



Airports

Energy

Roads



GMR Infrastructure Limited

11th Annual Report 2006-07

# Infrastructure

**The tool for development. The framework for progress.  
The backbone of every economy.**

A developed and advanced economy is not something that flows out of economic progress. It is rather, a prerequisite for the same. For telecommunications connect while energy empowers, petroleum fuels while roads, aviation and railways unite. And this is one of the prime reasons that the importance of infrastructure in the development of a nation could hardly be overemphasized.

Sustaining economical growth, reforming the agricultural sector, improving education and healthcare, opening the economy to the benefits of globalisation and emerging as a true world power are but utopian dreams in the absence of adequate infrastructure development. Fortunately India has, since recent years, aptly recognised the importance of the same. Something that has resulted in a remarkable growth story.

Today, the resurgence of the Indian economy is an acclaimed example the world over. For it is among the fastest growing economies in the world—one that, in the last 10 years, has achieved tremendous growth, both in GDP growth rate and foreign exchange reserve. The exports too, have witnessed a phenomenal rise. Another noteworthy development in the recent years has been the expansion of the role of the private sector to achieve infrastructure development in both rural and urban areas.

These are but a few reflections of the efforts and initiatives that have contributed to the growth of the economy. With the kind of impetus that has been witnessed, India could very well boast of a world-class infrastructure, in the not-so-distant future. There are two obvious conditions that need to be adhered to, though. The first, and most important, being clarity of purpose. Secondly, a progressive and ongoing partnership of developmental programmes between the private sector and the government.

With the government clearly articulating its commitment to Infrastructure development, at GMR, we are actively pursuing this model of development. We are confident that this will usher in a new era of progress for the country.

# GMR Group - Values & Beliefs



## HUMILITY

We value intellectual modesty and dislike false pride and arrogance

- Openly admit what you don't know
- Learn from all, no matter what age, level or hierarchy
- Let action speak louder than words
- We may not have all the answers; others may have suggestions and solutions



## ENTREPRENEURSHIP

We seek opportunities - they are everywhere

- Scan the environment, keep an ear to the ground and be alert to opportunities
- See an opportunity in every problem
- Think out of the box
- Every decision has a risk and reward – take calculated risks and make informed judgments within your role
- Don't be afraid of taking tough decisions
- Look for value beyond cost
- Share entrepreneurial experiences and build an enterprising culture



## TEAMWORK AND RELATIONSHIPS

Going beyond the individual - encouraging boundaryless behaviour

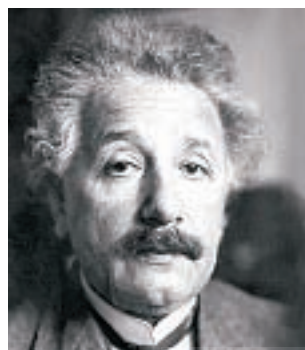
- Seek boundaryless behaviour and discourage protection of function/department
- Encourage collaboration, team rewards, and institutionalize cross-functional and self governing teams
- Strive for win-win solutions
- Take personal responsibility for mistakes and failures – share credit for success with all
- Celebrate success and encourage fun at work
- Be open to differences and dissent – check for minority views and drive for consensus as often as possible
- Stay committed to team decisions and do not distort or advocate a contrary position after the team has come to a consensus
- Be open and honest in your communication – No hidden agenda
- Praise in public. Do not embarrass team members in public
- Subordinate your ego and desires for the team, organization and larger good



## DELIVER THE PROMISE

We value a deep sense of responsibility and self discipline to meet and surpass on commitments made

- Strive for high performance and stretch goals that surpass industry benchmarks and standards
- Don't promise what you can't deliver
- Obtain performance feedback continuously
- Set up and sustain methods for continuous improvement
- Meet deadlines and keep stakeholders informed in advance of any possible slippage and delay
- Be accountable to self, without being supervised
- Be dependable and punctual



## LEARNING

Nurturing active curiosity - to question, share, and improve

- Learn from all irrespective of age, level, or hierarchy
- Learn from mistakes and failures – they are opportunities to begin again intelligently
- Seek feedback for improvement
- Document continuous improvement and share the learnings
- Share information openly
- Provide resources and reward innovative and breakthrough ideas



## SOCIAL RESPONSIBILITY

Anticipating and meeting relevant and emerging needs of society

- Treat your community as you would treat your friends and family
- Be sensitive to diversity and other cultures
- Encourage and empower staff members to contribute personal time, attention and effort to community development and social causes.



