



Reliance Infrastructure Limited – Q3FY13 Earnings Call

January 29, 2013

Corporate Speaker : Lalit Jalan (CEO - Reliance Infrastructure Ltd.)

Host : Ashutosh Narkar (Analyst – HSBC Securities)

Operator

Ladies and gentlemen, good day and welcome to the Reliance Infra Q3FY13 results conference call hosted by HSBC Securities And Capital Markets India Private Ltd. As a reminder, for the duration of the conference, all participants lines will be in a listen-only mode and there will be an opportunity for you to ask questions at the end of today's presentation. (Operator Instructions).

I would now like to hand the conference over to Mr. Ashutosh Narkar. Thank you and over to you, sir.

Ashutosh Narkar - HSBC Securities and Capital Markets India Private Ltd - Analyst

Good morning, ladies and gentlemen, thank you for attending the call and I also thank the management for giving us this opportunity to host this call. Today, we have with us, Mr. Lalit Jalan, the CEO of Reliance Infrastructure, and his entire senior management team to discuss the Q3 FY'13 earnings call.

So without wasting too much time right now, I'll just hand over the floor to Mr. Jalan for opening remarks and then he could just take us through the performance and then open the floor for questions and answers.

Lalit Jalan - Reliance Infrastructure Ltd - CEO

Okay. Thank you and good morning all of you and thank you very, very much for being on the conference call. I know there is the RBI policy being announced simultaneously and I understand the challenges that all of you are doing in terms of time management.

So what I would like to structure the call, I would maybe in the first 15 minutes talk about the key highlight as I see it for the company for the quarter and the key challenges and then leave the floor open for as many Q&A questions that all of you will have. Starting for the quarter with the financial numbers, the operating income for the quarter is at Rs. 5,296 crores, the EBITDA has crossed Rs. 1,000 crores and is Rs. 1,024 crores which is a growth of 7%. The net profit is at Rs. 728 crores which is a growth of 78%. This has lead to some confusion and some people have [worked out] the net numbers without exceptional items and all kinds of numbers are flying around so I will do it very simply. If you take the net profit of Rs.728 crores less one-time exceptional yield of Rs. 379 crores less tax because that is a pre-tax number, the net

profit without exceptional item is at Rs. 429 crores so which will be growth of 6% over YOY. So with the exceptional it is 78%, and without exceptional, it is a growth of 6%.

The cash profit also is at Rs. 896 crores, which is a growth of 61%. The net worth of the Company at the end of December '12 stands at Rs. 26,156 crores which gives us a book value per share of Rs. 995. The company is one of the lowest geared companies in the sector with a debt/equity ratio of 0.7221 where most of our peers are in excess of 3 to 1 debt equity ratio.

Coming to the various verticals, let me start with the Energy vertical. In the Energy vertical, coming to the Distribution business, we are the largest private sector distribution company in India serving more than 60 lakhs consumers in the two marquee cities of Mumbai and Delhi.

Coming to the Mumbai license area, there have been certain important orders during the quarter, the honorable Appellate Tribunal of Electricity has upheld the MERC order that cross subsidy which is being applied to customer switching to Tata on our network is valid and is correct. For all our analysts, I know it is a little challenging to understand this business.

Let me try and explain to you with a very, very simple example. Hypothetically, in rest of the country, there is only one supplier, and if that supplier has an average supply price of Rs. 7, made up equally between low-end consumers whom we call low-end residential consumers and high end commercial and industrial consumers. And let us say that it is half and half. So if the lower half is paying Rs. 4 and the upper half is paying Rs. 10 giving an average tariff of Rs. 7 which is making the distribution company meet its requirement, the lower end consumer are being cross subsidized by the high end consumers.

This is the element of cross subsidy that exists across the country whether it is in the rest of Maharashtra, whether it is in the suburb, in the island city of Mumbai, whether it is Delhi, whether it is Ahmedabad, whether it is Bangalore, all over the country, and this is an element which is not an over subsidy given by the government. It is an element of cross subsidy.

So if you have an open access player coming in to the market, and he takes away the high-end consumers, he not only has to pay you the wire charge, he also to pay you the cross subsidy that this man is providing for the low-end consumers because if the cross-subsidy goes away, the low-end consumers tariff will suddenly see a huge jump which is not what the regulator wants and this is not what the current policy emphasizes, they want to give the low-end consumers a protection.

So it is not anti-competitive, it is exactly as mandated in the electricity act in the tariff policy and has been upheld by the Appellate Tribunal of Electricity.

We feel that our cost of power today supplied for the license area is lower than the cost of power supplied by Tata so we are even the more competitive supplier in spite of having just 50 percent of the power coming from our sources. So we are the most competitive. The network is mine so it is not correct that somebody should supply power on to my network and take away my high-end consumers.

The regulator had also given an order saying that Tata is cherry-picking high-end consumers, which was then upheld by the Appellate Tribunal and the MERC had put a restriction on switching over any customer on our network who is subsidizing. So whether it's a high-end residential consumer or a commercial and industrial consumer, they were not allowed to be taken over by Tata for a period of one year, until the time they lay their own network, they become USO compliant, they were not allowed to take customers on our network.

