



Reliance Infrastructure Limited
Q3 FY15 Results Conference Call
February 16, 2015

Moderator: Ladies and gentlemen good day and welcome to the Q3FY15 results conference call of Reliance Infrastructure Limited. We have with us today from the management of Reliance Infrastructure Mr. M S Mehta – CEO and other senior management personnel. 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 entering '*' then '0' on your touchtone telephone. At this time I would like to hand the conference over to Mr. M S Mehta. Thank you and over to you sir.

M S Mehta Thank you and good afternoon and welcome to Q3FY15 results call. I am delighted to report another encouraging quarter for Reliance Infrastructure. I will make few comments in the few minutes to first share the highlight of the earnings then open the forum for questions. On the key financial highlights, total income for the quarter stands at Rs. 4788 crores, a growth of 14%. EBITDA stands at close to Rs. 1200 crores, a growth of 21%. As you know year on year comparison basis there are two significant changes namely commissioning of Mumbai Metro and commissioning of Maihar Cement Plant. We are accounting for the operating losses from Mumbai Metro and cement business at Rs. 54 crores and Rs. 50 crores respectively each. Our consolidated net profit at Rs. 452 crores compares well with the same quarter last year and if we exclude losses from Mumbai Metro and cement business our net consolidated net profit would have been around Rs. 564 crores, a stupendous growth of 25% over the previous corresponding quarter. This point essentially underlines improving trend in a financial performance. Our balance sheet continues to remain robust. Net worth of the company is at over Rs. 28,000 crores and debt equity ratio of 0.9x which you know is amongst the peers in the sector. Moving onto business to business commentary first within power business Mumbai distribution it continues to perform well on all fronts, recovery of arrears and cross-subsidy which is now since September 2013 has led to recovery of close to Rs. 700 crores in first nine months of financial year. Total cumulative recovery under this head stands at Rs. 1200 crores. The business continues to deliver positive results at the back of regaining of all HT consumers, Mumbai Discom continues to provide reliable power to financial capital of the country. December 2014, ATE issued a judgment in the broader interest of the consumer directing that there should be no duplication in network in the existing distribution license areas. This order has significant implication, a positive one for Mumbai Discom. Moving onto Delhi Distribution, it continues to provide reliable power to the national capital and remains engaged with the regulator for further progress on amortization of regulatory assets and assumption of PPAC. Absence of cost reflective tariff for many years does strain cash flows of the company. However at this point of time we are positive in making progress on all the pending fronts. During the quarter we added 64,000 new

consumers in Mumbai and Delhi and we have the honor of serving 64 lakh consumers across two mega metros of the country. On the whole Reliance Infra continues to provide most efficient distribution network with international standards of operations. On transmission business our WRSS Maharashtra project is complete and the last leg of WRSS Gujarat project should be commissioned shortly. During the quarter we commissioned Parbati Koldam Transmission Line in Himachal Pradesh and is revenue operational.

Now on EPC business – our current order book of Rs. 5700 crores essentially reflects completion of ongoing projects and will remain on track to deliver EBITDA guidance of 8% to 10% over the last several years. We almost completed our first phase of growth and looking forward to participating in the next phase of growth which includes completion of ongoing projects both within the group, Reliance Power and Reliance Infra and we are also actively pursuing excellent opportunities across our relevant sectors in power, road, metro rail and smart cities.

Moving onto infra business, our infrastructure portfolio comprises of road and metro rail. As you might have noticed this quarter onwards cement has been carved out from the infra business. Our total infra revenue is Rs. 197 crores in quarter compared to Rs. 140 crores in the same period last year, a growth of 40%. On road business 10 out of 11 projects are revenue operational and remaining one which is Kandla Mundra will soon be commissioned. On Mumbai Metro business most favorable order by Bombay High Court implemented initial fares of Rs 10, 20, 30 and 40 effective 9th January. Mumbaiites, the local commuters and industry experts, all have praised the quality and punctuality of metro services. Receiving such a feedback came in experts whose benchmarks are global brings tremendous satisfaction and pride. Just to share with you full operating numbers. Over 63 million passengers have used the metro in the first 8 months of the operation. It has done about 78,000 round trips and delivered service efficiency of more than 99%. Some fare products like return journey tokens have been introduced for the first time in the country. We have seen rising trend in ridership, the key attraction continues to be the drastically reduced travel time, comfort of commuting and affordable players. Plenty of opportunities of non-fare box revenue has been fully exploited in the form of tying up of retail and advertising agreements. Moving onto cement, Reliance Cement in a very short position of time has positioned itself as a leading brand in price parity with regional leaders. Currently cement network is there in six states covering Madhya Pradesh, Uttar Pradesh, Jharkhand, West Bengal, Bihar, Vidarbha which comprises almost 40% of Indian market. Ongoing ramp up of production will lead to significantly higher utilization of capacity in the next year. On the macro front you know as much as we do more probably. Cement production is likely to grow at a healthy pace in the back of strong focus and infrastructure and expected recovery in GDP with improved business sentiments where housing and infrastructure sector shall be the key drivers. On the opportunities side just to color on how we look at opportunities. The need for furtherance of power sector reforms has been well recognized by the government and we expect implementation of Amended Electricity Act which will open up new opportunities this sector. With the rich experience and right footprint in power distribution space we will be in an advantageous position to address any emerging opportunity coming up from this development. On road business we are among the top three concessionaires and our balance sheet strength enables us to encash any profitable opportunity in the sector. We expect that more roads should come up for bidding in order to achieve the stated target of developing 30 km per day. On metro business every city with population of 2 million is expected to have a metro mono rail. 16 projects worth one lakh crore are envisaged in

