Management Discussion & Analysis

Forward-looking Statements

This document contains certain forward-looking statements based on the currently held beliefs and assumptions of the management of GMR Infrastructure Limited, which are expressed in good faith, and in its opinion and judgment, are fairly reasonable. For this purpose, forward-looking statements mean statements, remarks or forecasts that address activities, events, conditions or developments that the Company expects or anticipates which may occur in the future. Because of the inherent risks and uncertainties in the social and economic scenarios, the actual events, results or performance can differ materially and substantially from those indicated by these statements. GMR Infrastructure Limited disclaims any obligation to update these forward-looking statements to reflect future events or developments.

Infrastructure Growth

After the persistent growth in the previous years, economic activity across the world is slowing down in the aftermath of China - US trade escalations and geopolitical uncertainties. The global economy grew at 3.6% in 2018 compared to 3.8% in 2017 and is likely to end 2019 with a growth of 3.3% (IMF). At the domestic front, the economy growth rate came at 6.8% in FY 2018-19 down from 7.2% in FY 2017-18. Q4 FY 2018-19 growth slipped to 5.8% which was a 5 year low. Slowing economic growth can be primarily attributed to liquidity squeeze in the NBFC sector and lingering issues in the agriculture sector. With inflation in control and growth slowing down, RBI progressively reduced the repo rate to 5.75% in June 2019 to help the revival of the economy.

India's FDI inflows in FY 2018-19 remained strong at USD 64.4 billion, which is up by 6% YoY. The country continued its upward journey on the World Bank's Ease of Doing Business rankings, and jumped 23 positions to be at 77th position from 100th position previous year, primarily on account of quicker grant of construction approvals and cross border trading getting easier. Higher ranking acknowledges efforts put in by the government and improves perception about doing business in India.

On the policy front, implementation of two major reforms- Goods and Services Tax (GST) and Insolvency and Bankruptcy Code (IBC) is in the process of stabilization. GST collections have been improving but still below the desirable levels. Continuous efforts are being done to have the tax rates on different categories at optimum level and expand the tax base so as not to hit the collections adversely. Coming to IBC, a joint report by ASSOCHAM and CRISIL pointed out that starting from inception in 2016, resolution of 94 stressed assets achieved around 43% recovery, amounting to ₹ 75,000 Crore till March 31, 2019. Total claims of ₹ 1,75,000 Crore were admitted under the Corporate Insolvency Resolution Process (CIRP) approved by the National Company Law Tribunal (NCLT). The resolution process is taking longer than stipulated time, the average resolution timeline for the 94 cases was 324 days against the stipulated timeline of 270 days. Emerging clarity in the code and better coordination between Committee of Creditors (CoC) and Resolution Professionals should help the implementation becoming smoother and revive the credit offtake.

In the wake of lingering challenges of the past years, many leading institutes have lowered their projections for the domestic economy for FY 2019-20 while expecting it do better than FY 2018-19. IMF projects the country to grow by 7.3% while RBI projects the growth rate to be 7.0% and World Bank projects the economy to grow at 7.5% this fiscal year. Economic Survey, 2019 expects the growth to be at 7% in FY 2019-20. The new Government has stated vision to make the country USD-5 trillion economy by 2025. It aims to achieve this target on the strength of attracting more private investments and encouraging more savings. Accordingly, Union Budget has strived to take measures in that direction. Some of the steps suggested are developing corporate bond market, recapitalization of PSU banks by ₹ 70,000 Crore, lowering the cost of borrowing by easing foreign capital especially into infrastructure sector among others. As a result, we are optimistic about the economy in the coming year. The positive outlook also stems from the realization of benefits from the reforms undertaken and the investment revival due to political stability, accommodative monetary policy and strengthening of credit growth.

In the Infrastructure sector, FY 2018-19 saw relatively subdued ordering activity because of the general elections and there was greater emphasis on completion of pending projects. The Road sector witnessed highest construction activity though award of projects slipped. Indian aviation sector continued its double digit growth in FY 2018-19 and ended as the fastest growing domestic aviation market in the world yet again. The Power sector saw demand expansion because of 'Saubhagya' scheme, but issues related to pending payments by discoms continue to hurt the private power producers. However, the Government has taken steps such as SHAKTI scheme, rationalization of coal escalation index, directions to Central Electricity Regulatory Commission (CERC) for time bound disposal of 'change in law' petitions, etc. to reenergize the sector. UDAY scheme has contained losses of DISCOMS from pre UDAY period, but a lot needs to be done by DISCOMS in the areas of tariff revisions and operational efficiency to resolve the challenges hurting the sector.

The Union Budget 2019 envisages allocation of ₹ 100 Lakh Crore for infrastructure in next 5 years. The Government understands the need to facilitate long term financing which is very necessary for the development of Infrastructure sector. It has formed an expert committee to suggest ways to address the issues in infrastructure financing. Given the fiscal constraints, immediate efforts are required to channelize private investment into the sector. Steps such as setting up NIIF and investment trusts are in the right direction. It has proposed to prepare an Action Plan to develop the market for long term bonds with focus on infrastructure sector. Government will also work with regulators (RBI/SEBI) to enable stock exchanges to allow AA rated bonds as collaterals. Further, a Credit Enhancement Fund for infrastructure projects for supporting the credit rating of bonds floated by infrastructure companies is likely to be launched in the country. For the infrastructure sector, the total allocation in the budget was at ₹4.7 Lakh Crore, Railways and Highways sectors got the priority in terms of allocation. Airlines and airports continued robust growth trend this year. Comprehensive restructuring of

National Highways Programme is on the anvil to ensure the creation of a national highways grid of desirable capacity. 1.25 lakh km of road length at an estimated cost of ₹ 80,250 Crore is proposed to be built in Phase 3 of Pradhan Mantri Gram Sadak Yojana (PMGSY). Railway infrastructure is envisaged to need ₹ 50 lakh Crores till 2030. In the Airports Sector, Ministry of Civil Aviation (MoCA) plans to have capacity to handle more than 1 bn passenger traffic by 2040. To increase clarity in the tariff setting mechanism, there are plans to do the bidding on the basis of predetermined tariff that should make the sector more attractive for the investors.

In the railways sector, indications are that Public Private Partnership (PPP) will be used more extensively to drive faster development and delivery of passenger freight services for railway projects to boost the connectivity.

The new Government is maintaining the continuity on the major programmes like Bharatmala Pariyojana (Highways), Sagarmala (Ports), Railway Station redevelopment programme, Inland Waterways development, Namami Gange, Swachh Bharat Mission, UDAN, NABH Nirman (Airports), AMRUT and Smart Cities (Urban Infra), launched during its last tenure.

In the aviation sector, taking note of the robust growth and huge potential, it is planned to open up the sector for more FDI participation and look at ways to make India into a global MRO hub.

At GMR, our commitment to the cause of Nation building is through creation of quality assets. We are proud to have been associated with Delhi Airport and Hyderabad Airport which are recognized worldwide as land mark infrastructure projects of the country. Over the past few years, we have consolidated our position, focused on addressing corporate debt and stressed assets, while building a platform for growth for the future. We have taken many significant steps in implementing our stated strategy to strengthen balance sheet through improved cash flows from increased profitability, debt reduction through asset monetization, value unlocking and prudent working capital management while creating avenues for growth.

We have made significant progress in this regard. We have recently executed binding documentation for a strategic partnership with marquee investors led by GIC (Sovereign Fund of the government of Singapore), the Tata Group and SSG Capital, wherein they are to invest ₹ 8,000 Crore for stake in GMR Airports Limited (GAL), subsidiary of your Company.

In our efforts to continuously reduce the cost of financing, we have raised long term USD bonds at both Delhi (USD 350 Mn – 10 years) and Hyderabad (USD 300 Mn – 5 years) Airports for our expansion projects underway at very competitive rates. This is the second round of raising funds through USD bonds after similar fund raising at both the airports in the past few years that demonstrates our strong standing among the international financial community. This reduces our reliance on domestic banking system and helps us plan our cash flows better.

In view of the airports infrastructure landscape and growing passenger traffic in the country, our focus will be on continuously strengthening the Airports platform to drive growth for the Group going forward. Non aero revenues at our airports have grown higher than the passenger growth as a result of our focused marketing and customer engagement initiatives. We would like to take many more such initiatives by suitably integrating the latest technology trends with our offerings. We believe we have created a strong platform to scale up our activities in this segment and become a leading player both at Regional and International levels.

On the other hand, we will continue to consolidate the Energy and Highways business with focus on cash flow improvement by recovering long pending receivables and pursuing claims with the appropriate agencies. As an outcome of persistent efforts, we have been able to achieve debt restructuring plan, in consultation with all the stakeholders including banks at GMR Rajamundary Energy Limited (GREL). We have also entered into definitive Share Purchase Agreement with Adani Power Limited for the divestment of our entire stake in GMR Chhattisgarh Energy Limited (GCEL). These transactions will deleverage our Balance Sheet considerably and make us more agile to pursue future opportunities. Further, in partnership with Tenaga, our strategic partner, we are in the process of identifying new areas of growth for the Energy Business which are in line with our 'Asset Light Asset Right' strategy.

