GMR Airports Infrastructure Limited

(formerly know an GMR Infrastructure Ltd)

Merger of GMR Airports Ltd with GMR Airports Infrastructure Ltd.

Conference Call Transcript
March 20, 2023

Moderator: Ladies and gentlemen, good day and welcome to GMR Airports Infrastructure Limited's conference call to discuss the merger of GMR Airports Limited with GMR Airports Infrastructure Limited. 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 star then zero 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 risk 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 the opening remarks. Thank you. And over to you, sir.

Saurabh Chawla: Good morning, everybody. I welcome you to the call to update you on this landmark development and history of our company. As envisaged earlier in 2020, when we signed the agreement with Groupe ADP, it was our endeavor to not only to raise capital, to strengthen our balance sheet, but also to simplify the corporate structure as we go forward. Our company has undertaken this significant decision to transform GIL to a new growth phase by executing a new agreement with ADP to merge GMR Airports Limited, the existing airport platform, an unlisted entity with the listed entity, which is GMR Airports Infrastructure Limited.

The merger would result in taking GMR's partnership with Groupe ADP to the next level as it will allow us to bring them at the listed company level. In addition, it will enable an earlier and full settlement of the earnouts. As you are aware, we had entered into this strategic partnership to create a world-class airport platform, whereby Groupe ADP agreed to purchase 49% stake in GMR Airports Limited.

At the time of the transaction, Groupe ADP had pegged equity earnouts of ~8% of GMR Airports and cash earnouts of INR 1,060 crores to GIL. This was a precursor to achieving our stated objectives of creating the pure airport play and unlocking value for all the shareholders through the de-merger of GMR Infra into GMR Airport Infra and GMR Power & Urban Infra, which became effective from December 31, 2021.

As part of the merger, with the subscription of FCCBs by Groupe ADP, GIL will be further deleveraged by repaying corporate debt. And also settling most of the contingent liabilities related to GPUIL. Under the process, GIL will raise approximately €331 million, or about INR 2,900 crores, from Groupe ADP through a 10-year 6.76 % per annum simple interest coupon FCCB due in 2033.

The coupon of FCCBs will be accrued till the end of the tenure. The conversion price is set at Rs. 43.67 paisa which is 10 % premium to the FCCB regulatory flow price under the FCCB scheme. Groupe ADP subscription to FCCBs is a testimony to the strength of relationship between GMR and Groupe ADP. We believe the merger is a step in the right direction and will be value-accretive to all the shareholders.

The combined expertise and resources of GMR and Groupe ADP will ensure that GIL remains at the forefront of aviation innovation. Besides redefining the strategic relationship with Groupe ADP, fresh issuance of FCCB to Groupe ADP will result in reduction of cost of capital. Going forward, an improved balance sheet will facilitate greater access to growth capita at lower cost. This has become imperative given the favorable macro dynamics for airport sector, especially in India.

As you know, post the COVID pandemic, demand for air travel has picked up substantially, which will speed up airport privatization initiatives of respective governments across the world. Merged GIL will be an improved balance sheet, will be in much stronger position to further scale up its airport businesses by judiciously participating in profitable opportunities, mainly in India, South Asia, Southeast Asia, and Middle East.

As the merger will lead to collapse of the corporate structure, it will enable minority shareholders of the listed company to move closer to the airport assets and cash flows. Thereby eliminating the holdco subsidiary discount usually assigned by the capital markets. Simplified corporate structure in line with the global best practices will also result in greater financial efficiencies, thereby improving the mechanism for upstreaming the free cash and optimization of cost by elimination of additional corporate layers.

Coming to the shareholding pattern, GMR Group will remain as the single largest shareholder of GIL, with GMR Group owning 33.7%, Groupe ADP holding 32.3%, and public holding 34% respectively of the paid up equity share capital immediately post the completion of merger. This is achieved through categorizing Groupe ADP shareholding in merged GIL in two instruments, ordinary equity shares and optionally convertible redeemable preference shares, which is OCRPS.

Post the completion of merger, GMR Group will continue to have management control over merged GIL, while Groupe ADP will be categorized as co-promoters of GIL and have commensurate board representations. The merger scheme and the proposed transaction is subject to customary closing conditions.

The scheme is subject to receipt of requisite approvals from Stock Exchanges, Security and Exchange Board of India, the National Company Law Tribunal or NCLT and other statutory and regulatory authorities under applicable laws and respective shareholders and creditors.

The merger is expected to be completed by quarter four fiscal year '24 or maybe quarter one fiscal year '25 following the completion of all relevant approvals. Now I would like to open the forum for queries. Thank you so much.

Moderator: Thank you very much. We will now begin the question and answer session. Anyone who wishes to ask a question may press star and one on the touchtone telephone. If you wish to remove yourself from the question queue, you may press star and two. Participants are requested to use handsets while asking a question. Ladies and gentlemen, we will wait for a moment while the question queue assembles. The first question is from the line of Mohit Kumar from DAM Capital. Please go ahead.

Mohit Kumar: Yes. Good morning, sir. And congratulations on a significant landmark deal and bringing Groupe ADP on to the listed space. My first question is, is it possible for you to discuss the deal in terms of number of shares pre-merger and post-merger so that we get more clarity?

Saurabh Chawla: Pre-merger, post-merger. I think so the current share capital pre-merger on a fully diluted basis would be about 7.148 billion shares, broadly, that would be the number. Post, on a fully diluted basis, this number will increase to about 13.827,488,000 billion shares. So, if you were to look at the transaction today, the GMR family owns on a fully diluted basis about 49.73% shares as on date.