12th five year plan. Smart city development is catching up fast. It has to take shape in terms of its contours as well as in terms of its reach or spread in terms of its coverage of city. But that said, with our presence in all the key underlying sectors road, power, metro, transport, cement, EPC we believe that our infra as a company is a natural fit to capitalize on this opportunity available. With these initial comments I will be very happy to take your questions now. Thank you.

Moderator: Thank you very much. Ladies and gentlemen we will now begin with the question and answer session. We have the first question from the line of Sumit Kishor from JP Morgan, please go ahead.

Sumit Kishor My first question is on the Mumbai Metro business, could you give us a sense on what is the average daily ridership currently and also since the project started operation what is the net loss from Mumbai metro consolidated in FY15 results so far.

M S Mehta This is a 35 year long concession and like any of the metro in the world has a particular cycle of evolution and looking at the performance in the last 8 months we seem to be moving along curve at a very fast pace. With that backdrop we are around 270,000 commuters at this moment and which is 300,000 consumer ridership on a week day. And in terms of cumulative position under metro I think may be we can share this number offline with you. I do not have readily available at this moment in front of me.

Sumit Kishor And also what is the total loss for the cement business for the 9-months period. My second question is on the EPC margin that we saw for the quarter was at around 14% and even for the 9-months period it seems to be hovering around 13% odd. So in context of the margins that you have been doing earlier this looks higher. I mean any specific reason for that.

M S Mehta I think we will like to take this margin as annual margin because depending on the nature of billing at a particular stage of time of the project the revenue outgrow booking might be less and more part might be the form of services.

Sumit Kishor So 8% to 9% should be the more sustainable rate.

M S Mehta Yeah, that is the more sustainable guidance we would learn to share with you.

Sumit Kishor And the tax rate during the quarter especially standalone level tax I think is somewhere around 0.6 crores. Could you please throw some light on that?

M S Mehta On that front we see no change, there might be some temporary change in the particular quarter.

Sumit Kishor Okay. So was there any tax related to trial period? I mean what was the reason for the reversal?

M S Mehta This impact that you are seeing may be because of deferred tax liabilities.

Sumit Kishor And in cement finally what is the volume you have done in terms of sales so far and what are you targeting?

M S Mehta Currently we are at about 63-64% capacity utilization as we speak.

Sumit Kishor And this is on a capacity of 5 million tons?

M S Mehta Yeah.

Sumit Kishor And what do you expect to reach by next year?

M S Mehta I think based on our information in that region the clinker capacity is currently around 73% at the industry level. I would like to go along with that wisdom and try to do something better than that and going forward at the back of improved cement demand, the expectation of analyst in cement is that that number might go to over 80% for industry as a whole. So 85% should be our mission for the next year.

Moderator We have the next question from the line of Saket Kapoor from Kapoor & Co. please go ahead.

Saket Kapoor Sir in your earlier commentary you spoke about that duplicate transmission network for the Mumbai Discom, I missed that point. Could you elaborate on the same, what was in favor for the existing Mumbai Discom?

M S Mehta Apparently given direction that wherever the network, the wire should not be duplicated because every investment one makes cost that should be born by the consumer at the end of the day. So we said that same wire can be used by multiple service providers for the content so no need to duplicate the wire network in the cities.

Saket Kapoor How will we be benefited out of this, could you dwell on that?

M S Mehta Mumbai Distribution is a very old company with a very rich network so even when the network is open for multiple players the direction is not to duplicate it. So Mumbai Network will be always available – who wants to use the network. So it essentially gives you the positioning that yes you provide your network to others and somebody else will come and sell the network in your area.

Saket Kapoor Now coming over the issue of recovering of the regulatory assets, what is the update on that and how is it moving going forward? What are we expecting on that?

M S Mehta You are discussing Mumbai Discom?

Saket Kapoor Sir as a Reliance Infra part both Delhi and Mumbai.

M S Mehta Mumbai's order is very clear. It just came in September last year, so there is a I think 5-6 years of roadmap that is progressing on that path as announced in September last year or 1.5 years ago and as far as Delhi is concerned one year we got the thing and we expect that to accelerate in future because indication which DERC has given in the Supreme Court in one of their affidavits is that they want to clear the accumulated RAs in over 6-7 years period.