At our Special Investment Regions (SIRs), we are very much hopeful that initiatives such as 'Make in India', stable political environment and proactive favorable policy interventions should be able to attract various global companies to set up base in India.

In order to improve the value to the stakeholders and strengthen the balance sheet through deleveraging, more efforts are being made towards monetization / divestment of assets, attracting investments and reducing debt and the overall cost of borrowing.

Airport Sector Outlook and Future Plan

Airport Sector

Indian aviation sector continued its remarkable growth in FY 2018-19 with domestic air passenger volume increasing by 14% to 127 mn. IATA projects India to be third largest aviation market by 2024 up from 7th position currently, overtaking UK and placed only behind US and China. Vision 2040 document prepared by Ministry of Civil Aviation (MoCA) pegs the traffic volume to reach 1.1 bn by 2040. This comprises of 821 mn domestic passengers and around 303 mn international passengers. The overall growth rate works out to be 9% for domestic market and 7% for international traffic on annualized basis. Notwithstanding the recent drop in passenger traffic due to closure of one large airline and grounding of Boeing 737 Max 8 aircrafts, that have led to sudden drop in the total airlines passenger carrying capacity and consequent rise in air fares, there is an underlying strength in the sector and we expect the upward trajectory to continue, buoyed by the favorable macroeconomic factors. Massive air traffic boom will also in turn lead to demand for aircrafts and increasing capacity at the airports in the country. Indian carriers have an order book of more than 1,000 and one of the highest ratio of aircraft ordered vs aircraft in service. Two more Indian carriers are currently preparing to go international. Vision 2040 also envisages 190-200 operational airports in the country by 2040.

It is expected that Digital Technologies and Automation will play a greater role in the Airport Sector moving ahead. Ground handling and airport operations will be highly automated and driven by electric ground support equipment. Processes such as Check-in, baggage drop, immigration clearance, etc., which are prone to longer queues, will be automated, with minimal human intervention allowing for greater efficiency and a superior passenger experience. In keeping with global trends, Indian airports are also expected to invest heavily in digital technologies and cloud computing capabilities, which will enable integration of different safety and security data sets such as security camera feeds, facial recognition, luggage scans, security incident reports etc.

NABH Nirman policy measure whereby Government plans to expand airport capacity to more than five times to handle a billion trips a year, should provide a huge boost for the Airports sector and its stakeholders. Privatization of six mid-sized airports on PPP basis came up for bidding in early 2019. The bidding was on the basis of 'per passenger fee' as opposed to 'revenue share' in the previous bids. Having 'per passenger fee' as bid parameter is an evolution from earlier parameter of 'revenue share' and is a precursor to having prefixed tariff for upcoming bids in the airports sector.

We expect the growth in domestic traffic would continue to be led by the Low Cost Carriers. UDAN scheme has boosted air traffic in the country by connecting far off places and making use of the underserved and unserved air strips. It has so far brought more than 35 underserved and unserved airports to the main airport network and developed more than 170 new routes. The scheme should continue to boost air traffic in the country by expanding regional air connectivity further. UDAN International has also been launched which will connect a few nearby international destinations with domestic airports. Increasing attraction of India as tourism destination should give fillip to the air travel sector. Further, international flying rights and existing bilaterals are undergoing an overhaul, which should provide additional boost to the overseas traffic. We seek to increase passenger traffic at the airports by, among other things, attracting new airlines to use the airports and encouraging existing airlines to increase the number of routes and flights servicing the airports.

We plan to gradually increase the passenger capacity in phases based on traffic demand. The expansion plans are underway for our Delhi International Airport as well as Hyderabad International Airport.

On account of its strategic location in the cities, the real estate available as part of the concessions for our airports has tremendous potential. In FY 2018-19, we executed landmark transaction with Bharti at our Delhi real estate (Aerocity). We aim to establish Aerocity as the CBD for the Delhi NCR region in the coming years. At our Hyderabad real estate, given the availability of larger area in the periphery of the city, we intend to house industries related to logistics and warehousing, in addition to the setting up a Business Park. We intend to progressively realize value in our real estate asset portfolio by diversifying the monetization models as well as the end use formats for development of these assets to capture demand for a wide range of developments. We intend to use a combination of lease and self-development models targeting developers and end-use customers respectively.

Economic Regulation & Airport Tariffs

On the economic regulation front, the Government is actively working towards adopting pre-determined tariffs for future airport development projects, which should provide greater certainty with regards to cash flows and the expected returns from an airport. It also proposes to increase the eligibility for being a Major Airport from one and half Mn pax per annum (1.5) to three and half Mn pax per annum (3.5) thereby reducing burden on AERA.

Tariff at Delhi Airport: During the year under review the Airport Economic Regulatory Authority (AERA) determined that Delhi International Airport Limited (DIAL) is entitled to maintain minimum aeronautical charges equivalent to Base Airport Charges (BAC) + 10% of BAC in any year during the term of concession, in terms of the provisions of State Support Agreement (SSA) awarded by the Government of India. Accordingly, considering that DIAL's current aeronautical charges for the second control period ending March 31, 2019 are below BAC, AERA allowed DIAL to charge the rates equivalent to (BAC +10% of BAC) from December 1, 2018, other than X-ray baggage charges which it allowed DIAL to charge with effect from February 1, 2019. This will set a floor for aeronautical charges in any given year thereby providing greater stability to our financials and cash flows going forward.

DIAL has filed its submission to AERA for determination of aeronautical charges to be levied at IGI Airport for the third control period commencing from April 1, 2019. Such submission includes DIAL's claims basis the issues determined by Telecom Disputes Settlement and Appellate Tribunal (TDSAT), during the disposal of various appeals pertaining to / emerging from the AERA's tariff order for first control period, vide its order dated April 23, 2018. The claims inter-alia include reasonable return on Refundable Security Deposit (RSD) as well as the Return on Equity (RoE) in the manner as set out in the provisions of SSA. AERA is in the process of reviewing the submissions of DIAL and it is expected that tariff order should be released by September 2019. In the meanwhile AERA has extended the levy of aeronautical charges equivalent to BAC +10% thereof upto September 30, 2019, and the collection thereunder will be trued up in the final order.

TDSAT had issued its order on the various appeals pertaining to issues from AERA's tariff order for first control period of DIAL, on April 23, 2018. A favorable response was received on return on Refundable Security Deposits (RSD) used for funding aero assets which was earlier given zero return. TDSAT also held that Cargo and Ground Handling revenues have to be treated as non-aeronautical revenues irrespective whether such services are provided by the airport operator or by the concessionaire. Further, AERA may also redo the exercise for allowable return on equity. The order is a positive step on providing clarity on issues pending for the past few years and laid down principles for the next tariff orders. On some specific issues, DIAL has filed appeal out of the TDSAT order such as issue pertaining to determination of hypothetical RAB, determination of aeronautical Tax, application of CPI-X, and treatment of revenue from fuel throughput charges, etc., before Hon'ble Supreme Court and same is pending for completion of pleadings at this stage. Federation of Indian Airlines (FIA) has also filed special leave petition (SLP) before Hon'ble Supreme Court. However, the same is pending for admission at this stage.

Tariff at Hyderabad Airport: The tariff revision for Hyderabad Airport for the 2nd Control Period i.e., 2016-2021 is due and AERA issued a Consultation Paper in December 2017. In the Consultation Paper, some of our major entitlements viz., pre-control period entitlement, foreign exchange losses, cost of equity and treatment of Cargo, Ground Handling and Fuel Farm, were not considered favorably by AERA. Aggrieved by the Consultation Paper, GHIAL has filed a writ petition (against AERA's Consultation Paper of December 2017) before the Hon'ble High Court at Hyderabad, India and the Hon'ble Court has passed an interim order wherein AERA has been directed not to finalize the determination of aeronautical tariff in respect of GHIAL for the second control period, pending disposal of writ petition. This interim order is in force as of date and we are hopeful of a favorable resolution of the issues. GHIAL is making focused efforts towards obtaining favorable tariff order from AERA in line with the Concession Agreement and other applicable rules and regulations.

Tariff at Cebu Airport, Philippines: The concession structure at Cebu provides for a fixed pre-determined tariff at the time of bidding. Post completion of T2, Tariffs for international passengers increased. Tariffs for domestic passengers were not changed. However, GMCAC's share increased in accordance with the Concession Agreement.

Tariff at Mopa Airport, Goa: The new airport is likely to be commissioned by 2020. GMR will be submitting its tariff determination application to AERA in early 2020.

Growth Outlook – New Opportunities

This year, the Group has won bids for two new airports expanding our portfolio of airports further. We have received Letter of Award (LOA) for development, operations and management of brownfield Dr. Babasaheb Ambedkar International Airport, Nagpur. Also, we have emerged as the highest bidder to develop, operate and manage greenfield Bhogapuram International Airport in Andhra Pradesh with concession period of 40 years that can be extended by another 20 years. Following up from the last year's development, we, along with our Greek partner TERNA Group, have signed Concession Agreement for New International Airport of Heraklion in Greece for 35 years.