So we have now submitted our business plans for the current year. They have got approved for both generation, transmission and distribution businesses and our MYT filings for tariff for the current year, together with recovery of the electricity assets, resetting of the cross subsidy for the current year has all been submitted to the regulator and we expect that by March, April, we will have all these things announced for the current year.

During the quarter, we added almost 19,000 plus customers and 54,000 for the year taking our total consumers to almost 28.7 lakhs.

Coming to the Delhi distribution area, we continue to reduce the T&D losses, continue to supply 24/7 power to the citizens of Delhi, making Delhi the only other city in India availing of 24/7 power.

The tariff hike announced by the regulator has been implemented together with the regulatory asset surcharge and we have not got any consumer backlash and we are collecting 100% of the bills raised by us.

During the quarter, we have added 42,000 customers in our Delhi system adding 123,000 customers during the first nine months. The total number of customers being served by us in Delhi now stands at 31.7 lakhs. So between Delhi and Bombay, we are now supplying more than 60 lakh customers.

Coming to our Generation business, we generate 940 megawatts of power prominently lead by the flagship Dahanu business, which is 500 megawatt, which continues to run at 100% plant load factor over the last seven years. We generated 1,334m units during this quarter and after the sale of Reliance Power shares in OFS, we now own 36.5% of Reliance Power which has now an operating capacity of 1,840 megawatts to date and as they have announced, they are going to start up Sasan within the next few days.

Coming to the Transmission business, in the Bombay transmission, we have put in place eight additional EHV stations. These are state of the art GIS stations in Mumbai to increase the reliability, decrease losses and bring in more power into the Island of Mumbai. These stations are running at very high availabilities of 99.8% versus MERC target of 98%,

On the Western region project, we have not been able to start the balance [three] lines. These are suffering from very serious challenges, there are just very few towers which are balanced but the point in the transmission line is even if one tower is not ready, the transmission line cannot be charged. We are hopeful that in this quarter, we will get the balance three lines under operation.

Our joint venture with Parbati Koldam is progressing satisfactorily and we expect to complete both the lines by the agreed timeline of second quarter of FY'14 so by September '13, we expect both these lines to be operational.

The Trading business, we have traded 1,463 MUs of power during the quarter, making a total of 3,852 MUs for the nine-month period, makes us one of the top five trading companies in the country.

Coming to the Infrastructure business vertical, the revenue for the quarter is at Rs. 153 crores which is a growth of 80%, on a YOY basis, and the investments made by the Company over the last three years is now reflecting in projects getting commercial and starting the reverse cash flow. We expect that the cash flows from these infrastructure companies will continue to increase in revenue. Over the next eight quarters, we expect that this trend of 50% plus YOY growth in infra revenues will be there for the next eight quarters and we expect that FY'14 revenues -- FY'15 revenues should exceed Rs. 1,000 crore just from the infrastructure businesses.

Coming to the Road vertical, we had the eighth road project starting operations this quarter, which was the Delhi Agra highway, and as we had guided, we are on track to put two more road projects operational in this quarter and so we expect that we will end the year with 10 road projects operational out of our total portfolio of 11 road projects.

Coming to the Metro portfolio, let me just recap the Delhi Metro line was started by us in 2011 beginning in a record time of 27 months, the line ran without any problems for a period of almost a year with full on-time performance and 100% safety.

At that point, we discovered major civil defects in the civil structures and the bearings which support the viaducts. We brought this to the attention of DMRC, the Government of Delhi, as well as the Ministry of Urban Development, and in consultation with all the stakeholders, we decided to take the shutdown in July of this year for complete rectification of all these defects.

These defects have now been rectified by DMRC at their cost over the last seven months. The viaduct and the lines have now been rated safe to operate by CMRS and we have restarted the lines last week. The operations have started and we will continue to add frequency and speed to this network in accordance with and guidance with DMRC and CMRS. We are completely committed to the Delhi metro line; this is the only airport link in India and one of the few in the world.

Coming to the Metro One project, which is the East West connectivity between Versova and Ghatkopar, I am happy to say that the civil work of the viaduct is now 100% complete, the station work is happening and the system work that is of line laying, the system signaling, all that is under construction. We expect that the line will be operational by the middle of this coming financial year, which will be in line with the target set by the concession agreement.

So for a project with such extremely challenging right-of-way issues, with major delays in approval from railways and other authorities, that some of the right-of-way, we have got as late as a couple of months back. This will be one of the few infrastructure projects which will be able to be done in time and I commend the entire team at Reliance Infrastructure to make that happen.

On our new vertical, Cement, the grinding unit at Butibori had commenced in last quarter which we have announced. This is a part of the integrated unit being set up at Maharashtra. The Madhya Pradesh plant is under rapid construction and we expect that during the calendar year, the first 5m ton plant at Madhya Pradesh would be operational. The current grinding unit we are using to get our distribution network in place, to get our brand launched, to get our logistics in place and the seed marketing of Reliance Cement plant is fully up.

