



**GMR Airports Infrastructure Limited**  
*(formerly known as GMR Infrastructure Ltd)*  
**Q2FY23 Investor / Analyst**  
**Conference Call Transcript**  
**November 15, 2022**

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**Moderator:** Ladies and gentlemen, good day and welcome to GMR Airports Infrastructure Limited Conference Call, to discuss Q2FY2023 Results.

As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '\*' then '0' on your touchtone phone. Please note that this conference is being recorded.

We have with us today, Mr. Saurabh Chawla – Executive Director, Finance and Strategy.

Before we begin, I would like to state that some of the statements made in today's discussion may be forward-looking in nature and may involve risks and uncertainties. Also, recording or transcribing of this call without prior permission of the Management is strictly prohibited.

I now hand the conference over to Mr. Saurabh Chawla for opening remarks. Thank you and over to you, sir.

**Saurabh Chawla:** Thank you, and good afternoon, ladies and gentlemen. Thank you for joining the second quarter fiscal '23 earnings call. Just as a forewarning, I'm suffering from sore throat, so if I start coughing, one of my colleagues, Navneet, he will take over and complete the opening remarks that I wanted to indicate to you. Global economies continue to face major challenges on geopolitical crises, persistent and broadening inflation pressures. Central banks across the world continue to roll back accommodative policies to fight inflation and hiking interest rates.

Indian economy, however, remains an outlier remains as a bright spot as most economic activity indicators remain resilient even amidst monetary tightening. For instance, the last year's GST collections in October '22 crossed 1.5 lakh crores, the second highest ever indicating robust underlying economic activity. Coming to our performance for Q2 FY '23, GMR Airport Infra net revenue increased by 17% Y-o-Y to INR 1,126 crores. in Q2 fiscal year '23 driven mainly

by traffic improvements in our operational airports. EBITDA decreased by 5% Y-o-Y to about 473 crores mainly due to the restart of payment of monthly annual fee or MAF from Delhi Airport w.e.f April '22 prospectively.

Net loss after taxes reduced from INR 502 crores in Q2 fiscal year '22 to INR 195 crores in Q2 fiscal year '23. I would like to highlight the following key points in our business over the quarter. We signed a deal with Aboitiz InfraCapital for divestment of our stake in Cebu Airport. The transaction will be undertaken at an enterprise value of Philippines Peso of 49.7 billion, and we will receive an upfront amount of about Philippines Peso 9.4 billion. We would continue to operate as a technical services provider until December of 2026, and would also be entitled to additional deferred consideration based on subsequent performance of the airport on the same period.

The decision to divest our stake in Cebu Airport is also in line with GMR Airports' strategy to focus on churning capital and redeploying capital and other high-growth opportunities. With respect to the progress, with respect to the capacity expansion at our airports, namely Delhi, Hyderabad and Goa, we have achieved about 73%, 78% and 91% completion as of September 30, '22. Goa Airport is targeted to be inaugurated shortly.

As you may be aware, Director General of Civil Aviation has already issued aerodrome license for the Mopa airport, paving the way for starting commercial flight operations. Expansion projects at Delhi and Hyderabad are targeted for completion in September 23, and March 23, respectively. In the Crete Airport project, 93% of the earthwork has been completed on the airport site. Works are progressing on multiple fronts of runway, taxiway, apron, parking area, fire station, and other buildings. Terminal building concreting works are also in progress for base slab, foundation, and columns.

Flood protection measures are in progress at the airport and access roads. As of September 30, 2022, 15.9% of physical progress has been achieved at the Crete Airport project. In Goa, we have already filed for a multi-year tariff proposal for the first control period starting from April 1, '23 to March 31, '28. with inclusion of partial period of September 1, '22 to March 23. AERA has accordingly issued an ad hoc tariff on August 26, '22 where the landing and parking charges, including VTP have been approved and the UDF has been approved at INR 450 per departing domestic passenger and INR 1,100 per departing international passenger.

The ad hoc tariff is applicable up to March 31, 2023 or the determination of final tariff whichever is earlier. On the Medan Airport, the Angkasa Pura Aviastar or APA, the joint venture company of GMR Airports Limited and Indonesia state-owned airport operator, Angkasa Pura II, or AP2, formally took over the operations of Medan Airport beginning July 22. The Ministry of Transport in Indonesia has also approved increase in passenger service charges, PSC. Domestic PSC has been increased by 27% and international PSC has been increased by 16% with effect from August 1, '22.

