



**“Lanco Infratech Ltd. Q2FY09 Conference Call
Hosted by ICICI Securities”**



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MODERATOR: Mr. Gaurav Pathak- Analyst, ICICI Securities



Moderator: Good morning ladies and gentlemen and welcome to the Q2FY09 Earnings Conference Call of Lanco Infratech Ltd. Hosted by ICICI Securities. As a reminder, all participant 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 assistance during this conference, please signal an operator by pressing "*" and then "0" on your touchtone phone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Gaurav Pathak of ICICI Securities. Thank you and over to you Mr. Pathak.

Gaurav Pathak: Yeah. I welcome everyone to second quarter FY09 conference call of Lanco. We have with us CFO Mr. Suresh Kumar. He will be first talking about details about the results and then we will open for the Q&A session. Over to you Mr. Kumar.

Suresh Kumar: Thank you Gaurav. Morning everyone. I welcome you all to this conference call. I propose that Kasturi will walk you all through briefly the performance of Q2, and I will take over from there and address perhaps some of the concerns that the general market is having with regards not just to Lanco but with regard to other companies as well. More particularly, I will talk on the financing side, how Lanco is placed in the current environment, and we will give it to Q&A after that. So, Kasturi why don't you probably take our friends through the performance of last quarter.

S.Kasturi: Thank you Suresh and I welcome you all to the conference call and a very good morning to all of you also. We had announced the results on 31st, October and from the results you can see that there has been a reasonable growth which we have shown both in top line as well as in the bottom line. Though there are certain issues in the bottom line, which needs to be addressed before you actually consider what growth we have achieved. On the top line, the net sales for the quarter there has been a doubling of the sales from 6006 million in the previous quarter in the previous year to 12,790 million for this quarter, while for the half-year the jump has been almost 87%. This is at the net level and if you also adjust for the inter-company elimination, which we are supposed to do as per the standards, the growth is actually more than that. Now, if you look at the EBITDA, on the reported numbers on the EBITDA, the margins have actually dropped from 19% in the previous quarter to 15% for this quarter and 20% in the previous half to 17% in this half. But this reported number needs to be adjusted for two significant elements before you arrive at the actual EBITDA. The first is the turnover on the power trading which we have. There has been a significant growth in the power trading revenue, which doesn't come with any extra significant margin at all and they are very low margin in fact, and that has to be adjusted if one has to look at the correct EBITDA. The second thing which needs to be adjusted is the increase in the turnover due to the use of naphtha in one of the power plants which is Kondapalli. That also has been significantly higher and because of that

the margin also gets depressed. If we adjust for these two elements, then the EBITDA at an adjusted level would be 25% for this quarter versus 22% for the previous quarter in the previous year, and 26% for the half year versus 27% for the previous half in the previous year.

Now coming to the bottom line, on the basis of the reported numbers for the quarter there has been a small drop in the bottom line by about 8% and 5% increase for the half year for this year. However, again, there are two elements, which need to be adjusted and both of them are non-cash elements and therefore that have to be taken out before you actually see what is the PAT for us. The first element is the notional forex loss, which has been accounted for this quarter and this year also, and if we adjust the attributable portion of that for our share in this quarter and for the half-year, then the PAT would actually be showing an increase of 17% for this quarter and 30% for the half year. And there is one more thing which I need to point out on this forex loss which is also actually given in our notes is the fact that this is a notional loss and also because of the fact that Kondapalli and Aban are the two subsidiaries which adjust for these losses have a natural hedge in those projects because there is a revenue which is denominated in dollars. So, in fact, there would actually be no loss because of any change in the forex rates. The second element which needs to be adjusted is the the intersegmental profits which have been eliminated from the consolidated books for the transactions which we have with subsidiaries and associates. Now, this is a requirement of the standard for consolidation purposes, while it does not affect our standalone profits because the standalone accounting takes these profits also into books and there is a cash which is being earned by the standalone entity for these transactions which is entered into with subsidiaries and associates. And if one adjusts for these two elements then the increase in the profit for the quarter is 43% and it will stand at 869 million rupees versus 609 million rupees for the previous year's quarter. And for the half of the year, the increase would be 56% and the profit would be 1746 million rupees versus 1121 million rupees for the previous half.

Now, I would discuss the performances on standalone basis for each of the business verticals. The standalone entity which is LITL and which does the construction and EPC has registered a good top-line growth of almost 68% for this quarter, while for the half year it has almost doubled from 5314 million rupees to 11,727 million rupees. And the significant growth has come from the projects which are presently under construction, particularly the Udupi Power Project, Amarkantak, and Anpara.

In the power generation business, again there has been a good growth and the margins there have been very healthy. If you adjust for the sale of power generated on naphtha, which has accounted for increase in the turnover, then the margins for the power generating business have grown from 44% in the previous quarter to 47% in the current quarter.

Lanco electric utility, which is the trading arm, has registered very significant growth in the revenue, though the volumes have remained flat. Now the increased revenue for the trading utility has mainly been on

account of the increase in the realizations per unit, which has gone significantly up from the previous year to this year, while the margins don't change because the margins are capped.

Lanco Hill also has been okay in terms of performance and it has more or less been flat in terms of the quarter-on-quarter growth in the profit while the margins have grown to 38% at the EBITDA level for the Lanco Hill. Now this is the brief of the summary of the results. I will now hand it back to Suresh for his views.

Suresh Kumar:

Thank you Kasturi. In the context where cash is king, we are looking at a business in a very detailed, at a very micro level. Not that we have not been looking at it earlier, but in the current context we are being extra careful in looking at our cash flows over the next one and a half year to two years. Now, whatever we have seen and given the environment that we are in, we are reasonably stacked up on our liquidity position because of which we can go on without any hiccups until March 2010. Given the fact that all the projects that we are developing are financially closed, we are not seeing much of a constraint.