## RESPECT FOR INDIVIDUAL

We will treat others with dignity, sensitivity and honour

- Share information and involve individuals who are likely to be adversely affected well before the impact
- Provide regular feedback to individuals
- Be direct, talk straight and encourage candor at all levels
- Show care and concern for all
- Differentiate the message and the messenger – ‘what’ is more important than ‘who’
- Treat others like you would like to be treated
- Don't offend people in public or participate in rumours, gossip and denigrate individuals
- Present a balance view of individuals – acknowledge both their strengths and shortcomings
- Respect others' time and be punctual

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## General Information

### Board of Directors

G. M. Rao	- Chairman & Managing Director
Srinivas Bommidala	- Group Director
G. B. S. Raju	- Group Director & Group Chief Financial Officer
G. Kiran Kumar	- Group Director
B. V. Nageswara Rao	- Group Director
K. Balasubramanian	- Director
P. B. Vanchi	- Director
Arun K. Thiagarajan	- Independent Director
K. R. Ramamoorthy	- Independent Director
Dr. Prakash G. Apte	- Independent Director
R. S. S. L. N. Bhaskarudu	- Independent Director
T. R. Prasad	- Independent Director
Udaya Holla	- Independent Director
Uday M. Chitale	- Independent Director

### Company Secretary & Compliance Officer

A. S. Cherukupalli

### Audit Committee

K. R. Ramamoorthy	- Chairman
Arun K. Thiagarajan	- Member
Udaya Holla	- Member
Uday M. Chitale	- Member

### Shareholders Transfer & Grievance Committee

Udaya Holla	-Chairman
K.R.Ramamoorthy	-Member
G.B.S. Raju	-Member
B.V.NageswaraRao	-Member

### Bankers

Central Bank of India  
ICICI Bank Limited  
ING Vysya Bank Limited

### Statutory Auditors

Price Waterhouse  
Chartered Accountants  
6-3-550, II Floor, L B Bhavan, Somajiguda, Hyderabad - 500082.

### Registered Office

Skip House, 25/1, Museum Road, Bangalore - 560 025  
Tel No. : 080 22070100  
Fax : 080 22998118  
website : www.gmrgroup.in

### Registrar and Share Transfer Agent

Karvy Computershare Private Limited  
No. 17-24, Vittalrao Nagar, Madhapur, Hyderabad - 500 081

Karvy Computershare Private Limited  
No. 59, Skanda, Puttanna road, Basavannagudi, Bangalore-560 004



## Chairman's Letter



### Dear Shareholders

It is with great pleasure and a sense of profound satisfaction that I present the 11<sup>th</sup> Annual Report of your company, the first report after the maiden public issue and listing. At the outset, I place on record my deep gratitude to all the shareholders for making your company's Initial Public Offer successful, amidst tough capital market conditions prevalent during that time. I immensely value your trust and we would endeavour to live up to your faith.

The last twelve months have been a period of continued growth for our economy. The GDP grew by 9.4%, one of the highest growth rates in the world. What sets India apart from the other developing economies is its vast knowledge base, significant human resources capability blended with innovation and the entrepreneurial drive. These qualities ensure that India will continue to progress along the path of prosperity. This is reflected in the planning commission forecasts, which project GDP growth in the region of 9-10% p.a. over the next five years.

The key to unlocking this potential is the existence of world-class infrastructure facilities. Any sound economy is built upon the platform of robust infrastructure, which acts as an enabler for a nation to realise its economic potential. Although, there has been substantial infrastructure development in our country over the last few years, it has been inadequate to support India's pace of economic development. Surveys have shown that though India as a Foreign Direct Investment (FDI) destination provides a higher return on investment than other emerging markets even larger flows have been hindered due to lack of adequate infrastructure facilities. Frequent power cuts, poor roads and sub optimal air & seaport connectivity, are viewed as major economic bottlenecks to maintain this growth momentum. It is in fact true that rather than acting as enablers to the country's economic growth, the infrastructure facilities are a bottleneck, holding us back from achieving our true potential. Our honourable Finance Minister has gone on record saying that infrastructure bottlenecks are slowing our economic growth by as much as 1.5 – 2% per annum.