On the passenger traffic, Q2 FY23 has been relatively weak quarter and that's a seasonality effect that is there, but further negative impact due to high airfares. In the month of October 22, domestic traffic at Delhi Airport and Hyderabad Airport stood at 93% and 95% of 2019 traffic levels. While international traffic was at 84% and 83% respectively of the 2019 traffic levels on the international side. Recently, fewer aircraft capacity are flying due to supply chain issues of components arriving out of the Russia Ukraine conflict.

Our airlines are now increasing their short-term capacity through wet-leasing contracts, which should help ease capacity constraints. Traffic is expected to gain further momentum with addition of routes and airline capacity as we strongly believe long-term growth story remains intact. In Medan Airport, traffic recovery has been driven by steady growth in both domestic and international traffic. Domestic traffic recovered to 81% of 2019 levels and 75% on the international side.

Total traffic has recovered to about 79% in Medan Airport. In Cebu Airport, domestic daily passenger is 55 to 60% of pre-COVID levels, but international, it is at 15% as on Q2 FY23. On the airport land development, in Delhi Airport, we awarded a contract to Chalet Hotels, the owner, developer, and asset manager of hotels for developing a hotel at Terminal 3. The terminal hotel will have 350 to 400 rooms, positioned in the five-star deluxe space.

The development of terminal hotel at Terminal 3 will bring hospitality to travelers at the gates of international terminal. It will provide significant benefit to transit passengers, both domestic and international. In Hyderabad airport, lease deed has been executed with Amity University for lease of 20 acres of land for setting up of university, plus an option for additional five acres for school to be exercised within the next 12 months. In Nagpur Airport, the Supreme Court of India has upheld the judgment of the Nagpur bench of Bombay High Court that had previously quashed and set aside the letter issued by MIHAN India Limited, annulling the bidding process of Nagpur Airport. Accordingly, the authorities are expected to execute the concession agreement at the earliest for Nagpur airport with GMR.

On the ESG front, we are committed to being at the forefront of environmental protection and sustainable development. Our top priority is to be one of the world's most environment friendly and sustainable gateways. For instance, in our Delhi airport, our goal to become net zero carbon emission airport by 2030, way ahead of IPCC's 2050 target adopted by most major industries across the world. During the quarter, Delhi Airport received the National Award for Excellence in Energy Management by CII Clean Business Centre, while Hyderabad Airport won the CII National Awards for National Energy Leader and Excellent Energy Efficiency Unit. Both the airports have maintained ASQ scores at five during the quarter.

The presentation with all financial numbers are already available with you. If not, it can be downloaded from the IR section at our website. We are available to respond to your questions on this call and offline post the call. Now I would like to open the forum where my colleagues from the corporate and businesses can answer your queries. Thank you so much.

- Moderator:** The first question is from the line of Mohit Kumar from DAM Capital.
- Mohit Kumar:** My first question is, sir, when do we expect to receive money from the sale of Mactan's Cebu and what will be the use of cash? And are there any other opportunities to monetize any more asset to reduce the debt, especially the corporate debt?
- Saurabh Chawla:** So to answer your question, I'll answer the second question first. Sale of Mactan Cebu is not going to reduce corporate debt. It reduces the debt of the platform entity, which is GMR Airports Limited, where ADP is the partner. They are 49% partner at that level. So it really doesn't reduce the corporate debt, which is at the list code, which is about 2,000-odd crores. The second aspect is that primarily the money will be received most likely by the end of December. We had indicated and guided the markets accordingly. The regulatory approval processes are underway. We have two approvals awaited. And hopefully, I think, in the next few weeks, those will also be received and then we can move into closing quickly.
- Last but not the least, we, as you know, within the quarter itself, we had taken over the operations at Medan, whilst we had transacted to sell Cebu. And if you look at the strategy, we make substantial amounts of gains on our sale of the Cebu Airport whilst we have many years for investment at Medan. So it's basically a portfolio management exercise, where we are in encashing a certain amount of our investment to reinvest that money into future opportunities and at this current stage it will be Medan.
- So that's how we look at this particular portfolio. We are always on lookout for opportunities both domestic and international. We are all aware that the next round of divestments will be coming from the government of India that may open up a privatization of almost 14 odd airports, seven medium size and seven small airports. In addition to that, there are opportunities, especially in Southeast Asia, specifically in Indonesia, which we are quite excited about and would like to participate. Given these opportunities, it's always good to have a lean, mean balance sheet so that one can use the surpluses available in that balance sheet for investments going forward. That's the broad guidance as far as our strategy is concerned.
- Mohit Kumar:** One observation, sir. Our EBITDA is still not enough to generate, to cover interest cost. What levers we are looking forward to generate positive cash flow, especially EBITDA as in this cost?
- Saurabh Chawla:** So honestly speaking, we are still in the recovery mode and also on investment mode. EBITDA had contracted post-COVID. If you look at our numbers, we are still reaching at about 90% pre-COVID levels as of September 30th. They have improved further in the months of October and as we speak in November. So you will see a significant improvement in EBITDA levels as we go forward. And that should more or less suffice not only interest payments, but also servicing and paring down of debt and eventually in two to three years time, give significant amounts of free cash to equity holders.
- It's a long-term play. It requires an investment of almost two to three years in normal circumstances and in COVID, these investment periods become much longer and hence, the