To give you some broad information, to be very honest, we've not given all this information out in quarterly results but it's important that we give this kind of information on this call, so as to give all of you the comfort that we're reasonably comfortable on our liquidity position. What we have here is the total Capex for the projects that are under execution is about 16,000 odd crores, which requires a total equity investment of about 3100 crores. The debt required for all the projects that we are developing is about 13,000 odd crores. We tied up debt to the tune of 13,000 crores completely and there are no projects where debt is yet to be tied up. That's the macro level situation. Out of this 16,000 odd crores of Capex, we have already spent 5600 crores till date. We have already infused 2200 crores of equity out of the 3100 crores that we need to invest. We've already drawn debt to the tune of about 3000 crores for the projects. Additional drawdown of debt is an ongoing process and we've put in enough equity to take care of another 8000 odd crores of debt-drawal over the next one year. If you look at our liquidity position as of September and as of today, we are sitting on liquid investments to the tune of almost 915 odd crores.

Now, given this overall situation, we are not foreseeing a situation where Lanco as a group would be affected in any way by this liquidity crisis that's going on around the world. More so it is getting much more positive after the announcements that have been made over the weekend. And we don't foresee a situation where Lanco as a company and the industry as a whole would be starved off capital, particularly for the infrastructure sector. So we are going ahead with our plans as is normal, but with a lot of caution. We are not aggressively looking at new project development. We just want to make sure first that the existing projects are on track and no pressures on the existing projects. We are being very selective in our approach and looking at projects, new projects that are either big or

projects which we want to take financial closure, but we want to be extra careful given the macro environment.

So, the point that I wanted to make to all of you is that we have stacked up enough to take it off us until March 2010 without hiccups. We definitely hope that the second half of 2009-10 would be more positive on the liquidity front if not earlier. So we have assumed the worst-case scenario and we've gone ahead with our cash flow planning. So, that's the kind of a message I thought I should give all of you and leave it now for Q&A.

Moderator: Thank you very much sir. We will now begin the question-and-answer session. At this time if you would like to ask a question, please press "*" and then "1" on your touchtone phone. If you want to withdraw your question from the questioning queue, please press "*" and then "2" to remove yourself from the queue. Please use only handset while asking a question. Our first question is from Mr. Murtuza Arsiwala from Kotak. Please go ahead.

Murtuza Arsiwala: Hello.

Suresh Kumar: Hi Murtuza.

Murtuza Arsiwala: Yeah. Hi sir. I just wanted to know there is a steep rise in interest cost sequentially and on the consolidated numbers, and even if you see the other expenses line, there is a sharp drop. So, could you just explain these numbers?

Suresh Kumar: See more or less in line with the requirements of the business. If you see what happened in the month of July, August, September, there was an additional working capital drawdown that we took on to meet some of the cash flow issues that the banking industry was facing. So, that would largely reflect the increase in interest cost. Now, we had to draw a lot of our working capital limits during the quarter. So, that explains most of the interest cost jump.

Murtuza Arsiwala: Okay. Would you expect that to go on in the coming quarters or we are more comfortable with our cash positions?

Suresh Kumar: No.

Murtuza Arsiwala: Okay.

Suresh Kumar: The reason is over the last one month or so we have seen more disbursements happening amongst institutions .

Murtuza Arsiwala: So, this is more sort of a mismatch between, you know, disbursements from the financial institutions that you have to cover up for?

Suresh Kumar: Right.

Murtuza Arsiwala: Okay. And the other one on the other expenses?

Suresh Kumar: Other expenses, I don't recollect why there was a steep jump but...

Murtuza Arsiwala: No, it was actually a drop in the current quarter.

S.Kasturi: Suresh, I will just answer that, because the forex losses which were earlier there, now we have taken out the forex loss out of this.

Murtuza Arsiwala: Okay. Now to see still, I mean, you have removed the forex loss and still I see a drop down in the other expenses. I mean, you are not keeping the forex losses right, is there anything or...?

S.Kasturi: There is nothing else

Murtuza Arsiwala: Okay.

Suresh Kumar: I would love it if my expenses keep coming down.

Murtuza Arsiwala: Okay. Thank you.

Moderator: Thank you Mr. Murtuza. The next question is from the line of Mr. Vishal Sharma from BNP Paribas. Please go ahead.

Vishal Sharma: Yes. Good morning everyone.

Suresh Kumar: Good morning Vishal.

Vishal Sharma: On your Kondapalli, the PAT has come down. Now I am assuming that's because of the forex losses or is there any other thing that is...

Suresh Kumar: It's only forex. Otherwise PAT should have gone up by some 20 to 25%. It's only forex that is hitting it.

Vishal Sharma: Okay. And can you just quantify how much of forex in Kondapalli and Aban?

S.Kasturi: Yeah. Kondapalli it was 360 million and Aban it was 124 million.

Suresh Kumar: For the half year.

S.Kasturi: Yeah, for the half year.

Vishal Sharma: And same numbers for quarterly?

Suresh Kumar: No. , actually September took the brunt of the forex rupee depreciation. I would say it is one-third, two-third.



- Vishal Sharma:** Okay. And now, what are the current rates that you are seeing in the forex. Are you assuming like a 50 rupees to a dollar?
- Suresh Kumar:** No. Actually if you look at it from Kondapalli and Aban situation, rupee depreciation is positive for Kondapalli and Aban, because they get their revenue in dollar terms. So, I would say like, as a group, we prefer if rupee appreciate from now, while specifically from a Kondapalli and Aban perspective, it's always good to have the rupee depreciating.
- Vishal Sharma:** Okay. And then, well in that case this forex loss should be hitting your PAT line all the time where as and when rupee depreciate. So, currently lets say, if it is at 50 then going forward let's say the rupee depreciates probably more to 55 you should see more providence coming in, correct?
- Suresh Kumar:** Technically speaking, but actually my liability is hedged completely because I have a dollar revenue.
- Vishal Sharma:** Correct.
- Suresh Kumar:** I also have a dollar liability.
- Vishal Sharma:** Okay.
- Suresh Kumar:** And it's a very notional adjustment, honestly. I mean, if you look at it slightly mathematically rather than from an accounting perspective, actually there is no loss that I take because I have a corresponding income against the dollar liability that I have and that too like this liability is spread over the next five years, five to six years.
- Vishal Sharma:** Yeah, that would have been my next question, how much of your debt do you expect to repay from Kondapalli and Aban in the near future?
- Suresh Kumar:** See.
- Vishal Sharma:** Forex debt.
- Suresh Kumar:** Just to give you a broad perspective there, it is annually Kondapalli makes about \$40 million of dollar revenue. And as an annual liability of worth \$20 million over the next five years.
- Vishal Sharma:** Okay. And for Aban?
- Suresh Kumar:** Aban is \$600,000 income and \$300,000 of liability over the next, it's a longer tenure, it's a seven-year period.
- Vishal Sharma:** Okay. Then just in terms of the trend in working capital, I know you had some drawdowns done in the recent quarter. Is that drawdown more because you have to pay your creditors more faster than your debtors or...?