During the quarter, in order to meet with the SEBI guidelines to bring down the promoter holding to below 75%, Reliance Infrastructure together with the other promoter, brought down the holding to 75% by making an OFS where Reliance Infra sold 5.2 crore shares at Rs. 95/share and reducing our holding from 38.41% to 36.52%.

Coming to our Construction business, our revenue for the quarter is at Rs.1,841 crores. I would like to bring you back to our average run rate of Rs. 3,000 crores which we were running in our EPC business up to FY11. Last year was a one-off year for us in the EPC business where we clocked more than Rs 11,000 crores of revenue. It was more than a 300% jump in revenue. It was a non-sustainable speed of operation which is what we had told all the analysts and the buyer community.

During the beginning of the year, we have guided that during the year, the 11,000 crore kind of run rate is not possible and we expected to do in the current year, in the range of Rs. 6,500 crores to Rs 7,000 crores of topline. And we are on track to meet our guidelines suggested by us and this kind of a run rate going forward is feasible.

The current order book is at Rs. 12,145 crores which will be okay for the next seven quarters and we are also meeting the margin guidelines set by us of 8% to 10% EBITDA margin.

During the quarter, we also announced a strategic tie-up with the Wanda Group of China for real estate development. We have one real estate opportunity at Hyderabad where we own 80 acres of land, and in consultation with Wanda, we will further develop that property.

So if I sum up the -- we have a very good portfolio in the infrastructure space of large annuity businesses like the distribution businesses, we have the construction business and we have the high-growth infrastructure business where 19 out of 26 projects of ours will be revenue operational by the end of FY'13.

So we feel that in spite of the multiple challenges that the infrastructure sector has faced, the Company has been able to come out of it -- in a good fashion, and I think, given our low-gearing ratio, given the number of stressed assets in the marketplace, given the intensity of bidding, and we are finding that many projects are not even finding a bidder. We expect that the good sense will prevail and this will put companies such as ours on a very good wicket to grow our infra portfolio in the coming quarters and profit from the current opportunities.

With this, I would like to close my comments. I have overshot my expected time by five minutes, I am sorry for that.

And I will now open the floor for questions.

QUESTION AND ANSWER

Operator

Thank you very much, sir. (Operator Instructions). Our first question from the line of Deepika Mundra from JP Morgan, please go ahead.

Sumit Kishore - JP Morgan - Analyst

Hi, this is Sumit Kishore. A very good morning. I have a few questions. The first one is on Mumbai distribution. What is the balance regulatory effect recoverable in Mumbai, what is the road map, how much do you expect to recover in FY'14?

Lalit Jalan - Reliance Infrastructure Ltd - CEO

Yes, I will have Mr. Mehta answer that. Mr. Mehta heads the distribution business in Bombay. Mr. Mehta.

RR Mehta - Reliance Infrastructure Ltd - Senior Executive VP, head Mumbai Electricity Distribution Business

Hi, Mr. Kishore, it is Rs. 1,795 crores which has been recognized by the regulator and we have proposed that FY'14 onwards, we should be recovering about Rs. 700 crores per year.

Sumit Kishore - JP Morgan - Analyst

What is the view of the regulator?

RR Mehta - Reliance Infrastructure Ltd - Senior Executive VP, head Mumbai Electricity Distribution Business

I don't think that he will have much of a choice because even the law provides that it is within the MYT, he is supposed to give it to us.

Lalit Jalan - Reliance Infrastructure Ltd - CEO

And I will just add one more thing that the Rs. 1,795 crores that Mr. Mehta mentioned is without any carrying cost, so with carrying cost, and together with the true-up as per the regulator, the total amount comes almost Rs. 2,600 crores. This is what the company has recommended to the regulator to be done at Rs. 700 crores over the period of six years, right?

Sumit Kishore - JP Morgan - Analyst

Okay, and so what is the tariff impact that you envisage going to this recovery?

RR Mehta - Reliance Infrastructure Ltd - Senior Executive VP, head Mumbai Electricity Distribution Business

What we have told the regulator is that since it is a past recovery, don't disrupt the structure of the tariff and let it be recovered as a separate line item so that everybody understands that it has nothing to do with the current cost, it is because of the accumulation in the past of not having given the correct tariff.

Sumit Kishore - JP Morgan - Analyst

Okay.

Lalit Jalan - Reliance Infrastructure Ltd - CEO

The same structure has also been adopted by the Delhi regulator where on top of the tariff, they have given an 8% surcharge.

Sumit Kishore - JP Morgan - Analyst

Surcharge.

Lalit Jalan - Reliance Infrastructure Ltd - CEO

Yes, so it will be a surcharge on top of the tariff. The tariff I think, proposed by the business is a reduction in tariff for the current year where they have proposed that the commercial and industrial tariff to go down and residential tariffs to remain flat.

Sumit Kishore - JP Morgan - Analyst

Okay, so will it be fair to assume that the regulator's order for FY14 will be coming in the next what couple of months?

Lalit Jalan - Reliance Infrastructure Ltd - CEO

Yes, as per the mandate, he should come out with an order in 90 days.