business plans get stretched to a particular level. In our case, we've been able to bridge over this crisis because of our long-dated bonds.

There we have to service interests on a semi-annual basis. And there is a stub that we get refinance after five or 10 years, depending upon the tenure of the bond. That is a strategy that you play out at least for next two to three years. But you will see going forward in a Q-on-Q, improvements in the EBITDA numbers as traffic keeps coming back, as new airports open up, especially Goa should open up in the month of December and you will have expanded capacities available in Hyderabad in the March of '23 and September of '23 in Delhi. So you will see significant improvements in the EBITDA level.

**Moderator:** The next question is from the line of Abhiram Iyer from Deutsche Bank.

**Abhiram Iyer:** Congratulations on a good set of numbers. May I ask the reason for the working capital inflow that's come in, primarily due to an increase in deferred revenue? May I ask what this is about in case of the airports, specifically Delhi and GMR Hyderabad? That's one. And the second is more a broader-term question. How do you see the EBITDA profile of the individual airports sort of evolve once the capex is completed, say in the medium to long-term?

**Saurabh Chawla:** Deepak, do you want to take the question please on the working capital?

**GRK Banu:** No, in case of Hyderabad airport, we have just renewed it to the extent of INR 350 crores, they have got the facility and they have just renewed it. As far as the dial is concerned, the working capital facilities that have been use, has been fully repaid.

**Abhiram Iyer:** Yes, sorry, just to clarify, the increase in deferred revenue for Dial would be, it's around 400 crores now. Could you just give an idea on what this account is?

**GRK Babu:** Just hold on one minute. This deferred revenues are based basically the Ind AS adjustments which we have taken, basically the deposits which are received in case of the Delhi as well as Hyderabad which have to be discounted as per accounting standards, that is what we have been accounting for regularly.

**Abhiram Iyer:** Got it. So does that imply that we have received additional deposits this quarter, this half rather, around INR 270 crores?

**GRK Babu:** No. We have received some payments from Bharti. That is basically the balance amounts which we have to receive from them has been received. Only the additional advance development cost money as well as the entire the advance license fee also has been received in this quarter.

**Abhiram Iyer:** So we aren't expecting additional now into -- what we were expecting in 2023, you have received already now.

**GRK Babu:** That is as per the plan as per the original agreement only we have received it. The next payment which is due from the them will be in the month of either March or April 2023.

- Abhiram Iyer:** And any idea on the quantum there?
- GRK Babu:** In the month of April 2023, we are likely to get both ADC as well as the refundable security deposit put together about around INR 600 crores.
- Abhiram Iyer:** And the second question is on EBITDA long-term EBITDA strategy.
- GRK Babu:** So long term EBITDA, thank you, too. I think I explained earlier itself. We are still recovering from the COVID conditions and despite, I would say, elongated recovery time period, we are generating between, let's say, different asset levels. Hyderabad of course has a much higher EBITDA contribution, primarily because it has a low revenue share. Whereas Delhi has a very high revenue share and still has a healthy EBITDA of about 45 odd percent. And as the traffic continues to improve, the non-aero will also kick in.
- And hence the EBITDA levels should improve significantly over the next, I would say, year or so. And once the airport's expansion are fully completed, the areas are fully monetizable for the non-aero side of the retail businesses of ours, you will see significant improvement of EBITDA going forward. So we are, I would say, at probably midway from a COVID recovery path to a an optimum EBITDA contribution from both the airports Delhi and Hyderabad which are basically the main contributors to EBITDA as of now, till of course Goa and Medan start to contribute to the EBITDA
- Moderator:** The next question is from the line of Tony Watson from Far East Investment Management.
- Tony Watson:** Just a quick question on activity levels at Delhi and also Hyderabad seems traffic has plateaued in last quarter. Any thoughts as to why that has come about?
- Saurabh Chawla:** That's a seasonal plateauing out of traffic, it every year, you will find that Q2 is slightly flat in traffic growth, and it starts to pick-up and it peaks again in Q4. So that's a normal seasonality trend that you see at least in our airports, if not all India, it is in Delhi and Hyderabad, you see it play it out every year. So nothing not cause of any concern. Yes, there are a few other external factors which are impacting plateauing out of the traffic, there is airline capacity constraints which are highlighted in my opening remarks.
- The supply of aircraft parts are under constraints from, due to the Ukraine-Russia war. There are other issues that are associated with it. And on top of that, Airline ticket pricing has been at its peak. So we expect the ticket pricing to become far more reasonable to start attracting other customers into the airline industry of traffic. So we don't expect similar conditions to continue. It's a seasonality effect. And hopefully, I think you will see a much better traction in Q3 and Q4 going forward.
- Tony Watson:** A quick follow-up question, Slide 9. Same issue appears to be applying to the cargo business traffic. Is that the same set of contributing factors, or there are other issues at play there? It seems the downturn in the last quarter and the cargo traffic has been fairly pronounced for both airports?