- Suresh Kumar:** Yeah, I had some milestone payments to my BTG contractors. And because the disbursements were getting delayed, I had to draw temporarily from my working capital to meet that requirement, as an EPC contractor. So, while disbursements were getting affected at the SPV level.
- Vishal Sharma:** Okay.
- Suresh Kumar:** I had my liabilities to my equipment contract.
- Vishal Sharma:** So which essentially means that going forward in the next two quarters you should see this reversing because you made your milestone payments and your credit liability should increase and you will see favorable working capital?
- Suresh Kumar:** Yes. And see we slightly took a worst-case scenario kind of a view. We were trying to stack up as much as we could just to make sure that we are not starved off liquidity in the quarter of March and in the quarter of June 2009. So, whatever limits we had, wherever we had, we just like drew it. In addition to actual requirement we just drew it and kept it. To that extent, there will be some aberrations there but we just wanted to play safe.
- Vishal Sharma:** Okay. And your liquid investments of 900 odd crores, how much of it is at the standalone and how of it is from the consolidation?
- Suresh Kumar:** See it's mostly in subsidiary because we don't need to like keep it at LITL/corporate level. It's largely at the subsidiary level; it's largely Lanco Hill, Kondapalli, Aban, Amarkantak, its spread around those companies.
- Vishal Sharma:** Okay. And how have you parked them?
- Suresh Kumar:** We've parked them in bank deposits largely, nationalized banks, .
- Vishal Sharma:** Okay. I will get back in the queue if there is anything.
- Moderator:** Thank you Mr. Sharma. The next question is from the line of Mr. Aman Batra from Kotak Securities. Please go ahead.
- Aman Batra:** Good morning, Suresh.
- Suresh Kumar:** Good morning Aman. How are you doing?
- Aman Batra:** Good sir. Just wanted a quick take on two projects, Amarkantak and Orissa, and what is the current drawdowns happening on the interest rate side, what is the current interest rate you are drawing on new fresh disbursements? And finally, what are your assumptions you are taking for forex and interest rate when going for new projects?

- Suresh Kumar:** Okay. I will start with your first question. Amarkantak is soon going to be synchronized. We expect November 15th is what my team is saying, and we start coal firing immediately thereafter. So, we start I think with oil firing on November 15 and hopefully the plant can get into coal firing as well. Now, we are not sure when the COD is going to happen, but it looks like around December, just to be safe.
- Aman Batra:** Okay.
- Suresh Kumar:** And we are taking as much precautions as possible just to make sure, you know that it's the first time that we are operating Chinese equipment.
- Aman Batra:** Yes.
- Suresh Kumar:** And it's perhaps the third time that the Dong Fang equipment is going to start operations in India
- Aman Batra:** Right.
- Suresh Kumar:** The first two events were not positive enough, so we just want to make sure that when Lanco operates its projects, equipment runs without any hiccups. We're just taking some extra precautions in whatever we are doing. If it requires us to delay commissioning, we want to do that so that future is uninterrupted.
- Aman Batra:** Right.
- Suresh Kumar:** So that's the approach that we are taking. As regards to Babandh, the Orissa project. We are generally risk covered on this project, in the sense that only if land comes our way then we will start work on the development of this project. Right now we've reached a situation where we got the Section 4 and Section 6 in place. Land has been identified. The process of public notice is going through. So, we are expecting that by March 2009 or maybe by June 2009 you will see the land in our position. Parallely we will start working on the financial closure. But, our priority would be more to begin with achieving financial closure for Amarkantak III and IV since we already have sanctions for unit III of Amarkantak. So we just roll out unit IV together and achieve that financial closure first and then take on Babandh.
- Aman Batra:** Right.
- Suresh Kumar:** As far as interest costs and rupee depreciation is concerned, looking at current cost of proposed 13 odd percents, 13, 13.25, let's see what happens over the weekend developments if there is a possibility of interest rate reduction. But that is just an upside and we are not building that upsides today in our estimates. So, assume 13, 13.25. broadly.



- Aman Batra:** Okay. But one thing on Amarkantak any update on the PPA issue?
- Suresh Kumar:** There is a hearing on November 6th.
- Aman Batra:** Okay.
- Suresh Kumar:** Our arguments are done. We're waiting for arguments from MP Trading Corporation.
- Aman Batra:** Okay.
- Suresh Kumar:** So we'll see where that comes out.
- Aman Batra:** Okay. Thanks Suresh.
- Suresh Kumar:** Thanks Aman.
- Moderator:** Thank you Mr. Batra. The next question is from Darshana Joshi from Sahara Mutual Fund. Please go ahead.
- Darshana Joshi:** Yeah. Good morning sir. Just wanted an update on your real estate segment. How many flats have been sold during the quarter and what's your outlook on that?
- Suresh Kumar:** Outlook, see as we've been maintaining for the last three quarters, real estate is going towards a bit of a crunch. I would not say bit but to a significant crunch. We're seeing customers going back on commitments. Lanco's sale has seen customers going back on commitments even after paying like almost 60 lakhs, 70 lakhs.
- Darshana Joshi:** Okay.
- Suresh Kumar:** So 60 lakhs, 70 lakhs out of the 1.5 crore that they're supposed to pay over the construction period, so NRIs are actually like cutting down on their commitments on real estate site, so we've seen cancellations also in the last quarter as well.
- Darshana Joshi:** Okay.
- Suresh Kumar:** We're earlier at around 1100, now we've close to about 850-900, so crunch is affecting.
- Darshana Joshi:** Okay. Sir, what's your policy on cancellation? Do we return back their... I mean, how much percentage do we cut and...?
- Suresh Kumar:** We keep a very nominal amount with us and we return almost everything, we just keep 25,000 with us.
- Darshana Joshi:** Okay.