Sumit Kishore - JP Morgan - Analyst

90 days, okay. The second question is on the Delhi Airport Express Line, now that it is operational, how would you treat -- what is the accounting treatment? Would you consolidate it now or would you await the results of the deliberations with the DMRC?

Lalit Jalan - Reliance Infrastructure Ltd - CEO

No, Delhi Metro has been consolidated in our results even in the last two quarters. And we will continue to do that. What is the other question on DMRC?

Sumit Kishore - JP Morgan - Analyst

No, my understanding was that the holding structure of Delhi Metro Express Line had changed sometime in 2012. What is the percentage stake that you own in Delhi Metro Express Line as on date?

Lalit Jalan - Reliance Infrastructure Ltd - CEO

The direct holding of Reliance Infrastructure in Delhi Metro is 30%. It has not changed over the last years.

Sumit Kishore - JP Morgan - Analyst

Okay, so there is no line-by-line consolidation of the Delhi Metro Express Line? You intend to keep it like this going forward on that --?

Lalit Jalan - Reliance Infrastructure Ltd - CEO

It's an associate accounting.

Sumit Kishore - JP Morgan - Analyst

Okay. And, sir, the related question was on the what you call it, the proceedings -- the discussions that are going on with DMRC on who is going to share the burden of the losses while the express line was shut down. Any comments on that?

Lalit Jalan - Reliance Infrastructure Ltd - CEO

The DMRC has put that claim for arbitration. The arbitration committee is being formed and we expect that the arbitration committee after hearing from both us and DMRC will come out with their findings.

Sumit Kishore - JP Morgan - Analyst

Okay, in your assessment, how long is it going to take?

Lalit Jalan - Reliance Infrastructure Ltd - CEO

It is typically longish process, could take three to four quarters.

Sumit Kishore - JP Morgan - Analyst

Okay. Sir, my last question if I may. Your power segment PBIT, as reported at the consolidated level was up 25% QOQ. For a largely regulated distribution businesses, it was appearing a bit sharp, so could you just clarify the power PBIT mix, on what exactly lead to this sharp growth on a QOQ basis?

Lalit Jalan - Reliance Infrastructure Ltd - CEO

There is a tariff increase which has happened in Delhi which has reflected...

Sumit Kishore - JP Morgan - Analyst

It's was in last quarter itself

Lalit Jalan - Reliance Infrastructure Ltd - CEO

No, but the early effect of the tariff starts coming in the third quarter.

Sumit Kishore - JP Morgan - Analyst

Okay, okay. Yes, that is very clear. Thank you so much, sir.

Operator

Thank you. (Operator Instructions). Our next question from the line of Mr. Rohit Sanghavi from Prime Securities. Please go ahead.

Rohit Sanghavi - Prime Securities - Analyst

Yes, hi. I have one question. I wanted to understand what do you expect would be the impact on the bidding process because of the withdrawal or termination of our project by some companies? I mean what do you expect would be NHA's response and the competitive scenario in the bidding process going forward?

Lalit Jalan - Reliance Infrastructure Ltd - CEO

I think there are two things that we see happening. One, clearly, it is a wakeup call to NHA and to the government of India that this will not be tolerated by the private sector and so you will find that with the formation of these cabinets, committee on infrastructure, and they will try and speed up the process of approval so that the projects follow the timelines announced by the government.

The second part clearly is from the side of the developers. The fact that these people, and I understand more projects are out for termination, that the honeymoon period for infrastructure in terms of bidding intensity is over which is what I had mentioned in my earlier part of my talk. That while there are so many projects which are available in the secondary markets which are stressed and we get calls from many bankers on these assets, that the bidding cost power capability of many players is seriously in doubt so a sense of bidding -- keeping the risks in mind and keeping the returns in mind would revert to the sector.

But clearly, many, many projects of NHA have not even seen a bid which shows that people are looking for coverage of all the risks and adequate returns. So the bidding intensity has gone down and I see that that kind of situation will remain for the next few years.

Rohit Sanghavi - Prime Securities - Analyst

Okay. Okay, thanks.

Operator

Thank you. Our next question is from the line of Murtuza Zakiuddin from HSBC. Please go ahead.

Murtuza Zakiuddin - HSBC - Analyst

Good afternoon, sir. I have a question on Delhi distribution. Just wanted to know how much is the regulatory asset right now. And with this 8% surcharge, how much you are recovering every year?

Lalit Jalan - Reliance Infrastructure Ltd - CEO

The regulator has recognized for our discoms in Delhi a total regulatory asset of Rs. 5,000 crores up to FY 11. So it does not include FY12 and FY13 numbers. And the 8% surcharge, since it was applicable only for nine months of this year, would give you just about RS. 350 crores for the year.

Murtuza Zakiuddin - HSBC - Analyst

Okay.

Lalit Jalan - Reliance Infrastructure Ltd - CEO

It is not even enough to cover the carrying costs of the regulatory assets recognized by the regulator.

Murtuza Zakiuddin - HSBC - Analyst

Okay. And this is for only nine months. Post that, any..