In line with our strategy, we believe that Airport business has huge underlying strength and it will continue to be the growth engine for the Group. The Group is actively pursuing suitable airport opportunities in India as well as globally. Domestically, GMR is actively pursuing opportunities for new airports as and when they arise. Out of India, the Group is open to high potential opportunities in South Asia, South East Asia, Middle East, Africa and Eastern Europe.

Indira Gandhi International Airport (IGI) – Delhi Airport operated by DIAL

Focus Areas for FY 2019-20

In FY 2018-19, IGI handled 69.2 Mn passengers and was ranked as the 12th busiest Airport in the World by Airports Council International for 2018. IGI also became the first Airport in India to cross the 1 Mn tons of cargo by achieving 1.04 Mn tons in FY 2018-19. IGI would continue to be the leading Airport among all Indian airports in both passenger traffic and cargo handled. IGI once again maintained its position as the best Airport in Asia Pacific and in the 40 Mn plus passenger category as per the Airports Council International Airports Service Quality Score. IGI also became the only Airport in the country to be rated as a four star Airport by Skytrax. Maintaining and improving the service quality standards will be one of the key goals for DIAL along with the expansion of infrastructure.

DIAL has initiated the expansion of its airside infrastructure and terminal capacity as per the approved Master Development Plan in order to cater to the future growth in passenger and air traffic. The Phase 3A expansion, includes, among others, expansion of Terminal 1 and Terminal 3, construction of a fourth runway along with enhancement of airfields and construction of taxiways and will expand capacity to 100 Mn passengers annually.

DIAL continues to work with all stakeholders including the airlines to further establish IGI as an international hub airport for passengers and cargo. In line with this goal, the airline marketing team will continue to work with international carriers to boost long haul flights as well as dedicated freighters coming into Delhi.

Rajiv Gandhi International Airport (RGIA) – Hyderabad Airport operated by GHIAL

Focus Areas for FY 2019-20

The key focus areas for Hyderabad Airport have been sustaining operational efficiency during expansion, increasing non aero revenue and continued efforts towards securing a favorable tariff order.

In view of continued growth in traffic during the period of expansion, two interim terminals have been commissioned during FY 2018-19, one each for international departures (IIDT) and domestic arrival (IDAT). These facilities have helped de-congest the existing terminal and they have also provided additional capacity and helped to sustain service quality. During FY 2019-20, the focus will be on leveraging these additional facilities and operational improvement initiatives to further drive the growth momentum while simultaneously ensuring improved passenger experience.

The airport expansion works are progressing well and GHIAL will focus on ensuring execution of the project within budgeted cost and timelines. The expansion will increase the airport capacity to 34 Mn pax per annum and includes PTB expansion and airside expansion.

Another focus area for GHIAL is to obtain favorable tariff order from AERA in line with the Concession Agreement and other applicable rules and regulations.

GMR Megawide Cebu Airport Corporation (GMCAC)

In line with the concession agreement, GMCAC successfully commissioned Terminal 2 of Mactan Cebu International Airport on July 1, 2018. The terminal building was inaugurated by Hon'ble President of Philippines Rodrigo Duterte in a ceremony held on June 7, 2018 where the President called Terminal 2 as the most beautiful airport in the world. Currently, GMCAC is renovating Terminal 1 (domestic) which will increase its capacity to 11 Mn pax from existing 4.5 Mn pax.

The traffic in Cebu airport is expected to grow by 13% in 2019 mainly led by continued focus on international traffic which is expected to grow by 15%. While South Korea and Japan will continue to dominate, China is expected to emerge as second biggest contributor to the international passenger mix. Constraints on domestic side continues to ease as domestic airlines have started receiving their aircraft orders. This coupled with expectation of strong Philippines economic growth, we expect the domestic traffic growth at over 12%. Overall traffic in Cebu airport is expected to be 13 Mn in 2019 as compared to 11.5 Mn in 2018.

Focus of the Management this year is also on bringing in operational efficiency at the airport. GMCAC expects to undertake several initiatives to automate certain processes as well reduce operating costs of the airport.

Energy Sector Outlook and Future Plan

Indian Economy - Power Sector Scenario

As on March 31, 2019, total installed capacity in India stood at 356 GW. Conventional energy (from thermal) sources accounted for 226.2 GW or 63.53% of the total capacity while renewable energy sources accounted for 77.6 GW and the rest comprised capacity from nuclear and hydro (>50 MW) based power plants.

Although India is making rapid strides in the renewable sector, issues remain for the thermal power sector.

The Department of Financial Services provided a list of 34 stressed thermal plants and identified the following reasons for non-performance, being, non- availability of fuel, lack of power offtake agreements, regulatory stance, rising receivables and policy framework among other issues. These projects were commissioned on the basis of forecasted demand growth of the electricity which has not fructified. Though the Government is working towards electricity for all, India still remain one of the lowest per capita electricity consuming nations.

The steps taken by Government to resolve these issues include: providing fuel linkages under SHAKTI, pilot scheme for procurement of 2,500 MW power, rationalization of coal escalation index, directions to CERC for time bound disposal of change in the law petitions, launching of an App PRAAPTI to bring more transparency in the way payments are done by DISCOMS to the generators, reforms in the distribution system, such as, SAUBHAGYA etc.

UDAY Scheme aimed at reforming the power sector by improving the health of DISCOMS has struggled to achieve desired outcomes. The financial performance of most state DISCOMS is well below the targets agreed upon. Targets for two key parameters- Aggregate Technical and Commercial (AT&C) losses and gap between average cost of supply (ACS) and per unit average revenue realized (ARR)- have not been met primarily because of issues related to power tariff hike and collections.

Internationally, coal demand and prices have seen a rebound from the lows of 2014-16 due to sustained demand from China and India. China has cut down its coal production due to environmental concerns while India continues to import due to high power demand and inadequate production by Coal India Limited. South-East Asia is likely to become the next growth driver for international coal demand.

Generation from renewable sources increased by a healthy 23.8% to 125.99 BU in FY 2018-19 compared to 101.8 BU in FY 2017-18. Further, installed capacity from renewable energy sources increased by 12.5% to 77.64 GW in FY 2018-19 from 69.02 GW in FY 2017-18. However the growth of renewable energy capacity was impacted by lack of policy clarity, power evacuation constraints, imposition of safeguard duties and high number of tender cancellations. Ministry of New and Renewable Energy (MNRE) estimates that 24 GW renewable capacity is under installation and 42 GW of capacity is under various stages of tendering and bidding. The Government has reiterated its top priority for attaining 175 GW installed renewable capacity by 2022.

GMR Energy Limited demonstrated outstanding resilience during one of the most challenging and volatile periods being faced by energy sector. Our focus over last year has been on stabilizing our existing assets, improving their profitability and achieving operational excellence. We have been able to stabilize GMR Kamalanga Energy Limited (GKEL) operations with 1.5 MT additional linkage coal secured through auction under SHAKTI Policy of the Government of India. As a result of our sustained efforts, we have secured favorable regulatory orders in APTEL for Change in Law (CIL), Coal Pass-through (CPT) petitions for GMR Warora Energy Limited (GWEL) and GKEL. CERC also allowed carrying cost for all CIL/CPT expenses incurred from the date of spending to the date of invoice (post CERC order). We had also focused on realization of regulatory receivables during FY 2018- 19, and will continue this focused effort towards realizing pending regulatory receivables. GMR is proud to be the first and only IPP in the country to contribute towards Indian Government's goal of efficiency in coal transportation. The GMR Chhattisgarh Energy Limited (GCEL) plant started operating a 1,000 MW PPA with Gujarat Urja Vikas Nigam Limited (GUVNL) by tolling the coal allotted to GUVNL and saving transportation of coal over 1,500 km.

Due to the non-availability of domestic gas and high price of imported gas, we have been facing challenges in securing gas for our operational gas plants. After the unexpected order of the Supreme Court against GMR Vemagiri Power Generation Limited (GVPGL), we have been working at various levels and forums in order to secure gas supplies at competitive price to operationalize our gas assets and hope to achieve positive results in the coming fiscal.

Battling water ingress, tough geography and adverse weather conditions, our project team at GMR Bajoli Holi Hydro Power Limited (GBHHPL) has managed to tunnel through the tough terrain and the project is progressing full steam. We are expecting to commission the plant by the end of current financial year.

As part of our Asset Light Asset Right (ALAR) strategy, we believe O&M of power plants is an area that could have good potential. This year, the Group has successfully partnered with TNB Remaco (an associate of Malaysia's largest utility player Tenaga Nasional Berhad (TNB), which is a specialist in power plant repair and maintenance with a proven track record of over 30 years) and formed a new alliance – GMR Tenega Operation and Maintenance Private Limited (GTOMPL), to provide O&M services in India, though the revenue realized was still minor in FY 2018-19.