- Suresh Kumar:** And return the balance.
- Darshana Joshi:** Okay. So the major revenue in this quarter came from which project?
- Suresh Kumar:** It's largely the construction EPC business as well as the power project.
- Darshana Joshi:** In this quarter we reported around 47.6 crore from property development.
- Suresh Kumar:** It's only residential.
- Darshana Joshi:** Okay. That's it sir. Thanks.
- Moderator:** Thank you Miss Joshi. The next question is from the line of Mr. Harishankar Ramamurthy from Credit Suisse. Please go ahead.
- Harishankar:** Yeah, good morning. Just wanted to understand that when you said earlier that the drawdown for some of the projects had been affected, and you had to drawdown from the working capital facility to pay the BTG contractor. Can you please let us know what the drawdown is affected due to as in has there been any problem with the banks and in terms of disbursement?
- Suresh Kumar:** No, it was momentary. It's not there any more because it was largely Anpara related. There were some delays in the disbursement and which we met. See, we can't delay obligations to our creditors, so we drew on our working capital limits and now it's rectified now.
- Harishankar:** So we do not expect any of the problems in drawdowns going forward?
- Suresh Kumar:** It was that two weeks of major uncertainty.
- Harishankar:** Okay. Thanks.
- Moderator:** Thank you Mr. Ramamurthy. The next question is from the line of Mr. Sumit Agarwal from HSBC AMC. Please go ahead.
- Sumit Agarwal:** Hi, Suresh sir. How are you?
- Suresh Kumar:** Good, good Sumit. How are you doing?
- Sumit Agarwal:** I'm also doing fine. Sir, just wanted to know about the agreement that you have on the debt for your project that means when are those debts going to be reset in terms of the interest rate? And then, the second is you said that the hearing for the Amarkantak is on the 6th of November, and probably you would start producing by December, what's the interim arrangement in case the ruling does not come out?
- Suresh Kumar:** Well, as per the PPA, from the date of COD we need to like in the current context given if the court hearing doesn't lead to any decision then the

existing PPA would remain in effect because of the stay that was granted by MP court.

Sumit Agarwal: Okay.

Suresh Kumar: From the date of COD I'm obligated to sell the power to PTC and PTC in turn would sell the power to MP.

Sumit Agarwal: Okay.

Suresh Kumar: As per the pricing. That is only after COD.

Sumit Agarwal: Okay.

Suresh Kumar: Until then whatever oil firing we do we need to like anyway sell it as per the process.

Sumit Agarwal: Yes.

Suresh Kumar: Otherwise, other than that, there is no other implication. The worst case is that we need to like.

Sumit Agarwal: Sell it to PTC.

Suresh Kumar: Sell it to PTC at the tariff fixed at the cap tariff.

Sumit Agarwal: Okay.

Suresh Kumar: The best-case scenario is we are out of this PPA

Sumit Agarwal: PPA. Okay. And so what about the interest reset clauses of such projects?

Suresh Kumar: It varies project to project. For example, Amarkantak unit one and unit two are three-year resets. Anpara, to the best of my knowledge, is a one-year reset. Nagarajuna is I think a three-year reset. It varies from project to project.

Sumit Agarwal: Okay. So if I've to ask you then how much of your debt are going to be reset by say next financial year, that is by the close of FY'09?

Suresh Kumar: I would say only unit one of Amarkantak, unit two of Amarkantak and Anapara.

Sumit Agarwal: Okay. That's all?

Suresh Kumar: That's all.

Sumit Agarwal: Okay. Fine. Thanks a lot, sir.



- Suresh Kumar:** Thanks.
- Moderator:** Thank you Mr Agarwal. The next question is from the line of Mr. Piyush Harlalka from HSBC Mutual Fund. Please go ahead.
- Piyush Harlalka:** Yes sir. Good morning. Just a couple of questions.
- Suresh Kumar:** Morning.
- Piyush Harlalka:** Just how much is the million units did you traded in our trading unit this quarter?
- Suresh Kumar:** I don't know. Kasturi, you have that?
- S.Kasturi:** Yeah. For this quarter, it was 738 million units.
- Piyush Harlalka:** Okay. That's a sharp increase on quarter-on-quarter as well as Y-O-Y this year?
- S.Kasturi:** No, I think last year it was 705 million units, for the last year's quarter.
- Piyush Harlalka:** On the quarter-on-quarter basis, it is a sharp increase?
- Suresh Kumar:** Very sharp, very sharp and also I would say in the last quarter of June, there was a significant banking transactions, which though reflects in volume of units doesn't reflect in the top line.
- Piyush Harlalka:** Okay.
- Suresh Kumar:** Because banking transactions are not supposed to be reported as turnover. Basically, they are barter transaction. Whereas in this quarter, they were less of banking transactions, volumes of course were high and it was actual trading side. But we have seen a huge activity on the trading side. We almost done till-date 5 billions units of trading and the last two quarters we've seen huge ramp up in states buying power to meet a lot of their own requirements.
- Piyush Harlalka:** You say that, you're also seeing it across the industry all the power trading units are reporting a huge surge in numbers.
- Suresh Kumar:** Yes.
- Piyush Harlalka:** So is it because of the shortfall faced by the state electricity boards?
- Suresh Kumar:** It's not just shortfall, it is also like pushing in, it's an election year so they want to like be as visible as you are on the power front, so you will see this trend going on till June 2009.