And this assumes that KIA is an equity instrument because they're well into money. So GMR own 49.73% on a fully diluted basis. Public has shareholding of about 34.7% on a fully diluted basis. And as we go forward, the shareholding of the promoter family will dilute to about 33.7%. ADP shares in GIL will go to about 32.3%, and public, inclusive of KIA, assuming KIA is fully completed, will be about 34%.

Mohit Kumar: Understood, sir. I'll get the clarity of maybe offline. Sir, can you discuss the OCRPS, which is held by a Groupe ADP? What is the quantum and amount?

Saurabh Chawla: So, about 18.8% on a fully diluted basis would be there, what we call allocation to the OCRPS. And they will have about 24.7% on a fully diluted basis, would be the paid up capital, the share in the paid up capital. So, it's important that I say on a fully diluted basis because otherwise it confuses. You have to look at it on a:like-to-like basis.

Mohit Kumar: And is there any, what is the condition for conversion of this OCRPS?

Saurabh Chawla: So there's, so the whole idea of OCRPS is to ensure that, there is equitable partnership between the two partners. So they recognize the fact that, GMR strength in the management of airports, development of airports across Asia. And they're very comfortable to the fact that GMR always has a 51% stake of whatever the equity capital is there, and they have 49%. So, based on a fully diluted basis, they have kept that as a threshold, and the balance is what is being imputed as the OCRPS. It's a 20-year instrument, has a very meager 0.001% coupon. And it has an economic interest of, there is a dividend, if it is declared any time in the future, they will have a participation in the dividend

But **o**ther than that, they do not have any voting rights. The OCRPS will not have voting rights. So, it's a very significant, honestly speaking, a move by ADP, again, reposing their faith and strength in the GMR management, GMR family, as we go forward. It's very, very, unlikely that any equity partner, comes where it allows the other partner to always be in majority. And also management control. So, one is the equity ownership, and the other one is management control. GMR family will be continuously in management control as it goes forward. So it's a 20-year instrument

Moderator: The next question is from the line of Avadhoot Joshi from Newberry Capitals. Please go ahead.

Avadhoot Joshi: Hi, good morning. Thanks for the opportunity. Just two questions. First, about this FCCB, when we will get this money?

Saurabh Chawla: So, we have to, of course, apply to RBI and the stock exchanges for their approval. The process will begin as we speak right now. In our opinion, it should take about two odd weeks to get the requisite approval of both the agencies, RBI and stock exchange, post which is when we should be able to issue the instruments to ADP and get the monies.

Avadhoot Joshi: Okay. Understood. And what's the current debt and this contingent liability? And how much it will go down after this FCCB money is received??

Saurabh Chawla: So, primarily the money that is being raised is to deleverage the GIL balance sheet, GIL corporate balance sheet. So, as you would know that we have about, I think, INR 1,900, INR 2,000 crores plus some accrued interest. So, I'm assuming the balance period is about INR 2,200 odd crores would be the corporate debt left over in GIL. So the primary purpose is to raise this FCCB to pay down this high cost of debt. And that facilitates the reverse merger as we go forward.

The balance money is left for GIL to best utilize to remove some of the credit enhancements that had been given when GIL was a merged entity. It will facilitate to settle many of those. ADP have done their diligence and they feel comfortable of, for example, some of the continuing credit enhancements that are there. They are comfortable with that, and a number of about INR 1250 odd crores will be left with GIL to facilitate this process.

Avadhoot Joshi: And lastly, this earnouts number, which was earlier INR 1,060 crores, and now it has been mentioned, the INR 550 crores. Why there is a difference between these two numbers? What has changed in between?

Saurabh Chawla: So that is the settlement. The settlement is that 50% of equity ratchets and 50% of cash ratchets that is the settlement that we have agreed with them. We are not waiting till completion of fiscal year '25 to test these ratchets. We have accelerated that process because the opportunities, as we speak, are immense, and it's important that we bring ADP at the listco level. We settled these ratchets, raised capital, and with a very strong balance sheet, we are able to then, basically you create the capacity in the balance sheet to look at new opportunities, whether in India or across Asia. That is the strategy behind an accelerated settlement of both equity and cash ratchets.

Avadhooot Joshi: Okay. And are there any residual earnouts remaining other than this?

Saurabh Chawla: No, no. With this, the whole earnout will be fully settled. So, 50% of equity earnouts and 50% of cash earnouts. So with this, it's fully settled.

Moderator: The next question is from the line of Gautam from Deutsche Bank.

Gautam: I guess if you could just, the first question I had was if you could just walk us through the sequence in terms of, I guess, first, you have the earnout -- you have the earnout settlement, And then you have the actual, I guess, corporative organization. And finally, the access to the FCCB. If I could just get a sense of the overall overarching time line you mentioned was Q4 '24, Q1 '25. If you could just break down the time lines for these.

And the follow-on question I had was in terms of the settlement of the contingent debt. If you could just shed a light in terms of -- there is still a huge amount of, I guess, significant amount of corporate guarantees given by the company as per the '22 annual report. So I just wanted to get a sense among all of the ones listed there, if there is something that would or not?

Saurabh Chawla: So the sequencing would be -- of course, the first sequence was to settle the ratchets and both equity and the cash ratchets which we have done right now. We have agreed to -- we have signed the settlement agreement. And as we go forward, a few things we'll be working in parallel. The accelerated process will be on getting the approval for the FCCB issuance. So as I highlighted earlier, we expect that we should have the RBI and stock exchange approval in the next two-odd weeks. And the FCCBs will be subscribed to.

The second step is that after that is, we will file a scheme of merger with the stock exchanges for their approval who will go through it and in consultation with various stakeholders, including SEBI. They will come back with their approval process. We -- given our previous experience of demerger, it takes about, I would say, 60 to 90 days. It's difficult to predict because there are two regulators that are involved between 60 to 90 days in which this approval should be in place.