Transportation and Urban Infrastructure Sector Outlook and Future Plan

Transportation

Railways

Your Company entered the Railways business in FY 2013-14 by winning two Rail Vikas Nigam Limited (RVNL) projects. We made a big leap into Railway projects in FY 2014-15 when we were awarded two packages on the eastern

Dedicated Freight Corridor Corporation (DFCC) in the State of Uttar Pradesh worth ₹ 5,080 Crore and further 2 more packages 301 and 302 in 2016 worth ₹ 2,281 Crore. The Government has hiked capital expenditure to ₹ 1.59 Lakh Crore for FY 2019-20 from ₹ 1.48 Lakh Crore in FY 2018-19, which is mostly targeted at capacity creation by way of doubling of lines and track renewal. There are plans to set up third dedicated East Coast Freight Corridor between Kharagpur and Vijaywada costing more than ₹ 50,000 Crore funded by World Bank. Railway also plans to bid out large tenders for electrification under the EPC model by 2021, the potential opportunity size is ₹ 36,000 Crore. Mega project of station redevelopment is another area which could offer massive opportunities going forward. Your Company will pursue those opportunities which are viable and corresponds with its overall strategy.

Highways

Highways sector continues to be one of the most dynamic sectors in the country. 10,800 km of roads, that is the highest ever, were constructed in FY 2018-19. The award of the projects, however, was well below the target. Against the target of 20,000 km in FY 2018-19, only 15,000 km of road projects were awarded. NHAI awarded 2,222 km in FY 2018-19 against the target of 7,500 km set at the beginning of the year. However, this is likely to change Post General Elections 2019. The elected new Government, in line with its declared policy, is expected to continue its focus on infrastructure sector and kick start awarding activity for the new projects. Government is taking major initiatives to execute Bharatmala Pariyojana which envisages constructing 84,000 km of roads at an investment of ₹ 7 Lakh Crore by 2022. Most of these projects are expected to be awarded on Hybrid Annuity Model (HAM) and Engineering, Procurement and Construction (EPC) modes. After the mixed success of Toll Operate Transfer (TOT) model wherein it got good response for first bundle and had to abort second bundle due to unfavorable response from bidders, NHAI has invited bid for third bundle of highway project on the model. Under this, nine national highways stretches with cumulative length of 566 km spread across Tamil Nadu (4), UP (3) and Bihar/Jharkhand (1 each) have been put for bid at reserve price of ₹ 4,995 Crore.

Though we are consolidating our portfolio in the Highways Sector, we will be on lookout for the right opportunities which are in sync with our strategy of ALAR and which will enhance value for our stakeholders.

Urban Infrastructure

Recent times have been challenging for the manufacturing and private investments in the country. Slowing world economy also affects the export potential out of SEZs. However, GST and campaigns like 'Make in India' and 'Invest India' should also provide much required impetus for the SEZ and SIR sectors of the country. Implementation of GST has opened new avenues for logistics and warehousing sector. The sector has shown tremendous growth and holds promise for future.

Being an election year, there was a pause on investments, which is expected to pick up going forward. SEZs per se did not receive the expected focus in the budget in spite of favourable recommendations from the Baba Kalyani led committee on SEZ reforms. The new Central Government is expected to provide the necessary changes in the SEZ policy framework to benefit the industry.

In Kakinada Special Economic Zone (SEZ) /Special Investment Region (SIR), Key developments have taken place that should transform the SIR into a Port-based Investment Region. KSEZ through its subsidiary Kakinada Gateway Port Limited signed the Concession Agreement with GoAP for development of Commercial Port on DBFOT basis (Design, Build, Finance, Operate and Transfer) in Kona Village adjacent to the Industrial Park. On the Industrial Park front lease deeds were signed with three processing units for setting up their Sea food processing units. The units' construction is in progress currently.

Our other SIR, GMR Krishnagiri (GKSIR) is situated at the tri-junction of Tamil Nadu, Andhra Pradesh and Karnataka and this is turning out to be a strategic location for Logistics & Warehouse players and has already been attracting several business enquiries in this space. With 'Logistics & Warehousing' being granted Infrastructure status by the Government of India in FY 2017-18, this sector will be a key factor in the growth of GKSIR. Under the 'Make in India' initiative, the Government of India has recently announced setting up of a Defense Industrial Production Corridor (DIPC) in Tamil Nadu and Hosur has been identified as one of the key nodes of the TN Corridor under this plan. All these positive developments have paved way for an exciting stage in the project and the Group is all set to take it to the next level of growth.

In FY 2019-20, we will continue our efforts to create a right ecosystem for world's leading companies to establish their facilities in KSEZ and GKSIR and contribute to socio-economic development of the respective regions.

Environmental Protection and Sustainability

As the Company operates in an increasingly resource-constrained world, being environmentally conscious and efficient are key to our operations. The Company has a Corporate Environment, Health, Safety and Quality (EHSQ) Policy to articulate, guide, and adopt an integrated approach towards implementing EHSQ objectives and the Company remains committed towards the said policy. These established systems certified by reputed certifying agencies have helped to monitor and manage our operations systematically, safely and in environment friendly manner. The Company continues to abide by regulations concerning the environment by allocating substantial investments and resources on a continuous basis to adopt and implement pollution control measures. Our continuous endeavor to go beyond compliance and conserve natural resources helps to march towards attaining excellence in environmental management and efficient and sustainable operations as well. The details of Environment, Health and Safety (EHS) initiatives are provided in the Business Responsibility Report forming part of Annual Report.

DISCUSSION AND ANALYSIS OF FINANCIAL CONDITIONS AND OPERATIONAL PERFORMANCE

The consolidated financial position as at March 31, 2019 and performance of the Company and its subsidiaries, joint ventures and associates during the financial year ended on that date are discussed hereunder:

1. ASSETS- NON CURRENT ASSETS

1.1. Property Plant and Equipment (PPE)

PPE has increased from ₹ 9,422.35 Crore as at March 31, 2018 to ₹ 9,614.42 Crore as at March 31, 2019 primarily due to additions to fixed assets in DIAL, GHIAL and GIL offset by depreciation charge for the year.

1.2. Capital work-in-progress

Capital work-in-progress has increased from ₹ 587.84 Crore as at March 31, 2018 to ₹ 857.03 Crore as at March 31, 2019 primarily on account of expansion of existing airport at New Delhi, Hyderabad and New Airport at Goa.

1.3. Investment Property

Investment property has increased from ₹ 2,804.61 Crore as at March 31, 2018 to ₹ 3,139.79 Crore as at March 31, 2019 primarily on account of additional capital expenditure (including interest cost) incurred during the year by SEZ business.

1.4. Other Intangible Assets

Other Intangible assets has decreased from ₹ 2,957.95 Crore as at March 31, 2018 to ₹ 2,867.05 Crore as at March 31, 2019 primarily due to amortization during the year.

1.5. Financial assets – Investments

Investments has decreased from ₹ 8,831.57 Crore as at March 31, 2018 to ₹ 7,765.07 Crore as at March 31, 2019 primarily due to share of loss in joint venture and associates and impairment provision of investment in joint ventures and associates, dividend received which is offset by increase in forex (FCTR).

1.6. Loans and Advances

Loans and advances has increased from ₹ 145.24 Crore as at March 31, 2018 to ₹ 276.83 Crore as at March 31, 2019 mainly due to advance given to Joint ventures.

1.7. Other financial assets

Other financial assets have increased from ₹ 1,720.07 Crore as at March 31, 2018 to ₹ 2,038.01 Crore as at March 31, 2019 mainly due to increase in fair value of cross currency swaps / call spread options offset by decrease in receivable against Service Concession Arrangements (SCA).

1.8. Other non-current assets

Other non-current assets have increased from ₹ 340.05 Crore as at March 31, 2018 to ₹ 1,791.31 Crore as at March 31, 2019 primarily on account of capital advance given for airport expansion.

2. ASSETS – CURRENT ASSETS

2.1. Financial assets – Investments

Investments have decreased from ₹ 4,039.31 Crore as at March 31, 2018 to ₹ 2,350.34 Crore as at March 31, 2019 primarily on account of realisation of mutual fund investments by DIAL and GHIAL. DIAL, GHIAL and GIAL have also invested in commercial papers. All investments are in normal course of business.

2.2. Loans and Advances

Loans and advances has decreased from ₹ 481.88 Crore as at March 31, 2018 to ₹ 109.78 Crore as at March 31, 2019 primarily due to receipt of receivable from GEPL.

2.3. Financials assets – Trade receivables

Trade receivables has decreased from ₹ 1,769.65 Crore as at March 31, 2018 to ₹ 1,447.37 Crore as at March 31, 2019. This is primarily on account of realization of trade receivables in DIAL in the normal course of business.

2.4. Financial assets – Cash and cash equivalents

Cash and cash equivalents have decreased from ₹ 1,647.16 Crore as at March 31, 2018 to ₹ 918.66 Crore as at March 31, 2019. This is mainly due to decrease in current account balances with bank in DIAL due to investment in term deposit and decrease in current account balances with bank in GHIAL for capex works.

2.5. Financial assets – Bank balances other than cash and cash equivalents

Bank balances other than cash and cash equivalents increased from ₹ 331.91 Crore as at March 31, 2018 to ₹ 710.99 Crore as at March 31, 2019 primarily due to increase in bank deposits in DIAL and GASL and offset by marginal decrease in bank deposits in GIL, DSPL and GPEL.