- Piyush Harlalka:** Sir, further on like you said the total cost of the project under construction is 16,000 crores?
- Suresh Kumar:** Yeah.
- Piyush Harlalka:** Out of which your equity investment is only 3,100 crores.
- Suresh Kumar:** Yeah.
- Piyush Harlalka:** And you have already infused 2,500 crores.
- Suresh Kumar:** 2,200.
- Piyush Harlalka:** 2,200. And what is the total equity infusion in the current operational projects?
- Suresh Kumar:** It excludes current investment in the operating projects.
- Piyush Harlalka:** Yes, true. But how much is that for?
- Suresh Kumar:** 300, I think.
- Piyush Harlalka:** 300 crores. Okay. And sir what is our current order book on the construction front?
- Suresh Kumar:** About 12,000 crores.
- Piyush Harlalka:** 12,000 crores. Are you seeing any pressure like now the commodity prices have softened, so we should see the cost coming down, but had we seen any pressure on our margins during last couple of quarters?
- Suresh Kumar:** Yeah, of course we did. See the thing is, with commodities the way they were, prices were going it was extremely uncertain way they were headed downward or upward.
- Piyush Harlalka:** Yes.
- Suresh Kumar:** There was definitely a push back on the consumption side, especially from the construction companies. They were slowing down their activities given the very high cost of steel in particular. Now, of course some of the construction companies in states like Andhra Pradesh were, I would say least effected given the fact that state government agreed to pass back cost increases, but generally like on the power project side since we didn't want to take a risk on our cost we started stacking up on our steel almost a year, and to that effect, we started buying steel at levels which were as low as 28,000 and 38,000 then per tonne.
- Piyush Harlalka:** Okay.

- Suresh Kumar:** And now we've seen steel prices coming back to the same levels that they were around January, February of 2008. Today you are getting it around 30,000 rupees a tonne and so we've come back to those levels.
- Piyush Harlalka:** Okay.
- Suresh Kumar:** So I would say like it will take some time for the cost to visibly show in the numbers. I would say start showing in June 2009 quarter rather than now
- Piyush Harlalka:** Okay. As with the specific course of order book what is the gestation period?
- Suresh Kumar:** Over the next three and half years.
- Piyush Harlalka:** Three and half years. And I assume this is entirely in-house.
- Suresh Kumar:** I would say like out of the 12,000 almost 11,000 would be in house.
- Piyush Harlalka:** Okay. And it includes all our existing projects, means whatever is in the construction phase.
- Suresh Kumar:** Yes.
- Piyush Harlalka:** Okay. Any major order inflow that is still expected out of our own projects?
- Suresh Kumar:** Well, I would say the Uttaranchal projects will come into the order book soon.
- Piyush Harlalka:** Okay.
- Suresh Kumar:** And that we expect Amarkantak III, IV order book to also come in say April 2009
- Piyush Harlalka:** Those III and IV are still pending.
- Suresh Kumar:** Yes.
- Piyush Harlalka:** Okay. And sir finally like you are saying that debt is still to be brought down to the extent of rupee 10,000 crores.
- Suresh Kumar:** Yes.
- Piyush Harlalka:** ...A lot depends upon the timing that you will see across your portfolios. Like if you
- Suresh Kumar:** I am not very sure whether the statements is realistic in the sense that interest we said is a function of markets.



- Piyush Harlalka:** True
- Suresh Kumar:** See what is more important is like making sure that all projects get liquidity and I don't think that a higher interest rate during construction is a big deal. It's important that liquidity is given to the projects.
- Piyush Harlalka:** Okay. And sir recently you have reorganized some of your subsidiaries.
- Suresh Kumar:** Yes.
- Piyush Harlalka:** You have segregated SEZ and other projects.
- Suresh Kumar:** Yes.
- Piyush Harlalka:** Any particular reason for that?
- Suresh Kumar:** what we've been noticing is it is always preferable if you have different entities for different verticals. It gives you lot of flexibility in terms of managing; each of those verticals giving them for example an independent existence would give them a sense of accountability. It could also facilitate new investors coming who are specifically interested in the particular vertical rather than, say a conglomerate as a whole. So we are just making sure there is enough flexibility in the structure to enable fund raising in each of those workplace. So that was predominately the objective. We should have done this long time back, but here given that we got the projects financed on an integrated basis. We had to continue the integrated approach. But now we feel there is a need to like break it up so that new sources of funding can be attracted.
- Piyush Harlalka:** the project Lanco Horizon is still as per schedule?
- Suresh Kumar:** No we are going slow on Lanco Horizon given the state of the market. So our complete focus is today Lanco Hills only, and we just want to make sure that whatever commitments we've made as to our customers in Lanco Hills is adhered to in the first place and then we look at new projects and new initiatives.
- Piyush Harlalka:** And so where is your SEZ land, like this Kokapet land is used for SEZ?
- Suresh Kumar:** No Kokapet is separate. The SEZ land is part of Lanco Hills.
- Piyush Harlalka:** Okay.
- Suresh Kumar:** It's about 25 acres out of the 100 acres that we've in Lanco Hills.
- Piyush Harlalka:** Okay sir. Okay then. Thanks a lot.
- Suresh Kumar:** Thank you.

- Moderator:** Thank you Mr. Harlalka. The next question is from the line of Mr. Gautam Bafna from B&K Securities. Please go ahead.
- Gautam Bafna:** Good morning sir.
- Suresh Kumar:** Good morning Gautam.
- Gautam Bafna:** Sir wanted to know other than Amarkantak, are you planning to cancel any other PPA?
- Suresh Kumar:** See it's not that we want to cancel the PPA, its only the economics of that PPA are not good enough for us to look at a further reduction in tariff as proposed by MP Trading Corporation or MP ERC.
- Gautam Bafna:** Okay.
- Suresh Kumar:** So the cancelation, the termination that we made was more to make sure that our interests are protected.
- Gautam Bafna:** Right sir.
- Suresh Kumar:** And it's not the general rule that we like to go ahead and terminate all PPAs. Wherever we feel it is against our commercial interest, we will take an informed call on what we need to do in terms of the PPA.
- Gautam Bafna:** Okay. So have you taken any call, sir?
- Suresh Kumar:** No, we only go ahead and terminated unit one.
- Gautam Bafna:** Okay, so no other cancelations?
- Suresh Kumar:** No.
- Gautam Bafna:** And sir what is the booked area in your real estate projects in terms of millions square feet?
- Suresh Kumar:** .Kasturi, why don't you pass that information to Gautam? It should be somewhere around some 2 million odd square feet, 2.2 to 2.3 million square feet.
- Gautam Bafna:** And sir when do you see completion on the residence portion?
- Suresh Kumar:** Come again.
- Gautam Bafna:** When will you complete the construction on the residence portion?
- Suresh Kumar:** we have schedule for **March** 2010.