It is therefore imperative, that we focus on development of world-class infrastructure facilities. The development of world-class infrastructure facilities will entail much larger investments in infrastructure. As per current estimates, we need to spend at least 7-8% of our Gross Domestic Product (GDP) on infrastructure facilities to ensure sustained economic growth. Our current spend on infrastructure is a mere 4.7% (\$ 37 billion) of GDP. This pales in comparison to China's infrastructure investments of \$200 billion or around 9% of its GDP. At the target level of around 7-8%, India would need about \$320 billion of investment (at 2005-06 prices) in various infrastructure projects over the Eleventh Five Year Plan period viz. 2007-12. Of this, power, roads and airport sectors alone would need more than \$200 billion. Acknowledging this, the Government of India (GoI) has already initiated policy measures to promote investments in the Infrastructure industry. At the same time, private sector participation is being encouraged and going forward, more than half of the overall investment requirements of the country are expected to come from the private sector.

### Role of your Company

I am confident your company will continue to be a key player in this arena in the years ahead. We have established ourselves firmly as leaders in the infrastructure domain with a healthy mix of operating assets and projects under development. Your company has been able to maintain its position as an industry leader by leveraging expertise from

both within the organisation as well as through strategic alliances with some of the world's leading companies. This is reflected in the success achieved by your company in various spheres of the infrastructure industry.

I am delighted to share with you that the year 2006-07 was a period of growth for your company along with its subsidiaries. During the year your company grew its consolidated gross revenues from Rs. 1065 crore to Rs. 1987 crore, an increase of 86% buoyed by increase in revenue in Power Business and induction new revenue streams from Airport business. During the same period the consolidated net profit grew from Rs.94 Crore to Rs.242 Crore. The increase in your company's bottom line was largely driven by the increased profitability of the Power and Road businesses in addition to the profits from Airport business.

The energy business witnessed better than expected performance by the Chennai and Mangalore projects. This is reflected in the improved bottomlines of these companies. During the year your company commissioned its gas based project in Vemagiri. The performance of this project was adversely affected due to unavailability of natural gas. However, your company held discussions with the various stakeholders and renegotiated the terms of the Power Purchase Agreement (PPA) to cover the losses incurred in the earlier years till the gas availability. We believe that the project will overcome these unforeseen difficulties in the coming years.

The energy business continued its growth momentum by adding Hydro and Thermal projects to our portfolio in line with your company's identified strategy for the business. The addition of these projects adds diversity to our portfolio and also goes a long way in addressing fuel security concerns. Apart from these new projects, significant progress was achieved in developing the Alaknanda Hydro project in Uttarakhand.

The Roads business performed much better than expectations with higher profitability stemming from more efficient cash management. Apart from the two operating stretches, your company is currently developing four road projects and I am happy to mention that during the year all four projects achieved financial close as scheduled. We are harnessing the best practices in all aspects of project implementation to ensure that these projects are commissioned on schedule.

The airports business started the year with the signing of the OMDA (Operations, Maintenance and Development Agreement) for the Delhi International Airport. The Delhi International Airport Private Limited (DIAL) took over operations of the airport in May 2006. I am happy to report that with the dedicated efforts of the DIAL team and the support of Airports Authority of India (AAI), we were able to ensure smooth operations of the airport even through the period of handover. Towards the end of the year, DIAL achieved another major milestone when the foundation stone for the new terminal at the airport was laid. Our other airport project viz. the Hyderabad International Airport is on course for timely completion. The first flight is expected to land by March 2008.

The developments of the last twelve months have vindicated our belief in the vast growth opportunities that await us in the infrastructure industry in India. It's my firm belief that what we are witnessing currently is only the beginning. We have much more exciting and interesting times ahead that will unfold in breathtaking pace.

Your company has also set its sights beyond our shores and we are exploring potential opportunities to enter the global infrastructure space. We will pursue opportunities on merit in line with the identified strategy for the group.