2.6. Other financial assets

Other financial assets have increased from ₹ 733.09 Crore as at March 31, 2018 to ₹ 4,685.27 Crore as at March 31, 2019. This is primarily on account of receivable accounted for investment in equity shares of GAL acquired from PE investor and fair value of equity shares of GAL held by PE investor. Pursuant to binding term sheet, these are recoverable from prospective investors in FY 2019-20. Further there is increase in Receivable against service concession arrangements and unbilled revenue in subsidiaries in the normal course of business.

2.7. Other current assets

Other current assets have decreased from ₹ 253.26 Crore as at March 31, 2018 to ₹ 234.52 Crore as at March 31, 2019. This is primarily due to utilisation of advances recoverable in cash offset by increase in balances with Government authorities in the normal course of business.

2.8. Assets classified as held for disposal

Assets classified as held for disposal decreased from ₹ 942.77 Crore as at March 31, 2018 to ₹ 28.91 Crore as at March 31, 2019. The decrease is mainly due to consummation of PTDSU sale transaction in the FY 2018-19.

3. EQUITY

Equity share capital remains the same at ₹ 603.59 Crore. Total equity has decreased from ₹ 5,644.81 Crore as at March 31, 2018 to ₹ 1,241.89 Crore as at March 31, 2019 primarily on account of provision for diminution in value of equity investments in joint venture and associates, provision for losses in EPC business etc. Non-controlling interests have increased from ₹ 1,826.47 Crore as at March 31, 2018 to ₹ 2,061.95 Crore as at March 31, 2019 mainly on account of share of current year profit and increase in non-controlling interest of GAL offset by payment of dividend in Airport sector.

4. NON-CURRENT LIABILITIES

4.1. Borrowings

Non-current borrowings have increased from ₹ 20,552.95 Crore as at March 31, 2018 to ₹ 21,663.81 Crore as at March 31, 2019, primarily due to issuance of Non-convertible debentures by GAL to PE investor, issuance of OCD towards settlement of the litigation and further in GISL the during the year.

4.2. Other Financial Liabilities

Other financial liabilities have increased from ₹ 643.56 Crore as at March 31, 2018 to ₹ 722.19 Crore as at March 31, 2019, mainly due to fair value of call spread option liability and increase in security deposit from concessionaires offset with decrease in concession fee payable, interest/premium/ proceessing fee.

4.3. Provisions

Provisions have decreased from ₹ 178.12 Crore as at March 31, 2018 to ₹ 123.33 Crore as at March 31, 2019 mainly due to change in estimation of maintenance provision in GHVEPL.

4.4. Deferred tax liabilities (net)

Deferred tax liability is ₹ 328.52 Crore as at March 31, 2019 (₹ 400.06 Crore as at March 31, 2018), decrease in deferred tax liabilities is primarily due to deferred tax asset recognised on unabsorbed depreciation in DIAL.

4.5. Other non-current Liabilities

Other non-current liabilities have increased from ₹ 1,824.39 Crore as at March 31, 2018 to ₹ 2,079.46 Crore as at March 31, 2019 primarily due to increase in unearned revenue offset by reduction in advance from CPD deposits in DIAL.

5. CURRENT LIABILITIES

5.1. Borrowings

Borrowings have increased from ₹ 542.37 Crore as at March 31, 2018 to ₹ 2,298.59 Crore as at March 31, 2019 mainly due to increase in short term borrowings in GMR Infra Services Limited (GISL) and increase in bank overdrafts during normal course of business.

5.2. Trade Payables

Trade payables have increased from ₹ 1,957.24 Crore as at March 31, 2018 to ₹ 1,959.86 Crore as at March 31, 2019 during normal course of business.

5.3. Other financial liabilities

Other financial liabilities have increased from ₹ 3,596.58 Crore as at March 31, 2018 to ₹ 7,488.93 Crore as at March 31, 2019. The increase is due to the company having an additional obligation under the GAL equity stake sale and GEL. Further current maturities of long term borrowings increased due to new borrowings in the form of NCD and term loans.

5.4. Liabilities for current tax (net)

Liabilities for current tax (net) has increased from ₹ 55.32 Crore as at March 31, 2018 to ₹ 64.81 Crore as at March 31, 2019 mainly due to tax provisions in GHIAL.

5.5. Liabilities directly associated with the assets classified as held for disposal

Liabilities held for disposal decreased from ₹ 530.80 Crore as at March 31, 2018 to ₹ 60.08 Crore as at March 31, 2019. The decrease is mainly due to consummation of PTDSU sale transaction in the FY 2018-19.

Overview of our results of operations

The following table sets forth information with respect to our revenues, expenditure and profits (loss) on a consolidated basis:

₹ in crore

Particulars	For the year ended	
	March 31, 2019	March 31, 2018
Continuing operations		
Income		
Revenue from operations (Including other operating income)	7,399.72	8,556.49
Finance Income	165.16	164.72
Other income	719.84	553.04
Total Income	**8,284.72**	**9,274.25**
Expenses		
Revenue share paid / payable to concessionaire grantors	1,764.75	1,911.50
Operating and other administrative expenditure	4,105.50	4,623.81
Depreciation and amortization expenses	983.96	1,028.40
Finance cost	2,684.15	2,316.34
Total expenses	**9,538.36**	**9,880.05**
(Loss) / profit before share of (loss) / profit of associate and joint ventures, exceptional items and tax from continuing operations	**(1,253.64)**	**(605.80)**
Share of (loss) / profit of associates and joint ventures (net)	(87.89)	(431.36)
(Loss) / profit before exceptional items and tax from continuing operations	**(1,341.53)**	**(1,037.16)**
Exceptional items - (loss) / gains (net)	(2,212.30)	-
(Loss) / profit before tax from continuing operations	**(3,553.83)**	**(1,037.16)**
Tax (credit) / expense	(87.42)	45.49
(Loss) / profit after tax from continuing operations	**(3,466.41)**	**(1,082.65)**
EBITDA from continuing Operations (sales/income from operations – Revenue share – Operating and other admin exp.)	1,694.64	2,185.90
Discontinued operations		
Profit / (loss) from discontinued operations before tax expenses	**117.84**	**(31.96)**
Tax expense / (credit)	7.72	(0.02)

₹ in crore

Particulars	For the year ended	
	March 31, 2019	March 31, 2018
Profit / (loss) after tax from discontinued operations	**110.12**	**(31.94)**
Total (loss) / profit after tax for the year	**(3,356.29)**	**(1,114.59)**
Other comprehensive income for the year, net of tax	173.63	(110.69)
Total comprehensive income for the year, net of tax	**(3,182.66)**	**(1,225.28)**

Sales/Operating Income

The segment wise break-up of the Sales/Operating Income are as follows:

Particulars	For the year ended			
	March 31, 2019		March 31, 2018	
	Amount (₹ in Crore)	% of Revenue from operations	Amount (₹ in Crore)	% of Revenue from operations
Revenue from Operations:				
Airports segment	5,253.93	69.45%	5,418.74	62.13%
Power segment	593.08	7.84%	1,533.53	17.58%
Road segment	570.50	7.54%	589.70	6.76%
EPC segment	904.85	11.96%	931.12	10.68%
Others segment	242.52	3.21%	248.12	2.85%
Total Revenue from operations	**7,564.88**	**100.00%**	**8,721.21**	**100.00%**

Operating income from airport segment

Income from our airport segment consists of income from aeronautical sources (principally consisting of landing and parking, passenger service fees and UDF), non-aeronautical sources (consisting principally of income from rentals, trade concessionaires and ground handling) cargo operations and rentals received in connection with commercial development on land that is part of our airport projects.

Operating income from airport segment decreased by 3.04% from ₹ 5,418.74 Crore in fiscal 2018 to ₹ 5,253.93 Crore in fiscal 2019 mainly in Aero revenue on account of implementation of second control period tariff in DIAL. However there is overall increase in traffic in all the operating airports.

Operating income from power segment

Income from our power segment mainly consists of energy and coal trading income from GETL, GCRPL and GISPL. Other major operating energy entities including major entities like GWEL, GKEL and GGSPPL are assessed as Joint ventures and accounted based on equity accounting. The operating income from power segment has decreased to ₹ 593.08 Crore for fiscal 2019 from ₹ 1,533.53 Crore for fiscal 2018 primarily due to netting of revenue & cost on application of Ind AS -115 'Revenue from contracts with customers' for accounting period beginning from April 1, 2018.

Operating income from road segment

Income from our road operations is derived from annuity payments received from NHAI for our annuity projects and toll charges collected from road users of the toll road projects.

The operating income from road segment has marginally decreased by 3.25% to ₹ 570.52 Crore for fiscal 2019 from ₹ 589.70 Crore for fiscal 2018 mainly in annuity income.

Operating income from EPC sector

Income from our EPC division is derived from the execution of engineering, procurement and construction works in connection with power, road, railways and other projects under implementation.

During the current year, the EPC sector has contributed ₹ 904.85 Crore to the operating income as against ₹ 931.12 Crore in the previous year. Decrease is mainly on account of completion of few overseas airport projects resulting in lower revenues from construction projects.

Operating income from Other Sectors

Income from other sector includes management services income, investment income and operating income of aviation and hotel businesses. During the fiscal 2019, other sector has contributed ₹ 242.52 Crore to the Operating Income as against ₹ 248.12 Crore in fiscal 2018.