Lalit Jalan - Reliance Infrastructure Ltd - CEO

No, no. This will continue till the time the tariff changes again. So the current tariff can only be superseded by a new tariff. So, if the new tariff comes, say, on April 15, then this tariff will continue till April 15.

Murtuza Zakiuddin - HSBC - Analyst

Okay. And what would be the amount for FY 2011/'13 according to your numbers, the regulatory assets?

Lalit Jalan - Reliance Infrastructure Ltd - CEO

We expect that they will do a true-up for FY12 in the current year, and in our view, the numbers for our two discoms will exceed Rs. 9,000 crores.

Murtuza Zakiuddin - HSBC - Analyst

Overall, including FY11.

Lalit Jalan - Reliance Infrastructure Ltd - CEO

Yes, yes, so cumulative up to FY12.

Murtuza Zakiuddin - HSBC - Analyst

Okay. Okay. And any plan you have submitted to recover this amount, Rs. 9,000 crores?

Lalit Jalan - Reliance Infrastructure Ltd - CEO

What we have said is that whatever is the regulatory asset, the minimum that we must recover during the year is at least the carrying cost. So we have said that at least 15% regulatory surcharge should be there so that at least we are able to cover the interest of these regulatory assets, so that the principal amount does not increase owing to low recovery.

Murtuza Zakiuddin - HSBC - Analyst

Okay, just a housekeeping question, your tax rate, effective tax rate, this quarter looks high. So, can you explain that, sir?

Lalit Jalan - Reliance Infrastructure Ltd - CEO

No. We are broadly at MAT level.

Murtuza Zakiuddin - HSBC - Analyst

Okay. Because it's about Rs. 200 crores on Rs. 480 crores of PBT, so about 43%, so that's the reason I was just wondering.

Unidentified Company Representative

A lot of it is deferred tax.

Lalit Jalan - Reliance Infrastructure Ltd - CEO

Yes, this includes deferred taxes also.

Lalit Jalan - Reliance Infrastructure Ltd - CEO

Current taxes

Murtuza Zakiuddin - HSBC - Analyst

Okay, you are on MAT

Lalit Jalan - Reliance Infrastructure Ltd - CEO

Yes.

Murtuza Zakiuddin - HSBC - Analyst

Sir, if I may ask one question on EPC, your Rs. 12,000 crores, this will be primarily what right now, Sasan and Samalkot?

Lalit Jalan - Reliance Infrastructure Ltd - CEO

No, there are a total of six -- there are a total of six projects, then there are certain road projects in it. So there are a total of 13 projects with total of Rs. 12,000 crores.

Murtuza Zakiuddin - HSBC - Analyst

Okay. And just an update on the transmission lines, the Talcher and the North Karnapura, any status from CERC, sir?

Lalit Jalan - Reliance Infrastructure Ltd - CEO

No. The matter is still with CERC, it is being heard. We have asked for both, owing to Section 164 not being available to us, for deferment of time, as well as reimbursement of appropriate cost increases that have happened owing to the delay in this approval process.

Murtuza Zakiuddin - HSBC - Analyst

But any view from the regulator, like -- because it was on a bidding and it has taken time, so the cost overruns or that it will again get re-bid, anything on that front?

Lalit Jalan - Reliance Infrastructure Ltd - CEO

No, they haven't made up their mind, but it seems like in the last hearing that they were okay with giving the time extension.

Murtuza Zakiuddin - HSBC - Analyst

Okay.

Lalit Jalan - Reliance Infrastructure Ltd - CEO

But they wanted us to do it at the same cost, which is not possible for us to do with the three-year delay in the transmission project.

Murtuza Zakiuddin - HSBC - Analyst

But what is the likely cost increase you envisage because of the time delays in the project?

Lalit Jalan - Reliance Infrastructure Ltd - CEO

We haven't worked out the exact numbers, but a three-year time delay will have its own -- because the commodities of steel and aluminum, these fluctuate very, very highly.

Murtuza Zakiuddin - HSBC - Analyst

Okay. Okay, sir, fine. Thanks a lot. That's it from my side.

Operator

Thank you, sir. Our next question is from the line of Mr. Prakash Goel from ICICI Securities. Please go ahead.

Prakash Goel - ICICI Securities - Analyst

Good morning, sir. Sir, the question that I had is with regard to the Bombay distribution and Delhi distribution. How do we go about accounting for the accrued interest rate, for example, you said Rs. 1,795 crores is the recognized regulatory asset. In this quarter, in the first nine months, how much of accrued interest or the carrying costs have been accounted in the P&L, or the entire recovery has been [knocked] up against the carrying -- carried amount?

Lalit Jalan - Reliance Infrastructure Ltd - CEO

No, we haven't accrued anything of the Rs. 1,795 crores.

Prakash Goel - ICICI Securities - Analyst

So, say, for example, there has been some bit of recovery of the regulatory asset, right? In both Delhi distribution, you suggested that Rs. 350 crores will be recovered in the nine months in Delhi distribution.

Lalit Jalan - Reliance Infrastructure Ltd - CEO

No, in Mumbai, they haven't started giving us regulatory assets recovery back. It's only in Delhi that they have given it as a separate line item.