- GRK Babu:** Regarding the cargo it's basically the inflows which we used to get from China because of the lockdowns from China level, there was a dip in the cargo traffic, I mean, especially the quantities. It is a global phenomenon now. As far as the -- so that we are expecting to that we should come back normally by I think next quarter of first quarter of '23, '24.
- Saurabh Chawla:** Yes, just to also highlight in traffic, which I think GRK Babu highlighted is, you see, traffic to China and Far East, including Japan and Korea has not yet opened up in its totality, whereas to Australia, Southeast Asia, Western Europe and North America, it is now reaching levels which are sometimes better than pre-COVID levels and sometimes at pre-COVID levels. So the gap that we see today is primarily because of traffic into Far East, especially East Asia which is China and Japan.
- Moderator:** The next question is from the line of Nikhil Abhyankar from DAM Capital.
- Nikhil Abhyankar:** In the slide number -- I forgot the slide number, but we are showing around INR 213 billion of airport debt and INR 102 billion is related to Delhi and INR 65 billion is related to Hyderabad. So where is the rest that fit in?
- Amit Jain:** The rest is other airports like we have on Goa, some debt at GMR airport level, all that put together. And at the MLCP, car parking, so all those other entities.
- Nikhil Abhyankar:** Can we get a breakup of that, sir?
- Amit Jain:** There's a list of, a lot of entities. Broadly, it is at the GMR Airport level. Goa and a lot of these JVs that car park and all. And that quantum is close to INR 63 billion.
- GRK Babu:** In that INR 63 billion, the breakup will be at GMR airports. And I think Goa will be the maximum.
- Nikhil Abhyankar:** And sir, how are we looking to monetize or develop the land around the Delhi and Hyderabad Airport?
- GRK Babu::** Delhi has already been explained by the Saurabh that the hotel has been now boarded, a terminal hotel and the balance land especially the Bharati is already having the scope for another 5 million square foot. In the meantime we are also looking into other land parcels which are already left at the airport and most probably will try to come up maybe in the fourth quarter, some land parcel in case of Delhi. So Hyderabad it is going, I think whatever is the development that has already been taken place, Saurabh has already explained and the rest are in some pipeline.
- Nikhil Abhyankar:** So can we see some activity H2?
- Management:** Sorry?
- Nikhil Abhyankar:** Can we see some activity in H2, regarding that, Hyderabad?
- GRK Babu:** Hyderabad, yes, you will see some activity maybe in the last quarter.