Expenditure

Revenue share paid/payable to concessionaire grantors

The revenue share paid/payable to various concessionaires has decreased from ₹ 1,911.50 Crore in fiscal 2018 to ₹ 1,764.75 Crore in fiscal 2019 primarily on account of decrease in operating income at airport sector.

Cost of material consumed

The decrease in cost of material consumed is mainly on account of higher material consumption at DFCC project in fiscal 2018.

Purchase of Traded goods

Decrease in purchase of traded goods in the fiscal 2019 is primarily due to netting of cost and revenue on application of Ind AS -115 'Revenue from contracts with customers' for accounting period beginning from April 1, 2018. The Company has adopted modified retrospective approach and no impact has been given in comparative period numbers.

Employee benefits expenses

The increase in employee benefit costs is mainly on account of annual salary increments and recruitment of new employees.

Other expenses

Other expenses include:

Consumption of fuel and lubricants, water, manpower hire charges, technical consultancy fee, cost of variation works, insurance for plant and machinery, airport operator fee, cargo handling charges, lease rentals and repairs and maintenance to plant and machinery, office rental, travel, insurance, electricity, legal and other professional charges, contributions to provident fund, provision for advances, claims and debts, losses on sale of fixed assets and investments, travelling and conveyance, communication, loss on foreign exchange and other miscellaneous expenses.

There is increase in other expenses mainly due to forex loss, write off advances and donation expense.

Exceptional items

In fiscal 2019, there is impairment loss of ₹ 2,212.30 Crore in carrying value of equity investments in joint ventures and associates.

Tax expenses

Tax expense/ (credit) mainly comprises of current tax expense and deferred tax expense / (credit). Tax expense/ (credit) has decreased from tax expense of ₹ 45.49 Crore in fiscal 2018 to tax credit of ₹ 87.42 Crore in fiscal 2019 mainly due to recognition of deferred tax asset / (income) in DIAL and GAL.

Significant changes in key financial ratios, along with detailed explanations

Key Financial ratios on standalone basis including significant changes (more than 25%) are shown in the table below:

	FY 2018-19	FY 2017-18	Change
Debtor Turnover (days)	354.26	263	(35%)*
Inventory Turnover(days)	18.45	25.01	26%**
Interest coverage Ratio	0.33	0.40	0.17
Current Ratio	1.88	0.48	293%#
Debt Equity ratio	0.62	0.40	(56%)##
Operating profit margin %	(0.44)	(0.36)	(23%)
Net Profit Margin %	(0.51)	(0.45)	(15%)
Return on Net worth	(0.089)	(0.034)	(157%)$

* Decrease in the recovery ratio is on account of various deductions being made by the client (DFCCIL) on account of recovery of mobilization advance at higher rate.

** Improvement in Inventory Turnover Ratio is due to increase in consumption and expenses on account of increase in construction activity.

The company intends to disinvest stake in its Subsidiary GAL. Hence the investment is reclassified from Non current to Current asset.

Increase in the ratio is due to reduction in networth and increase in debt.

$ The change in return on net worth is majorly due to Provisions are made for the loans and impairment on investments during FY 2018-19.

Corporate Social Responsibility

GMR Varalakshmi Foundation (GMRVF) is the corporate social responsibility arm of the GMR Group. The Group has been undertaking CSR activities on a significant scale since 1991. GMRVF supports the companies under the Group in implementing their CSR mandates. GMRVF's purpose is to work in the fields of Education, Health and Empowerment such that its activities directly benefit mainly the communities in the immediate neighbourhood of the Group's projects. Currently, GMRVF is working with selected communities in 23 locations in India. The locations are spread across different states namely Andhra Pradesh, Chhattisgarh, Delhi, Himachal Pradesh, Karnataka, Maharashtra, Goa, Odisha, Punjab, Tamil Nadu, Telangana, Uttar Pradesh and Uttarakhand. The detailed information on CSR activities of the Group is provided in Business Responsibility Report forming part of the Annual Report.

Awards and Recognitions in the FY 2018-19:

- GHIAL CSR was awarded the prestigious CSR Excellence Award 2018 for Best Corporate (Emerging Category) from Institute of Company Secretaries of India.
- GMR Warora Energy Limited received the prestigious "Golden Peacock Award for Corporate Social Responsibility 2018" given by the Institute of Directors, in the category of Power Sector (including Renewable).
- Viswakarma Award for Social Impact and Development from Construction Industry Development Council 2018.
- GMR Warora Energy Limited received Green Maple Foundation Award - 2018 under Best CSR Projects category.
- GMR Chhattisgarh Energy Limited won India CSR Award for Innovative Project in Education given by India CSR Network.
- 'CSR Community Initiative Award for Sustainable Livelihood' for the Livelihoods Restoration Program at Kamalanga.

Risk Concerns and Threats

Identification, assessment, profiling, treatment and monitoring the risks

The Company has deployed risk management process which includes risk identification, its assessment and profiling, its treatment, monitoring and review actions. The Enterprise Risk Management (ERM) process that has been in place over the years helps the Sectors and key business units in aggregating and consolidating their risks. The Company prioritizes and manages the risks identified through its Risk Registers.

The ERM Framework deployment across the Group is independently assessed by internal audit team i.e. Management Assurance Group (MAG). Their inputs and recommendations serve as opportunities for improvements and also help create better alignment and learning across the Group.

Linkages: Strong linkage with Corporate Strategy has helped the Company to focus on key strategic risks. Detailed risk analysis is carried out during the formulation of the Company's Strategic Plan and Annual Operating Plan. List of top risks are revised as a part of the Strategic plan exercise. ERM team also shares the results of its exercise with the MAG to enable it to draw plans for risk-based audit.

Business Resilience: For organization to quickly adapt to disruptions while maintaining continuous business operations and safeguarding people, assets and overall brand equity, we have detailed Business Continuity Plans (BCP) and Disaster Recovery Plans (DRP) in place for key assets. The plans identify potential vulnerabilities and puts in place appropriate processes and risk treatment plans to respond and minimize impact of disruptive events.

Reporting: The ERM Team regularly presents the risk assessment and minimization procedures adopted to assess the reliability of the risk management structure and efficiency of the process to the Management and the Audit Committee of the Board.

Based on the above process, the management has taken cognizance of risks in the recent times and for which appropriate plans and actions are being taken, as follows:

1. **Macroeconomic Risk factors**: Macroeconomic factors in India and abroad have a significant impact on the operating performance of the Group. Revenue from our airports, sale of coal from our international mines, availability of domestic coal for our PPAs, toll collection from our road projects, etc., are exposed to the changes in the economic environment and market demand. During the past year, government policies aimed at correction of the financial system and reconciliation of non-performing assets has had unintended impact on economy. Limited availability of liquidity in the financial system has affected industries across the spectrum. Closer to us, the stress observed in some players in airline industry has affected air traffic. As a mitigation for these macroeconomic risk factors, our Group relies on diversified portfolio across different sub-sectors within the Infrastructure Sector along with revised strategies.

2. **Regulatory Risk:** Being in the Infrastructure Sector, we are exposed to regulatory risks

   - The Company's Airports business is exposed to regulatory changes that can affect its revenue model. AERA's tariff determinations have affected and may continue to adversely affect our results of operations and financial condition.
   - Third parties like 'International Air Transport Association (IATA) and Federation of Indian Airlines (FIA) may file appeals against the Company's airport operations.
   - Changes and modifications in regulations related to tariffs and environmental protection may impact the Group's energy business.

     The Group proactively tracks developments in the regulatory environment and proactively engages with all stakeholders. We participate in sector-specific industry associations and chambers of commerce to work for resolution of issues that may impact our businesses.

     Business teams are focused on identifying, monitoring and updating the management on regulatory developments and their impact.

     Where required, the Company uses litigation as an appropriate measure to protect its interests in regulatory issues.

3. **Project development, acquisition and management:** In an ever-changing world, quality of portfolio, profitability and liquidity continue to be the critical differentiators. In such an environment, proactive adaptability still holds the key to sustained financial performance. Based on the portfolio exercise being carried out every year at the Group level and the prevailing external environment, management has taken a conscious decision to follow an "Asset Light and Asset Right" model whereby we would be looking at divesting options for some of our non performing projects/assets as well as those projects that have created good value for themselves while simultaneously being selective in new bids and acquisition. The focus is, as always, on consolidation of our existing portfolio, sweating of assets and completion of the existing projects within time, cost and quality parameters. The Group has also initiated the outsourcing of some of its non-core activities in Finance, HR, IT and Internal Audit function so as to gain more management bandwidth, improve productivity and efficiency in the Group's operations.

4. **Ability to finance projects at competitive rates:** Infrastructure players, given the nature of the sector, carry relatively higher debt levels. Under adverse market conditions, this could inhibit our ability to raise more funds at competitive rates for further growth. We are continuously exploring innovative means to finance/refinance our projects including refinancing through bond issue, takeout finance, ECB loans (where we have a natural hedge to reduce the forex exposure) etc., wherever possible at competitive rates.