- Gautam Bafna:** **March** 2010. Fine sir. And sir my next question is regarding to the construction sector. You have shown very strong growth during the current quarter.
- Suresh Kumar:** Sure.
- Gautam Bafna:** Can we accept same kind of momentum in the coming quarters also?
- Suresh Kumar:** No, the next two quarters I would say until June you will see good activities on the construction side, typically those quarter III, quarter IV are the best quarters for LANCO and typically for the construction industry.
- Gautam Bafna:** Right sir.
- Suresh Kumar:** So we are looking forward to the next two quarters.
- Gautam Bafna:** Fine. Thank you very much.
- Moderator:** Thank you Mr. Bafna. The next question is from the line of Mr. Amit Ganatra from Lotus India AMC. Please go ahead.
- Amit Ganatra:** Yeah, good morning sir.
- Suresh Kumar:** Good morning.
- Amit Ganatra:** Sir, just couple of questions, what was this purpose of demerger?
- Suresh Kumar:** What was the?
- Amit Ganatra:** What's the basic purpose of this demerger Lanco Hills Technology Park the demerger that you have just announced?
- Suresh Kumar:** As I have said earlier it's a move to facilitate independent entities and independent accountability and independent growth path and then independent fund raising exercise where investors prefer to invest in certain business, like say for example the body of investors who prefer to invest only SEZ. The body of investors who only prefer to invest in residential. The body of investors who only invest in hotels. The body of investors who only like to invest in retail. So it is not possible if it is an integrated company conglomerate kind of a structure, you can't for example do that.
- Amit Ganatra:** So are you in talks in getting some investors.
- Suresh Kumar:** We are constant talks on the investor side.
- Amit Ganatra:** Okay. Another question is that you just mentioned that you have already infused 2200 crores as equity.

Suresh Kumar: Yeah.

Amit Ganatra: In your subsidiaries and now as on 31st much number indicate investments of 1653 crores overall. And now you have invested like 600 crores more basically right.

Suresh Kumar: Yeah.

Amit Ganatra: So has the investment come in the form of debt basically?

Suresh Kumar: No. There will be some element of debt, there will be a small element of debt there, but even in March 2008 it was not 16,000 crores it was more.

Amit Ganatra: No, no these are the capital line I am talking about the standalone investments.

Suresh Kumar: I am talking about the standalone only. I am talking about standalone. It was even more, I will give you the exact the number, may be you should to Kasturi. From what I remember it was almost 18500 odd as of March.

Amit Ganatra: No if just have the capital line open in front of me. I was just looking at the...

Suresh Kumar: No if you just look at the investment scheduled that will not give you the information.

Amit Ganatra: Then.

Suresh Kumar: You need to look at it on the current asset side also because there have been some advances also that have been given, so now got converted into investments.

Amit Ganatra: Okay. The loans and advances.

Suresh Kumar: Yeah.

Amit Ganatra: Okay, thank you.

Moderator: Thank you Mr. Ganatra. The next question is from the line of Mr. Shashikiran Rao from Edelweiss Securities. Please go ahead.

Shashikiran Rao: Hi sir.

Suresh Kumar: Hi Shashi.

Shashikiran Rao: Just wanted to get a quick update on the kind of projects that you extract to commission while both on powered as of now and the kind of project,

which you plan to execute largely both in FY '09 and FY'10 for power and EPC?

Suresh Kumar: Yeah by FY'09 you will see about 320 mega watts getting commissioned, that is 300 mega watts of unit one.

Shashikiran Rao: Okay.

Suresh Kumar: And 20 mega watts of small hydro.

Shashikiran Rao: Right.

Suresh Kumar: By FY'10 you will see another 300 megawatts of Amarkantak, 1000 megawatts of Nagarjuna, 370 mega watts of Kondapalli.

Shashikiran Rao: Okay.

Suresh Kumar: And about 70 megawatts of good Budil I think.

Shashikiran Rao: Okay.

Suresh Kumar: So we'll add close to about 1000 odd megawatts, 2000 odd megawatts by 2010.

Shashikiran Rao: Okay.

Suresh Kumar: And 2011 we'll add another 1200 plus, 1200 I think, 1200 and 1300 megawatts we will add in 2011.

Shashikiran Rao: And bulk of the FY10 projects expected in the second half of FY10?

Suresh Kumar: Last quarters to be safe?

Shashikiran Rao: Okay. Now hence it is more likely the bulk of the margins on the EPC side for these projects would also be booked in FY10?

Suresh Kumar: I would say so.

Shashikiran Rao: Okay. So basically in incremental, on the EPC side what are the expectations in FY'09?

Suresh Kumar: What do you mean expectations, any particular?

Shashikiran Rao: No, no in terms of projects executions I am saying.

Suresh Kumar: No, we go as per the physical progress of the project and as per the schedule of the project, we will do it.