## Organization Development

To sustain the momentum of your company, we realise the need to lay a solid foundation of people, process and systems. I acknowledge the importance of these initiatives and hence I have taken this as a personal goal. Towards this goal, I am glad to share that your company has embarked upon major organizational development initiatives in the areas of building human resources capabilities, supported by a flexible organizational structure and robust technology platform. In an era where all organizations have access to the similar opportunities, same financial resources, strategies and markets, what differentiates excellent organizations from others are their intangible assets. These include our Organization Structure, People competencies, Systems & Processes, our Culture and most importantly our Values & Beliefs.

We have engaged the services of the world's leading business consultancy firm to work on our Organization structure design, to ensure that it can support the ambitious long-term growth objectives we have set out to achieve. To ensure sustainable growth, we have initiated a leadership development programme that would provide us with adequate leadership strength required for the long journey forward.



Simultaneously, we have formulated an Information Technology strategy to map the IT systems requirement for every core process of the business. A three-year implementation road map has been rolled out which will see full-scale transformation of business processes through the implementation of SAP Enterprise Resource Planning (ERP) system supported by simultaneous enhancement of the hardware and an integration platform. The world-class IT infrastructure once implemented will provide for sound operational controls, effective collaboration and intelligent decision support.

At this critical juncture, the importance of values & beliefs cannot be overstated. Our seven core values – simple and effective, have guided the organization in its progress so far and will serve as the foundation in building GMR Group into a vibrant institution. These are the values we would like every member of our group to espouse - now and in the coming generations. It gives me a great sense of satisfaction that we have recognized this and are now translating our core values into practical actions on an ongoing basis. The leadership team of the group in particular, would have a substantial component of their performance evaluated on their demonstration and 'living' of the Group's values.

### **Corporate Social Responsibility (CSR)**

Your company believes that corporate entities have a special and continuing responsibility towards the society. The grim reality in India is that millions of people lack basic amenities - a situation that cannot be redressed by the government alone.

Your company is fully conscious of its corporate social responsibility and is working towards making a difference to society. With this objective, your company through GMR Varalakshmi Foundation has been focusing in areas of Education, Health, Hygiene, Community Service, Empowerment and Entrepreneur development. It has been providing vocational training to youth and women, particularly those drawn from rural areas, through specialized training. This has opened up employment opportunities for these less advantaged sections of the society.

Your company also actively promotes and ensures environment protection and compliances through best industry practices.

### **Corporate Governance**

Good corporate governance, for us, does not mean just compliance with Clause 49 of the listing agreement and other regulatory requirements. We believe the spirit of corporate governance goes beyond the statutory form. Rather, true Corporate Governance is, protecting the interests of all stakeholders in a just and equitable manner and your company devotes considerable attention in ensuring that our actions are driven by this spirit of true corporate governance.

### **Acknowledgements**

I express my sincere gratitude to the Shareholders, Lenders, Banks, Financial Institutions, Securities Exchange Board of India, Reserve Bank of India, National Highway Authority of India, Airport Authority of India, Central and State Governments and other regulatory authorities/agencies for providing continuous support. I wish to express my appreciation to my colleagues on the Board and our employees for their dedication and commitment. I express my sincere appreciation to the managements and workforce of GIL and its subsidiaries for their continued support. I am grateful to you for your support and the trust bestowed upon us and look forward to the same in a greater measure in the years ahead.

Thank you,



**G. M. Rao**

## Profile of Directors



**Mr. G. M. Rao**, 58, Chairman and Managing Director, is the promoter and one of the first directors of the Company. He is a distinguished industrialist and the founder Chairman of the GMR Group of companies (Group) and GMR Varalakshmi Foundation, the CSR arm of the Group. He is a graduate in mechanical engineering from Andhra University. He was awarded the Doctorate in Philosophy in 2005 by the Jawaharlal Nehru Technological University, Hyderabad in recognition of his services to industry. He was a director on the Board of Vysya Bank for several years and also served as Non-Executive Chairman of ING Vysya Bank between October, 2002 and January, 2006.

*“We have grown in assets but compared to other large groups, we are only beginning. I don’t want to be the biggest; I want to set up a good organisation.”*

**– G.M. Rao**