Prakash Goel - ICICI Securities - Analyst

Okay.

Lalit Jalan - Reliance Infrastructure Ltd - CEO

We expect that in Bombay this process will start in the current year.

Prakash Goel - ICICI Securities - Analyst

So, like now, the Company has proposed Rs. 700 crores every year for the next six years.

Lalit Jalan - Reliance Infrastructure Ltd - CEO

That's right.

Prakash Goel - ICICI Securities - Analyst

Right. And in case of Delhi, how are we going -- like how are we accounting for this Rs. 350 crores? Are we apportioning it towards the interest income or we are knocking off the balance sheet item?

Lalit Jalan - Reliance Infrastructure Ltd - CEO

Yes, but what is happening in Delhi, will get reflected against the previous regulatory assets.

Prakash Goel - ICICI Securities - Analyst

Okay.

Lalit Jalan - Reliance Infrastructure Ltd - CEO

But what will happen is, during the current year, again, some regulatory assets are being recognized.

Prakash Goel - ICICI Securities - Analyst

Okay.

Unidentified Company Representative

So it'll be net of those two.

Prakash Goel - ICICI Securities - Analyst

No, my question was very simple, like I want to understand the interest cost, like now the carrying amount. Do we account for it till the time it is realized?

Unidentified Company Representative

No, no.

Prakash Goel - ICICI Securities - Analyst

Till the time it is not realized, we'll not be accounting for the profits, even if the Delhi or Bombay also approve Rs. 700 crores?

Lalit Jalan - Reliance Infrastructure Ltd - CEO

Until the time we start recovering it, we will not recognize it.

Prakash Goel - ICICI Securities - Analyst

So for example,

Lalit Jalan - Reliance Infrastructure Ltd - CEO

I think there are lots of intertwined questions and detailed accounts, so I would encourage that if you could come ---

Prakash Goel - ICICI Securities - Analyst

No. That I'll do. Thank you. The other questions I had was like now, what, in your sense, what is the estimate of claim that you will file for the Delhi metro?

Lalit Jalan - Reliance Infrastructure Ltd - CEO

That is something which is between us and DMRC

Prakash Goel - ICICI Securities - Analyst

Okay, fair enough. Fair enough.

Prakash Goel - ICICI Securities - Analyst

Fair enough. Thanks a lot. Thanks a lot. Bye. That's all from my side.

Operator

Thank you. Our next question is from the line of Mr. Mohit Kumar from IDFC Securities. Please go ahead.

Mohit Kumar - IDFC Securities - Analyst

Good morning, sir. I have a couple of questions. The first question, regarding Delhi distribution, is there any under-recovery at the current tariff for FY13, sir, for you in the regulatory asset, the carrying cost and the carrying amount? Is there any under-recovery at the current tariff?

Lalit Jalan - Reliance Infrastructure Ltd - CEO

Yes, there is.

Mohit Kumar - IDFC Securities - Analyst

Could you quantify that amount?

Lalit Jalan - Reliance Infrastructure Ltd - CEO

This amount will get trued-up by the end of the year, but we expect that there is an under-recovery of almost like Rs. 1,000 crores for the current year.

Mohit Kumar - IDFC Securities - Analyst

My second question, pertaining to this OFS stake sale, we recognized a gain of around Rs. 418 crores. How much was the tax payable on this or whether there was any tax payable? If there was, could you quantify the amount?

Lalit Jalan - Reliance Infrastructure Ltd - CEO

Technically it's a long-term capital gain, so there is no tax. But being part of MAT, we still had to pay back.

Mohit Kumar - IDFC Securities - Analyst

Okay. Thank you. Thank you, sir. That's it.

Operator

Thank you. Our next question is from the line of Mr. Ankush Mahajan from KR Choksey. Please go ahead.

Ankush Mahajan - KR Choksey - Analyst

Sir, just a few questions. One is, sir, as you told us, there's a decrease in competitive intensity. So, what would be our target for the FY14 to grab opportunities in the road sector?

And second one is, sir, the exceptional items of Rs. 418 crores and what is the tax rate on that exceptional items?

Lalit Jalan - Reliance Infrastructure Ltd - CEO

No, I said there is a significant reduction in competitive intensity. We do not set any target for winning. Our target is that we have to win profitable projects so that we can return -- we can live up to shareholder expectations. So there is no target of winning projects or a percentage of projects to be won.

Secondly, what Mr. Moolwaney mentioned was that while there is no tax on the long-term capital gains, but since it comes as part of our book profit, we have to pay MAT on it.

Ankush Mahajan - KR Choksey - Analyst

Thanks, sir. That's all from my side.

Operator

Thank you. Our next question is from the line of Mr. Pankaj Sharma from UBS. Please go ahead.

Pankaj Sharma - UBS - Analyst

Hello, sir. Good morning. Sir, on the EPC business, what are the projects which we have in the pipeline which are not currently part of order book because, as you said, that whatever the run rate we had last year, it's not sustainable, but what we have today, it's sufficient for about six, seven quarters, as you said. So, more projects, can you please highlight what exactly you're targeting and what exactly you're looking for?