- Shashikiran Rao:** And I would like to believe that you continue to have the policy of not having debtors as far as real estate is concerned.
- Suresh Kumar:** Yeah I would say so.
- Shashikiran Rao:** Okay. And I would like to believe that you have still not cut down on the prices on the real estate front.
- Suresh Kumar:** Yes.
- Shashikiran Rao:** So what's your kind of the plan of action, how long, because in the case, if you don't have debtors and you just keep on building on inventory and with this kind of cancellation that we're seeing. So that is, how long do you plan to carry on like this in the sense you will obviously booking more expenditure as compared to revenues in that sense?
- Suresh Kumar:** No, see our approach is the slightly wait and watch in the sense that we've seen so many developers in Hyderabad making announcements of projects and all.
- Shashikiran Rao:** Yeah.
- Suresh Kumar:** And not showing results, in the sense that customer finally would like to see whether constructions is happening.
- Shashikiran Rao:** Right?
- Suresh Kumar:** Whether progress is quick and deliveries as per the schedule. That's what interest the customer more than anything to best of my knowledge and whatever little we've have see its not interest rate sensitive as has been put in the market. May be I have a different view, but its not so interest rate sensitive, its more delivery sensitive.
- Shashikiran Rao:** Okay.
- Suresh Kumar:** Especially, the customer today, I mean its no longer a situation where investors are coming in and you know like coming in close and booking projects, booking apartments.
- Shashikiran Rao:** Okay.
- Suresh Kumar:** The ultimate customers who is coming to your doorstep and inquiring about the project is the customer, who wants to see delivery, who wants to see milestones to be achieved and that's the only time when he will take a decision that I would like to buy this apartment.
- Shashikiran Rao:** Right.

Suresh Kumar: So LANCO is more focused on giving customer that kind of the comfort level, which will at least tell him that the delivery is happening, the construction is happening as per scheduled and no issues there, quality is good. And we feel that you will see that happening by January. If I would encourage all of you to come to Hyderabad, to check how the progress is there in Lanco Hills. We're achieving some good benchmarks on the construction side, which is more international.

Shashikiran Rao: Yes.

Suresh Kumar: We've go got into a five day flat cycle already.

Shashikiran Rao: That's very good.

Suresh Kumar: So let see.

Shashikiran Rao: Fair. Yeah, we've seen that property, hence the kind of a bullishness on that kind of some your space or your operations over there, but we're increasingly getting worried by like you rightly said the behavior of your customers. Now despite the even these kind of worst kind of a situation by drawing down 50% of your deposit. So and there is or let me put it this way, what are terms of an underground feeling that you have, why you think that coming January things will change, in terms of receivables.

Suresh Kumar: My read is customers will move from other projects to projects where they see reasonable chance delivery happening. Of course, investors are completely blacked out it terms of their interest, but I would say genuine customer market in Hyderabad is still strong. As long as he is comfortable that delivery will happen and as per as schedule. So I would say that is also sentiment driven.

Shashikiran Rao: Exactly.

Suresh Kumar: So if tomorrow say the market shapes up well, equity market also shape up well; say by March 2009 you will see some genuine customers coming back. Why not?

Shashikiran Rao: Okay.

Suresh Kumar: The thing is that we are not under pressure like the some of the other developers.

Shashikiran Rao: Can you elaborate when you are saying that why you are not under pressure?

Suresh Kumar: Yeah, I think we are liquid enough Lanco Hills. We are showing good physical progress on the projects and somehow we feel that we will able to manage our position without getting into some kinds of a trouble there.



- Shashikiran Rao:** Okay.
- Suresh Kumar:** And we get feedback from various customers who log in with inquires and all that, they are ultimately focused on delivery. No one talks about is your project approved by various home loan lenders, no one talks about all those things today.
- Shashikiran Rao:** Okay.
- Suresh Kumar:** No one talks about interest rate as an issue.
- Shashikiran Rao:** Okay.
- Suresh Kumar:** They are more concerned about the delays in project progress, delays in achieving milestones. We've seen that trend of inquires and we're clearly demonstrating to them that look we're on a different physical progress kind of a schedule.
- Shashikiran Rao:** So after this repayment to the customers on whomsoever has withdrawn this 200 flat owners customers. How much is the liquid cash that you have excluding debt and what is the debt broadly, for the real estate per say?
- Suresh Kumar:** Real estate we are sitting on the almost the **250 crores of cash** and another 750 crores of undrawn debt.
- Shashikiran Rao:** We saw earlier 1100 crores isn't it?
- Suresh Kumar:** Yeah, we've drawn on partly for to achieve that requirements and all that.
- Shashikiran Rao:** Okay. So basically, and this 250 crores I would like to believe is entirely advances from the customers.
- Suresh Kumar:** Not completely, partly debt also.
- Shashikiran Rao:** 250 crores I am saying. 250 crores, which you are saying that you're sitting cash on cash excluding debt, is this largely advances from customers?
- Suresh Kumar:** No. It is mixed now, its got mixed debt and everything. It's lost the color.
- Shashikiran Rao:** Okay.
- Moderator:** Mr. Rao, do you have any further questions?
- Shashikiran Rao:** No, no it's okay, I'll come back later if I have.
- Moderator:** Thank you sir. We have a follow up questions from the Aman Batra from Kotak Securities. Please go ahead.



- Aman Batra:** So one quick take on the real estate, how much cash have you received as advances from the customers? And for second finally anything, any movement on port project in terms of Capex investments or any commitments.
- Suresh Kumar:** No, no commitments on port, it's not going to happen until March 2010 I would say.
- Aman Batra:** Okay.
- Suresh Kumar:** There will be some minor investments in towards feasibility studies now.
- Aman Batra:** Okay.
- Suresh Kumar:** We've just accepted the LOI, but it's also going through some dispute between zoom developers and the Government of Kerala.
- Aman Batra:** Okay.
- Suresh Kumar:** So it's gone to the division bench and the division bench is yet to gives it order.
- Aman Batra:** Okay.
- Suresh Kumar:** So until that High Court order is in favor of the project we are not going ahead and committing.
- Aman Batra:** Okay.
- Suresh Kumar:** And so we just accepted the LOI and differing our plans on spending unless there is clarity.
- Aman Batra:** On the real estate and number on the advances that you have got so far.
- Suresh Kumar:** The cumulative I would say is about some 320, 350 I think.
- Aman Batra:** Okay. Okay. Fine thanks.
- Moderator:** Thank you Mr. Batra. The next question is from the line of Mr. Nitin Gera from Motilal Oswal Securities. Please go ahead.
- Nitin Gera:** Hi sir.
- Suresh Kumar:** Hi Nitin, how you are doing?
- Nitin Gera:** I am good Sir, how are you?
- Suresh Kumar:** Good yeah.

