers who were bidding for projects used to bid in the 2.40, 2.50 range tariff. Today, everyone is moved out and are definitely looking at 2 rupees 70, 2 rupees 80 plus kind of tariff levels. So, it is not necessary that, you know, there is a squeeze out happening generally across the board.

Hari Shankar: Okay, okay.

Suresh Kumar: This is not necessary because the developers are seeing the risk of cost inflation, and therefore, tariffs are looking up.

Hari Shankar: As a followup, would not you rather see it a bit contradictory because you would have, you are having some problems in the UP projects where the government is actually saying that the

tariffs are higher, on the higher end, whereas they are in the 2.80 levels and....

Suresh Kumar: Because that is as a developer, it is not necessary that whatever developer bids for is acceptable to the regulator or the consumer. I mean, I have no control or say over the thinking of the government, right?

Hari Shankar: Yeah, thanks so much sir.

Suresh Kumar: Yeah.

Moderator: Thank you very much sir. Next in line, we have Mr. \_\_\_\_\_ of Tata Mutual Fund. Over to you sir.

Male Speaker: Good afternoon sir.

Suresh Kumar: Good afternoon.

Male Speaker: Yeah, my first question pertains to your investment requirement in your power projects, which is partially answered before. Just to add on to that, are you exploring any re-structuring option for your power assets to seek investment and feel if there is any gap which could be there because your internal accruals falling short?

Suresh Kumar: No. We are not looking at any options.

Male Speaker: Okay. Second question was pertaining to the new power project, actually this is now under a re-bid phase and all, but had that been not occurred, what could have been your CAPEX cost per megawatt, the ballpark figure.

Suresh Kumar: That is about 3.3, 3.8 billion dollars of CAPEX had UP not gone for a re-bid, that we would have added to our existing CAPEX plans.

Male Speaker: Okay.

Suresh Kumar: What you will now see, after the re-bid again, we will see where we stand.

Male Speaker: So, the per megawatt kind of a ballpark figure which was like 4.5 crores before, has it gone up now because we are hearing that there is an equipment supply situation from China is also tight, and they are also asking for a higher price, if the order is new.

Suresh Kumar: Honestly, I am not seeing any squeeze in the schedules of Chinese, despite whatever has happened to Dongfang in these earth quakes. Our read is it does not affect projects where the size of the project is minimum 500 megawatts.

Male Speaker: Okay.

Suresh Kumar: When I say size, it is equipment size.

Male Speaker: Okay, yeah.

Suresh Kumar: So, the turbine factory for 500 MW plus is absolutely intact except for the blade manufacturing facility.

Male Speaker: Okay.

Suresh Kumar: So, most of the developers today in India are looking at 600 MW minimum.

Male Speaker: Okay.

Suresh Kumar: Single machine, 600 MW each.

Male Speaker: Okay, and on that side, there is no tightness in the market.

Suresh Kumar: No, I don't think.

Male Speaker: Okay.

Suresh Kumar: It is only if you are planning to do 150-MW frame or a 300-MW frame, you may face some issue in terms of supply from Dongfang because those facilities have been affected.

Male Speaker: Okay.

Suresh Kumar: I don't see any big issue coming in from Chinese.

Male Speaker: No, what I was pointing toward is if you have to place new orders now for equipment, then what is the situation.

Suresh Kumar: I mean, just few weeks back, I was told Dongfang signed a billion dollar contract with 2 Chinese companies.

Male Speaker: Alright, okay.

Suresh Kumar: So, I don't see that is a big issue.

Male Speaker: Okay, okay. Okay sir, that is about it. Thank you.

Suresh Kumar: Yeah.

Moderator: Thank you very much sir. Next in line, we have Mr. Samar Sarda of Anand Rathi Securities. Over to you sir.

Samar Sarda: Good afternoon sir.

Suresh Kumar: Good afternoon.

Samar Sarda: Just a little question with regards to the real estate front. Like if you tell me what was the booking rate when you started actually booking the residential apartments and how has it gone up?

Suresh Kumar: We started at 4250 plus a floor rise of 20 bucks a square feet.

Samar Sarda: Right sir.

Suresh Kumar: That is how we started, moved it to 4400 plus 25 rupees floor rise, then after some time also did 4500 plus 30 bucks floor rise, and that is where we took most of our customers at the 4500 plus 30 bucks floor rise. Recently, we moved up the price to 4750 to 4850.

Samar Sarda: Okay.

Suresh Kumar: That is not seeing a great response. We got some 60 odd customers even after the increase, but the pace is reduced.

Samar Sarda: Sir, just to confirm like the total residential development is 6.7 million square feet, and phase I constitutes of 3.2 million square feet.

Suresh Kumar: Phase I is actually 4 million, out of which we got booking for 3.2 million.

Samar Sarda: Okay, and sir, like if you could also tell me the units like how are...we all know like little softening in demand has come up, but the bookings in Q3 versus Q4, the total number of units.

Suresh Kumar: It has reduced a bit.

Samar Sarda: Okay sir, sure.

Suresh Kumar: Not as good as what it was in I would say in August – September.

Samar Sarda: Okay, sure sir.

Suresh Kumar: For that matter maybe November.

Samar Sarda: Alright, that is it from my side. Thanks a lot.

Suresh Kumar: Yeah.

Moderator: Thank you very much sir. Next in line, we have Mr. Shah of Edelweiss Asset Management. Over to you sir.

Male Speaker: All my queries have been questioned. Thanks a lot.

Suresh Kumar: Yeah.

Moderator: Thank you very much sir. At this moment, there are no further questions from the participants. I would like to handover the floor back to Mr. Aman Batra for final remarks.

Aman Batra: We would like to thank Mr. Suresh Kumar and Mr. Kasturi for taking out time. Thanks everybody for attending the call. Thank you.

S. Kasturi: Thank you.

Suresh Kumar: Thank you everyone. Thanks for the time.

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.

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