5. **Credit Risk:**

   - Our airport business continues to be exposed to credit risks of our airline customers and non-aero services customers. Collection of receivables from a distressed airline may be at risk. We have proactively implemented strategies to mitigate the same.
   - Our exposure to sale of electricity through merchant sale/ trading may expose us to credit risk of counter parties. This exposure is relatively small compared to overall business and we have implemented processes to mitigate the same. Also, all our receivables are being closely monitored and reviewed frequently by the top management.

6. **Interest Rate Risk:** Recent macroeconomic trends on account of volatile oil prices may adversely impact interest rates. Any increase in interest rate may adversely affect our profitability. We are continuously exploring and implementing innovative means of financing/refinancing our existing loan with the aim of reducing our interest costs. Also, with the divestments of some of our assets and capital raise exercises, we also aim to reduce our debt exposure and thereby the interest cost.

7. **Foreign Currency Exchange Rate Risk:** We are exposed to the vagaries of exchange rate risk, as we have some expenditure in foreign currencies for procurement of project equipment, but a majority of revenues are in Indian Rupee (though Airports and other international assets earn some foreign currency). We have in place a mechanism of having regular review of our foreign exchange exposures including the sensitivity of our financials to the movements in exchange rate. However, we hedge our exposures and keep rolling them as part of a robust foreign exchange risk management policy which is reviewed regularly.

8. **Cyber Security Risk**: As hacking becomes increasingly sophisticated, the Group's businesses in airport sector remain vulnerable to hacking. It has become a top priority for the Group to enhance the safety and security of its IT-based operations, for which it plans to deploy best-in-class resources. The Company has instituted processes to assess its vulnerability to cyber security risks and initiated actions to mitigate emerging risks. This will be an ongoing exercise.

9. **Technology Risk**: Technological application in all areas of business operations is evolving rapidly, rendering existing processes and instruments less efficient or obsolete altogether. Across industries, including aviation sector, businesses are faced with major overhaul of their operations and the technology they employ.

   Solar energy technology, for instance, is advancing rapidly in efficiency, reliability and cost. A decade ago its viability was questionable. But today, it is gaining acceptance as the preferred mode of power generation, thus putting coal-based, gas-based and hydro-power based energy sources to scrutiny. The Group has energy assets that are impacted in the immediate term by the boom in solar-panel based power generation though these assets could prove to be competitive only in long run.

10. **Terrorism Risk:** Terrorism risk, though not an imminent threat, remains a high impact risk for company's airport business. However, security and safety at our airports is stringent and matches those of large airports globally that maintain high security. Security drills, information sharing with government security agencies, and strict vigil has ensured that Group's airports enjoy a terrorism-free track record. The group identifies the assets such as airports and highways that are sensitive to terror risks and therefore covered the same under adequate terrorism insurance policies.

11. **Competition Risk:** The Group has seen how different industry sectors that were once considered specialized and exclusive turf of leading business houses, are now open to highly competitive bidders, small and large. Airport sector has recently seen several bidders competing to win a portfolio of airports. These new players, while winning bids on wafer-thin margins, set the course for scrutiny of our airport operations, thereby putting a stress on our operations. The Group is also affected by the increasing competition in nearly every business stream it is involved in, thus exposing itself to thinner margins. The Group has continued to focus on building competitive advantage in its core business areas to ensure that we are competitively well-positioned in our businesses.

    We also have mechanisms in place to ensure that we understand our competitive position while making bid-related decisions, and ensure that the criteria for financial returns remain the key consideration in any bidding activity.

12. **Manpower Risk:** With increasing competition in the Group's core businesses, newer players may take aggressive approach to meet their critical manpower requirement vis a vis the experienced personnel of the established companies. Our company is also exposed to these methods by the new entrants in the industry.

    The Group has been building bench strength and is further taking adequate measures to ensure that the impact of such aggressive manpower hiring approach is mitigated for our businesses.

13. **Litigation Risk**: In recent years, regulatory changes in airport concessions have resulted in disputes between airport operators and the authorities/ regulators. In the past year, the Group was faced with severe risks of unresolved disputes or annulment of appeals. While some disputes have been settled unfavorably for the Group, new areas for litigation have emerged from the regulatory setbacks in operating assets and new projects. The Group faces risk of annulment of/ or significant delay in resolution of several of cases.

    The Group has a strong in-house legal team and is proactive in ensuring that we take most suitable legal advice from leading law practitioners, as may be required. Where appropriate, and in the context of commercial disputes with private parties, the Group also considers and explores out of court settlements under advice.

14. **Political Risks.** Local politics within the countries where we operate, may impact our business, for which we try to work closely with all relevant stakeholders to mitigate impact of the political risks.

15. **Geopolitical Risk**: In the past year, unexpected geopolitical changes have heightened the risk of conflicts between nations in the country's neighborhood. India is affected by these geopolitical uncertainties and airports sector is faced with uncertainties that may affect air traffic. Rise in protectionism in Western nations, particularly US tariff hikes, has resulted in a trade war that continues to escalate and could have unforeseen long term consequences for industrial development in India, thus affecting some of the Group's businesses. The Group relies on the government's proactive role in protecting the interests of Indian industries arising out of changing geopolitical landscape.

16. **Socio-economic Risks**: Despite efforts from the government, businesses and organizations, socio-economic conditions of a large section of the civil society have not improved over the past years. Several factors like widening inequality gap, dislocation of vulnerable sections of the society, loss of livelihood disruption and an increase in fear of social and communal disharmony have aggravated the risk of disruption to businesses. The Group's businesses in transportation sector stand exposed to risks from changing socio-economic landscape in the country. To mitigate risks to our businesses arising from socio-economic issues, the Group takes proactive steps in engaging with affected people as well as customers.

Internal control systems and their adequacy

The Company's internal financial control framework, established in accordance with the COSO framework to ensure the adequacy of design and operating effectiveness of operational, financial and compliance controls. The effectiveness of the internal controls is continuously monitored by the Management Assurance Group (MAG).

The Company has appropriate policies and procedures in place which play a pivotal role in the deployment of the internal controls. These controls and processes have been embedded and integrated with SAP (or other ERP systems, as the case may be) and/or other allied IT applications which have been implemented across all Group companies.

MAG continuously assesses opportunities for improvement in all business processes, systems and controls and provides recommendations which add value and improves an organization's operations.

Deviations, if any, are addressed through systemic identification of causals. Corrective actions, if required, are taken by the respective functions. Functional owners take responsibility for introducing preventive actions. Proactive actions are initiated to ensure compliance with the several upcoming regulations through deployment of cross functional teams. As far as possible, emphasis is placed on automation of controls within the process to minimize deviations and exceptions.

Respective Business/Company CEOs are responsible to ensure compliance with the policies and procedures laid down by the management. It helps an organization to accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance process.

MAG is responsible for undertaking internal audits across the group and they are assisted by outsourced audit firms. The internal audit scope covers inter alia, all businesses and corporate functions, as per the annual plan reviewed and approved by the Audit Committee at the beginning of every year.

The effectiveness of the internal controls is continuously monitored by the MAG. MAG's main objective is to provide to the Audit Committee, an independent, objective and reasonable assurance of the Company's risk management, control compliance and governance framework. MAG continuously assesses opportunities for improvement in all business processes, systems and controls and provides recommendations which add value to the Company. It also follows up on the implementation of corrective actions and improvements after the review by Senior Management and the Audit Committee.

Every quarter, the Audit Committee of the Board is presented with key control issues and actions taken on the issues highlighted in previous report(s).

Developments in Human Resources and Organization Development at GMR Group

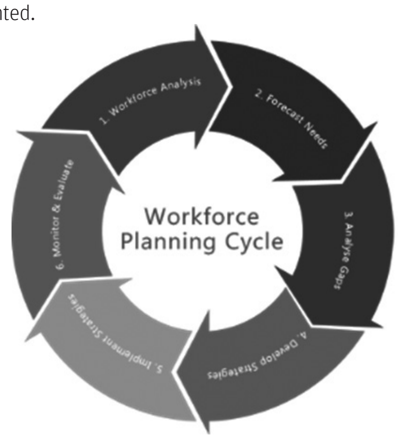
In FY 2018-19, Group continued focusing on People, Process and Technology across workforce lifecycle stages. While critical initiatives were successfully completed during the year, the focus is continued in taking forward the change management initiatives and adapt the new way of managing work.

This year the focus has been to strengthen HR Operations, sustain People Processes and at the same time prepare for upcoming growth specifically in Airports Sector. Tremendous employees' participation was seen across group sustaining robust outcomes across many of people initiatives, e.g. Employee Engagement and Ethical Culture survey, Continual Improvement Projects, Employee Suggestion Scheme – Idea Factory, Employee Rewards & Recognition, Employee Communication through Town Halls, Skip Level Meetings, Goal Setting, Performance Appraisals, Digital Awareness, Self-learning and development, while keeping a close eye on 'Frugal' way of working and imbibing group's core values & beliefs.

Some of the initiatives taken up at the Group are detailed below:

- **Annual Staffing Plan, Productivity Studies and Job Evaluation**

  ASP (Annual Staffing Plan) completed its 3rd cycle successfully during the year delivering resource optimization by up to 28% of additional requirement which has paved way for optimal utilization of human capital across GMR businesses. Actions emanating out of Productivity Enhancement Studies, Process improvements projects, Job Evaluation and Cross functional team led technological intervention were implemented.