- Nitin Gera:** Sir I just want to understand the impact of declining steel prices on your P&L?
- Suresh Kumar:** I would rather be cautious. I would say there be a lag effect for steel prices to actually reflect on the bottom line. I would say not before March 2009.
- Nitin Gera:** Okay.
- Suresh Kumar:** But to give you a different perspective, it has not been affected so much because of the steel price, because we stacked up our steel requirements early Jan itself. So, if you look at our cost of steel purchase on an average basis it's about 30,000 rupees a tonne.
- Nitin Gera:** Okay.
- Suresh Kumar:** And fortunately like some part of the steel purchase was in Euro terms and we've been benefitting to a large extent from the way Euro is moving versus the dollar.
- Nitin Gera:** All right.
- Suresh Kumar:** So that we are. I mean, we're almost 30,000 rupees a tonne.
- Nitin Gera:** So has that had any impact on your project Capex, which you are looking at?
- Suresh Kumar:** On a short-term basis yeah because if rupee is at 49 some part of the BTG is being bought at higher rupee-dollar levels, but on a long run basis we are hopeful that we'll be within the project parameters.
- Nitin Gera:** All right, sir. Thank you.
- Moderator:** Thank you Mr. Gera. We've a follow-up question from Mr. Sumit Agarwal from HSBC AMC. Please go ahead.
- Sumit Agarwal:** Sir, just one data. What is the debt on the real estate SPV?
- Suresh Kumar:** Gross will be about 700 890.
- Sumit Agarwal:** 700 890 crores and what's the interest rate that you are paying for this?
- Suresh Kumar:** About 13%.
- Sumit Agarwal:** 13%. Okay. And sir just one a broad question in terms of the Chinese equipment and the cost competitiveness. How do you see the cost competitiveness moving ahead given the rupee-dollar and the rupee present at the moment? Do you now see the Indian equipment more say competitive and you might be inclined towards the Indian equipments or

you will still continue with the Chinese equipment in spite of say not the positive feed back from the CEA.

Suresh Kumar: Well, to be very honest there is no feedback from CEA on any of the questions it is a kind of a very mix kind of a feedback that we got from CEA. Having said that I would say it early days to take a call on Chinese equipment versus Indian equipment. We still don't have history to like back up which ever way we want to go. Now, if you looking at the way technology is moving and the way project configurations are changing, all configurations today are into, or in the ultra mega in the mega what you call supercritical kind of technology today.

Sumit Agarwal: Okay.

Suresh Kumar: And my read of the situation is if you're looking at supercritical, you have no choice either to go to the European manufacturers and through European manufacturers you can buy from BHEL or you go to Chinese or to a little extent to the Japanese, if you stack up year capital cost versus BHEL cost versus Japanese cost, you'll still see a potential advantage in China.

Sumit Agarwal: Okay. So Chinese would still be a cost competitiveness?

Suresh Kumar: I would see still there is cost competitiveness but not as much as it was say a year back. Year back it was almost a 30 to 40% odd advantage and now there is a 15% odd advantage I would say but its early days. I mean every company in the last nine months in my view has gone through a lot of uncertainty.

Sumit Agarwal: Okay.

Suresh Kumar: So everyone had looked at worst-case scenario, just as the Chinese have. Chinese have seen worse case scenarios and they've started stacking up their prices for BTG, but it resulted in a push back of demand so there will be a balancing at some point of time. It's early days I would say, but look at March 2009.

Sumit Agarwal: Okay.

Suresh Kumar: And see whether the equation is in favor of China or in favor of BHEL?

Sumit Agarwal: Okay, fine. Thanks a lot sir. Thanks for your time.

Moderator: Thank you Mr. Agarwal.

Suresh Kumar: I need to actually go to my other meeting, so I would appreciate it if you can minimize the questions now so may be two or three I can take now.



- Moderator:** Sure sir. The next question is from the line of Mr. Parag Gupta from Morgan Stanley. Please go ahead.
- Parag Gupta:** Hi. Good morning Suresh.
- Suresh Kumar:** Parag, how are you doing, man?
- Parag Gupta:** I'm good. How are you doing?
- Suresh Kumar:** Good, good.
- Parag Gupta:** Suresh, just on a macro perspective, are you still looking at wind equipment manufacturing and solar equipment manufacturing or have you committed any Capex yet on those two businesses?
- Suresh Kumar:** We have not committed on any Capex, we still in business plan mode so we've been cautious though, in whatever plans that we have and I mean, it's not just restricted to wind or solar I would say, it across businesses. We just want to make sure that existing projects are given absolute priority in terms of liquidity, in terms of management focus, in terms of resources. So we're also conscious of the fact that there is a limited amount of funding that is possible and we're optimizing amongst various initiatives of the group. So I would say we're still in business plan mode and it's obviously changing by the day.
- Parag Gupta:** Sure. And given the Dong Fang is also looking at coming up with the domestic manufacturing facility. Are you looking at that space with interest?
- Suresh Kumar:** It will take some time in my view for even Dong Fang to be ready with this manufacturing space in India. Not yet decided though.
- Parag Gupta:** Okay. Very thanks.
- Moderator:** Thank you Mr. Gupta. The last question comes from the line of Mr. Gautam Bafna from B&K Securities. Please go ahead.
- Gautam Bafna:** Sir how much is the total forex debt in your books?
- Suresh Kumar:** About \$110 million in Lanco Hills and about \$100 million between Kondapalli and Aban, \$210 million.
- Gautam Bafna:** Okay, that's it sir?
- Suresh Kumar:** That's it.
- Gautam Bafna:** Thank you very much.



Moderator: Thank you Mr Bafna. Ladies and gentlemen, due to time constrain we are unable to take questions from all the participants. I would now like to hand the floor back to Mr. Pathak for final remarks.

Gaurav Pathak: Yeah. Thanks everyone for attending the conference call have a good day.

Moderator: Thank you very much. On behalf of ICICI Securities, that concludes this morning's conference. Thank you for joining us and you may now disconnect your lines.

Gaurav Pathak: Thank you everyone for joining us.