- Nikhil Abhyankar:** And sir, final question, sir, the Cebu traffic is around 55% of the pre-COVID level. Like it seems far below the trend that we are seeing in India. So is there any other explanation for it?
- GRK Babu:** Cebu has not opened up fully like India from the beginning. So Cebu actually as a Philippines as a country they have opened up very recently for the tourism. Otherwise they have got only domestic traffic moving from island to island was also very much restrictive. Now only they have opened up and that's why domestic traffic is picking up and international still it is very low. And we are expecting that once they are now fully opened up and the season will start in December and January they should start getting more and more. Otherwise, as a country, they have opened up very late, not like India.
- Moderator:** The next question is from the line of Teena Virmani from Kotak Securities.
- Teena Virmani:** My question is related to a large component of minority interest which is there in the second quarter numbers. So there's a significant jump in that minority interest or the loss basically. So what is leading to this significant change Q-on-Q and even on a year-on-year basis?
- Ashok Ramrakhiani:** Yes, actually it's basically because of this Cebu transition, we have recorded impairment loss at the GAL level. So this impairment loss, because of this impairment loss, that minority interest of the ADP share of 49% that has got increased.
- Teena Virmani:** And on the profit from associate companies also, this has also come out to be lower on a Q-on-Q basis, so is it some kind of seasonality impact which is impacting the JV performances or the performances are better but why is it not reflecting over here? It is only to understand the reasons and any other parameter which can actually help it grow in the coming quarters.
- Saurabh Chawla:** Can you repeat the question, please?
- Teena Virmani:** So below PAT, the profit from associate company, this is around 142 million for the current quarter. And for first quarter, it was around 232 million. So just wanted to check why there is a dip in the profit from associates or profit from JV companies any specific reason for this and how this profit can grow going forward?
- GRK Babu::** No the mainly the associates and joint ventures, Cebu has declared more loss because of the very low traffic at Cebu level. Otherwise all the joint ventures other than the Cebu have been doing very well. Either at a dial level or a Hhial level. It is only the Cebu which has brought down the numbers.
- Teena Virmani:** So this loss will not be there for next few quarters because now that you have signed a deal for Cebu, so this number should rectify in the coming quarters? Back to home.
- GRK Babu::** Yes, once the deal is completed, but still we will be continue to be minority shareholders in that company. So we'll have to still account it, till 2024 because we can right now as per the transaction of the Cebu we will be actually continue to be 33.33% shareholder GMR and Aboitiz



as well as the Megawide. So on 2024 October Aboitiz will become the full-fledged owners, 100% so till that time we continue to account it, 33.33%.

- Moderator:** The next question is from the line of Anshuman Ashit from ICICI Securities.
- Anshuman Ashit:** The first question is on the capex for H1. So could you please give us the number and what is the target for FY '23 and FY '24?
- Saurabh Chawla:** Capex, this financial year we are expecting to incur about INR 1,300 crores to INR 1,400 crores overall for the Delhi, and also about Hyderabad. So, Delhi will continue to have the expenditure in the next financial year also, whereas Hyderabad will be completing the entire capex by March 2023. So expecting to spend about INR 18 billion totally for this financial year.
- Anshuman Ashit:** How much have we incurred in the first half?
- GRK Babu:** Hyderabad we're incurred about INR 400 crores to INR 500 crores because of the some slow billing, but right now it is picking up much faster.
- Anshuman Ashit:** And sir, in Delhi?
- Saurabh Chawla:** Delhi is also about INR 800 crores rupees.
- Anshuman Ashit:** Second question on the land development both at Delhi and Hyderabad. Could you please give us some more details on the Chalet deal? What is the area that it will be developing and the revenue that we will be earning through this deal? Also on the Hyderabad lease with Amity and also Schneider one which we had mentioned in the last call
- Management:** No, it is the airport hotel is basically on a land parcel about two acres of land which is just opposite the terminal that is what coming up. So the Shell will be constructed by the DIAL and the entire fit outs will be done by the concessionaire. So it is some deposits will be provided by them initially and subsequently it is on the revenue share basis of their revenue, plus with a minimum guarantee. So there are certain conditions which are to be complied with, otherwise a minimum guaranteed amount has to be paid by the concessionaire.
- Anshuman Ashit:** Is it possible for you to share this amount, all the airlines?
- GRK Babu:** Offline, we can discuss and if it is possible, if the documents are provided, then we can able to share otherwise, we can't.
- Anshuman Ashit:** So one final question is on the earnouts which we were supposed to be tested once the FY '22 results would be audited. So where do we stand currently on that front?
- GRK Babu::** FY '22 and FY '23 and FY '24, basically three years are for earnouts. FY '22 numbers have already been provided and it is under the discussion with the ADP.
- Anshuman Ashit:** So we are on track?

**GRK Babu:** Yes, we are on track. The discussion is already going on. The numbers have already been shared.

**Moderator:** As there are no further questions, I would now like to hand the conference back to the management for closing comments.

**Saurabh Chawla:** Thank you. Thank you, friends, for joining our call. We are available offline to answer any of your queries. So please, you can reach out to the IR team. You can send your emails and we will revert back as quickly as possible. Thank you so much and have a wonderful day. Bye-bye.

**Moderator:** Thank you. Ladies and gentlemen on behalf of GMR Airports Infrastructure Limited, that concludes this conference. Thank you all for joining us and you may now disconnect your lines.

*Note: Transcript has been edited to improve readability.*