  Organization Productivity studies were conducted in Airport Joint Venture (JVs) companies including JVs engaged in Delhi Duty Free, Car Park, Aviation services at Delhi and JVs /subsidiaries engaged in MRO, Hyderabad Duty Free at Hyderabad. The suggestions were presented to JV management and have been implemented during the year. Continuing the improvement journey, the HR team has planned to take up Productivity Assessment studies in other new areas e.g. Cebu Airport, Delhi Cargo division, Delhi Food & Beverages, Delhi Airport Advertising and Hyderabad Cargo division.

  Job evaluation and grade revision projects were successfully completed in Raxa and GMR VF CSW division delivering more efficient and flatter organizations for enhanced effectiveness.

- **Internal Job Opportunity**

  'GROW' – Group's in-house developed Internal Job Posting (IJP) portal was launched in FY 2016-17 which is stabilized over last 2 years, and has been widely adopted by employees to continue to look for exciting job opportunities round the year. Backed by a robust panel interview and screening process, IJP fulfilment has improved from 32% in FY

2017-18 to 33% in FY 2018-19. These job rotation opportunities provide employees to take up role matching to their career aspirations in both – horizontally and vertically.

- **AARAMBH:**

  AARAMBH is a group initiative taken in FY 2016-17 to induct Management Trainees including CAs, from well-known institutes in India for creating a sustainable pipeline of future leaders across all sectors. In its 3rd cycle of implementation, a total of 54 MTs have been inducted in GMR Group across business, the batch is undergoing a 1 year of rigorous training including classroom training sessions, business overview trainings and projects / assignments. This year the 2nd batch of 44 AARAMBH MTs graduated and have joined their respective functions taking specific roles and assignments.

  Airport construction sector is witnessing mammoth project construction related activities at Delhi, Hyderabad and Goa Projects. To fulfil immediate business needs and build robust pipeline of technical talent, 60 GETs have been shortlisted in FY 2018-19 and shall soon join for 1 year of training across airport projects.

- **Leadership Pipe Line, Talent Review and Leadership Development**

  GMR is now poised to embark on the next phase of growth journey specifically in Airports Sector. 'Engaged Talent' has been the key focus area for Group Leadership team and therefore to prepare for these massive growth opportunities a two pronged approach has been adopted. Lateral recruitment to cater to immediate requirements and Talent Review and Development for Mid-term to Long-term talent needs.

  During FY 2018-19, 20 senior leaders were on boarded through lateral recruitment process. A structured onboarding, induction and new manager assimilation process framework is in place to help the new leader to settle in GMR and quickly orient with Values & Belief, Work-place culture and build stronger teams. Same time, significant progress was made on review and finalization of top talent at group level through series of Senior Management Reviews in FY 2018-19. The batch of top talent shall soon undergo a structured Leadership Development Program in FY 2019-20.

- **Employee Engagement**

  PULSE' is Group initiative to assess the Employees' engagement levels and Ethical Culture climate through an IT enabled online survey.

  This was again a remarkable year which witnessed sustained increase in Employee Engagement Score from 4.40 (on a scale of 0-5) in FY 2017-18 to 4.43 in FY 2018-19, while the % employee participation increased from 89.1% in FY 2017-18 to 92.2% in FY 2018-19.

  The ethical climate results also indicated improvement as the score moved from 4.39 in FY 2017-18 to 4.43 in FY 2018-19.

  To learn from global best practices in other organizations, Group Airport entities including Delhi Airport, Hyderabad Airport, Airport Construction and Airport Corporate Teams invited GPTW (Great Place to Work) during FY 2018-19. The GPTW survey outcome has been extremely encouraging, and largely corroborates with PULSE survey.

  The result of surveys were analyzed from numerous perspectives to develop deeper insights around Employee Engagement and Workplace experience, backed by time bound, Cross Functional Team led Action Projects.

- **Goal Setting & Performance Management Process (Mid-Year and Annual Appraisal)**

  In order to achieve organizational objectives (Group Objectives >> Sector Objectives >> Business Objectives >> Function >> Employee), each employee sets individual goals which are Specific, Measurable, Attainable, Relevant and with Timelines (SMART) ensuring alignment with respective business priorities in a specific year, which are reviewed by respective managers and registered on online IT Portal "Digital HR- NAVYATA". Half yearly and annual appraisal process are carried out to confirm the performance of all employees.

  Having implemented the Digital HR, the process has become much simpler and accessible from any part of the world, providing immense flexibility to exercise Goal Setting, Mid-year self-appraisals, Full year appraisal, and Performance appraisal reviews by managers within the set time lines. Goal setting % has increased YoY from 95.4% in FY 2017-18 to 99.1%, Mid-year appraisal increased from 96.0 % in FY 2017-18 to 96.5% in FY 2018-19.

- **Digital HR, Digital FMS, Digital Awareness**

  During FY 2018-19, extra focus was provided to stabilize the newly implemented Digital HR Modules and completing the last leg activities including data transfer, data synchronization and switching over from legacy portal to new Digital HR Portal.

  It delivers state-of-the-art features and enhanced user friendliness with inbuilt performance dashboard and insightful analytics for effective and timely decision making.

  Series of Employees Awareness sessions were organized to orient employees towards the new HR applications and processes. 4 Workshop sessions on Digital HR were completed, 2 in Delhi, and 2 in Hyderabad. While 77 Senior Leaders were trained through one on one sessions on Digital HR.

  Under Digital FMS, a total of 15 FMS processes are now consolidated in 7 Key Processes to deliver seamless, digital and customer friendly experience to all our employees across GMR Group leveraging technology solutions. The revamped Digital FMS suite includes: Helpdesk, Asset Management, Cafeteria, Meeting Room Management, Visitor Management, Guest House Management and Travel.

- **Gender diversity and sensitization**

  Gender equality, gender diversity and gender sensitivity have been immutable focus areas for leadership in GMR Group and one of the pillar thrust areas towards workplace diversity. There has been continuous focus to enhance the current gender diversity at group level, which has been maintained at 11%. For every position up to 50% of profiles are women candidate only. However, gender diversity at senior position has been an area which has significant improvement opportunity, and we expect to see better ratio at senior positions also in FY 2019-20.

  Series of programs were conducted in FY 2018-19 including Panel discussion with external HR experts, women employees, and business leaders to discuss on issues, policies and processes to make workplace environment more women-friendly. Gender Diversity Boot Camp was organized and finally the Group Wide Gender Sensitization Initiative was launched on December 17, 2018. A total of 1186 employees were covered across 11 businesses, through 44 sessions. These sessions received overwhelming support and excellent feedback (4.4 out of 5.0).

- **Business Excellence, Project Execution Excellence (BHAVYATHA)**

  Business Excellence Framework provides a holistic way of conducting business, in the interest of organization's sustenance, which is concerned with stakeholders – Customers, Shareholders, Government Institutions, Employees, Suppliers, Community, aiming to yield 'Robust & Sustained' business results by continually assessing, improving and deploying organizational processes following GBEM (GMR Business Excellence Model, which is based on Malcolm Baldrige National Quality Award (MBNQA), one of the most prestigious Organization Performance Assessment framework in US and adopted worldwide by 9000+ organizations).

  Group BE Council is a platform for Group BE Teams across businesses to share and learn through Quarterly Council Meetings. During FY 2018-19, 4 Quarterly councils were held across Energy Power plant site – GKEL, Delhi and Hyderabad Airport.

  During FY 2018-19, The External BE Assessment has been completed for Group Corporate Services (GCS) functions. All GCS Functions have completed the OFI (Opportunities for improvement) Action Planning workshops and included the action plans in FY 2019-20 Business Strategic Plan and AOPs.

New businesses were also brought under BE Framework

- BE was formally launched in Kakinada SEZ on July 4, 2018, BE Primer session was conducted covering 23 members including functional heads. Group BE Journey, CIP Methodology, Idea Factory and GBEM Framework were explained in detail.

- Raxa – BE Launch was completed between February 20 to 21, 2019. Idea Factory was launched and 7 CIPs were initiated.

  During FY 2018-19, a total of 29 CIPs were completed which were registered in FY 2017-18. Management Assurance Group had completed the audit of benefits yielded from these CIPs. The savings accrued is ₹ 46.68 Crore. To recognize the efforts involved and to motivate the Cross Functional Teams (CFTs) for sustained improvement focus, top 28 CIPs were shortlisted and the CFT members shall be rewarded shortly.

  Action plan to drive GMR Project Excellence Framework (Bhavyatha) was finalized with Airports Sector Construction Leadership Team. Bhavyatha Framework was launched at GGIAL Project site and 10 Processes were rolled out during 4-day workshop. 2 Days BHAVYATHA Workshop in Airports Sector was conducted on August 23 & 24, 2018. Respective CDOs, Sector Construction PMO and Sector Construction Head deliberated and finalized the Project SOPs and Manuals which focuses on Project Governance, Project Work Systems and Project Delivery. These manual were rolled out for implementation in Airport Sector Construction Strategy workshop held on January 24, 2019. Similar workshop was completed for GHIAL Expansion project on February 4 & 5, 2019.