Lalit Jalan - Reliance Infrastructure Ltd - CEO

If I look from the Reliance Power portfolio, we do not have the Sasan expansion, the Chitrangi project, Tilaiya project, the Krishnapatnam project, or any of the hydro projects which they have in their portfolio. In Reliance Infrastructure, we do not have the Metro-2 and we do not have the new cement plant that we are planning to build. So this is on the internal portfolio.

Of the external, clearly we are currently a little slow on the external projects and we will evaluate the opportunities in external projects on a case-by-case basis depending on the client.

Pankaj Sharma - UBS - Analyst

Okay, sir. And also one question on Delhi Metro, sir. There were some reports that average speed at which trains were running now is lower. Is it correct or is it the same speed at which they were running earlier?

Lalit Jalan - Reliance Infrastructure Ltd - CEO

No, it is correct. The safety inspector had said that you please start the line at 50 kilometers and you gradually increase the speed in consultation with DMRC. So we expect that over the next couple of weeks we will be increasing the speed of the line based on how the line holds up back to the same levels that it was prior to being shut down.

Pankaj Sharma - UBS - Analyst

Okay, sir. And also a related question, that of course temporary shutdown for about six months have impacted the real estate part of the business. So, what is the status on that, and what is it you are doing about it in terms of the progress on that, related with Delhi metro?

Lalit Jalan - Reliance Infrastructure Ltd - CEO

Well, clearly what we had in the pipeline, so there are two aspects to this question, one is the loss during the seven months owing to the stoppage. We have made a claim for that to DMRC which is under arbitration. The second part is the impact of that on the real estate. So there were retail outlets which have opened up, some of which have taken a shutdown owing to the closure of the line. They are now restarting. There were many, many proposals which were in the finishing time for the pipeline and we have to restart negotiation with them to bring them into our fold in the shortest possible time.

Pankaj Sharma - UBS - Analyst

Okay, sir. Thank you very much.

Operator

Thank you. Our next question is from the line of Mr. Avinash Ranjan from Kotak. Please go ahead.

Avinash Ranjan - Kotak Institutional Equities - Analyst

Hi, sir. Good morning, this is Avinash Ranjan. Could you provide us any guidance on the order inflow in the construction business for the next few coming quarters?

Lalit Jalan - Reliance Infrastructure Ltd - CEO

Excuse me?

Avinash Ranjan - Kotak Institutional Equities - Analyst

Could you provide us any guidance on the order inflows in the construction business for the next few coming quarters?

Lalit Jalan - Reliance Infrastructure Ltd - CEO

No. As I said that the projects are all lumpy and they're awaiting clearance at the appropriate promoter levels. As the promoter gets those clearances and gets the go ahead for start of the project, they will then call us for final negotiation. And subject to us being competitive, then these projects will be awarded.

Avinash Ranjan - Kotak Institutional Equities - Analyst

So, can we safely assume that your guidance of [Rs. 10,000] crores which you have given right now would be sustainable going forward in FY14 or in FY15?

Lalit Jalan - Reliance Infrastructure Ltd - CEO

Yes. In FY14/FY13, we will finish between Rs 6,500 crores and Rs 7,000 crores, and we should be able to do this number for FY14 also with the existing order book.

Avinash Ranjan - Kotak Institutional Equities - Analyst

Okay. My second question would be on, do you have any estimates of gross margins or even EBITDA margins on the residual order book of Rs. 12,000 crores that you have in your books right now?

Lalit Jalan - Reliance Infrastructure Ltd - CEO

Come again on the question please?

Avinash Ranjan - Kotak Institutional Equities - Analyst

Any estimates on the gross margins or EBITDA margins for the residual order backlog of Rs. 12,000 crores that were in the construction?

Lalit Jalan - Reliance Infrastructure Ltd - CEO

8% to 10% EBITDA margin that we have guided and which is what we had been able to achieve over the last several quarters.

Avinash Ranjan - Kotak Institutional Equities - Analyst

Okay. So this, we expect that to continue in the next few coming quarters too?

Unidentified Company Representative

That's right.

Avinash Ranjan - Kotak Institutional Equities - Analyst

Okay. Thank you very much, sir.

Operator

Thank you. Our next question is from the line of Mr. Prem Khurana from B&K Securities. Please go ahead.

Prem Khurana - B&K Securities - Analyst

Yes. Good morning, sir. Thanks for taking my question. Most of my questions have already been answered. Just on -- because I mean there were some media reports that are saying that you're creating some issues at Gurgaon-Faridabad. So, would you be able to clarify that? I mean, is it still there or has that been resolved now?

Lalit Jalan - Reliance Infrastructure Ltd - CEO

There were severe toll collection issues in the Gurgaon-Faridabad road, especially in the Crusher Zone. It's because of the local trucks who did not want to pay the (technical difficulty) imposed by the Haryana government. And so we were facing a lot of problems with the local unions.

We have involved the government and the police and we have had discussions with the union and we have tried to find out via media for the interim period. And still there are challenges in toll collection on this particular stretch of road, we are trying and we expect that we will be able to resolve all these issues in the next two to three months.

Prem Khurana - B&K Securities - Analyst

It has been put on hold?

Lalit Jalan - Reliance Infrastructure Ltd - CEO

No, no. It has not been put on hold. We are collecting toll. Probably local unions also.

Prem Khurana - B&K Securities - Analyst

Okay.

Lalit Jalan - Reliance Infrastructure Ltd - CEO

What I'm saying, that by that time we are able to get 100% compliance of the toll collection on this road will take two to three months' time.

Prem Khurana - B&K Securities - Analyst

Okay. Sure. And what kind of revenue leakage are we seeing because of this? Do you have made some estimates? So, how different are the actual numbers from the estimated numbers as because of this issue?

Lalit Jalan - Reliance Infrastructure Ltd - CEO

No. On this particular road, we are seeing major leakage, and that is because of the major fight that we were having with truck unions, who had even destroyed our toll equipment at the toll plazas. And what happens is when the toll equipment gets damaged, then automatically all your computer systems and toll collection systems, it almost turns to manual.

Prem Khurana - B&K Securities - Analyst

Okay.

Lalit Jalan - Reliance Infrastructure Ltd - CEO

So the exact value of the leakage could not be determined. But these have now been set up in all the toll plazas.

Prem Khurana - B&K Securities - Analyst

Okay.

Lalit Jalan - Reliance Infrastructure Ltd - CEO

But the leakage which was there is being arrested, but it's still away from the numbers that we had planned when we bid for the system.

Prem Khurana - B&K Securities - Analyst

Sure. And also this strategic partner, Wanda Group of China, so what do they bring in, in terms of, do they bring any expertise or do they bring in cash? What would they be kind of bringing in for this project? Because Reliance is already with us, we have execution capabilities and our balance sheet is not at all leveraged, so, why would we require, partner with someone who's new to these geographies?

Lalit Jalan - Reliance Infrastructure Ltd - CEO

Yes. good question. But see, what is happening is that while we do not really have a real estate construction expertise, which is what we are trying to get i.e design, the construction, the state-of-the-art methodologies. It's one of the top players in China developed more than 150 million square feet of construction.

Prem Khurana - B&K Securities - Analyst

Okay.

Lalit Jalan - Reliance Infrastructure Ltd - CEO

So we expect that expertise to bring world-class technologies, design, and the ability to do it quickly.

Prem Khurana - B&K Securities - Analyst

Sure. And would they also be putting in some money in this project or it will purely be kind of support services that they would provide us?

Lalit Jalan - Reliance Infrastructure Ltd - CEO

The details of this particular deal has not been finalized. It's an MOU to work together.

Prem Khurana - B&K Securities - Analyst

Okay.

Lalit Jalan - Reliance Infrastructure Ltd - CEO

The details of the particular deal have not been inked between us and the partner.

Prem Khurana - B&K Securities - Analyst

Sure. Just a small bookkeeping question, I mean other income during the quarter seems to have come up by Rs. 100-odd crore on sequential basis in standalone entity. So, does it mean ICDs have started coming back to us? Or why had that come off by some Rs 100-odd crore quarterly this year, from Rs. 346 crores to Rs. 243 crores?

Lalit Jalan - Reliance Infrastructure Ltd - CEO

We could get back to you on this.

Prem Khurana - B&K Securities - Analyst

Sure. That's it from my side. Thanks.

Operator

Thank you. Our next question is from the line of Murtuza Zakiuddin from HSBC. Please go ahead.

Murtuza Zakiuddin - HSBC - Analyst

Hello, good afternoon. Just a follow-up on this Wanda Group partnership that you have, any timelines and what kind of exact development you are looking at here in this place, sir?

Lalit Jalan - Reliance Infrastructure Ltd - CEO

No, it's a mixed development. It's a mixed-use development so it will include everything from residential, commercial, IT, retail. But the plans have not been made. We have to make plans, get them approved by the local government before we commence construction.

Murtuza Zakiuddin - HSBC - Analyst

Okay. Any specific timelines you're looking for those developments, and how much square feet or anything in that site?

Lalit Jalan - Reliance Infrastructure Ltd - CEO

It is actually, in Hyderabad, it is unlimited FSI. So it's a question of how optimally can you do it and what is the best revenue maximization strategy for this plot of land which is situated really strategically. But these things have not been chosen yet.

Murtuza Zakiuddin - HSBC - Analyst

Okay, not even the timelines right now?

Lalit Jalan - Reliance Infrastructure Ltd - CEO

No.

Murtuza Zakiuddin - HSBC - Analyst

Okay. Thanks a lot, sir. That's it from my side.

Operator

Thank you. Participants, that was the last question. I would now like to hand the conference over to Mr. Ashutosh Narkar for closing comments.

Ashutosh Narkar - *HSBC Securities and Capital Markets India Private Ltd - Analyst*

Well, I'll first thank the management for taking out time to debate on the quarterly earnings call. Also thank you all for your strong participation. Thank you very much, all.

Operator

Thank you. On behalf of HSBC Securities and Capital Markets India Private Limited, that concludes this conference. Thank you for joining us. You may now disconnect your lines. Thank you.