Saket Kapoor But things can be different as the new government are which has been sworn in Delhi having a different view altogether over the power tariffs. So the things may be in a wait and watch mode in consent to that because they were looking for a CAG audit and loading of tariffs immediately after begin

coming into power. So the order which is there will be relevant in that sense for Delhi?

- M S Mehta** I would just like to be cautious. We have always been cautious in this front. That said, regulators have to decide the tariff and they decide based on certain methodology. If any government wants to lower the tariff with respect to particular class of consumers they give subsidy.
- Saket Kapoor** But in that case also sir I think the disable part will be a burdening on the system only because you will be receiving the same over the lag of time so that will have the dampening effect on the financials.
- M S Mehta** I do not want to speculate, I mean your questions are valid but how can I respond by circulating.
- Saket Kapoor** And sir my last question is on the cement part sir, particularly as you told we have the capacity at 5 million tons and we are currently having capacity utilization of 65-67%. Am I correct on that sir?
- M S Mehta** I said 63-65%.
- Saket Kapoor** I am sorry, 63-65%, what portion is the blended cement part sir?
- M S Mehta** This is my clinker capacity utilization so entire of that converts to cement.
- Saket Kapoor** The entire is the blended cement sir, whereas the fly ash content is higher, I would just like to understand the sale which is in the cement category.
- M S Mehta** We can discuss this answer separately. It requires good understanding of the topic so we can discuss offline.
- Moderator** We have the next question from the line of Mohit Kumar from IDFC Securities, please go ahead.
- Mohit Kumar** Sir have you finalized the capital expenditure for FY16 for all the businesses and can you share that with us?
- M S Mehta** Considering our ongoing project, we would need around Rs. 300-500 crores equity in next two years, rest will be debt which is already tied up.
- Mohit Kumar** So we can assume that a Rs 1500-1600 crores with the capex across the business?
- M S Mehta** I mean you can safely take 30-70 ratio.
- Mohit Kumar** Sir my second question is you have just won the Sial Ghogri as the media coal block, can you please throw some color on the landed cost at your cement plant?
- M S Mehta** Let us get the official announcement of that. We have completed the bid. So we need to do lot more work before we come back to face your queries. Some of the answers we still may not know because how much one can essentially walk through during the due diligence process. So we need to really work on that. That said, if there is good development for us because

	we were the late entrant in cement, did not have the linkage coal. So this provides us that essential component of energy security.
Mohit Kumar	Sir what is your plan for the cement for the next couple of years? What was the capacity you are targeting?
M S Mehta	I think we clarified a stance, we have 1 plant of 5 million in Maihar running and we will have one more plant in Maharashtra. Thereafter we want to do one more plant in the MP. So these three plants are very clear line of sight, which is part of the bigger vision to make it a 50 million in due course of time.
Mohit Kumar	Have we received the tariff order for Mumbai distribution for FY15?
M S Mehta	This will be coming in due course. That will happen by March, April, and May.
Mohit Kumar	FY15 is the last year.
M S Mehta	Last year one has come, FY15 has come.
Moderator	We have the next question from the line of Saket Kapoor from Kapoor & Company, please go ahead.
Saket Kapoor	In continuation to my earlier question, as shared in your commentary the renewal interest in the optimism, why the same optimism is not shared by the rating agencies and they have downgraded our outlook from stable to negative in the earlier – I am referring to the Finch Group Rating sir. Your comment and understanding on the same.
M S Mehta	I think rating agencies view is very short term whereas my comment for medium to long term picture. So that could be the probably difference, not really reconcile mentally exactly what they said and what we believe to answer your question but my quick reflection will be basically difference of time horizon.
Saket Kapoor	But sir they do also have some waiting period then only after that waiting period is over then the rating gets revised.
M S Mehta	You are almost opening up my discretion rating agency which I cannot do in a conference call.
Saket Kapoor	No sir, I am just trying to get my point clear that they are also in a dialogue and discussion with the management before the revision operating goes through. It is not that all of a sudden we will revise your rating without addressing the issue with you.
M S Mehta	Yes, I agree with you but that does not determine their view on the sector industry and how to look term and medium term picture.
Saket Kapoor	That is what understanding I would like to have that where are the differences of opinion is mainly content to, that your optimism and their pessimism?
M S Mehta	I think if you require we can do a separate discussion with keeping the reading commentary in front of us and do a discussion required.

Saket Kapoor	The basic idea you are telling is only the horizon you are speaking. They are having it as a short term and you are speaking it for a longer period.
M S Mehta	I explained, I told you that I have not been able to mentally reconcile what they believe what I feel while we are facing a question. A quick reflex answer is that it could be due to difference of the time horizon.
Moderator	We have the next question from the line of Sumit Kishor from JP Morgan, please go ahead.
Sumit Kishor	Sir just one follow-up question I had. You have incorporated three wholly owned subsidiary related to defense during the quarter. Could you please elaborate on what all your investment plans for these subsidiaries and so far what are the core competencies reliance infrastructure has developed in this domain to adapt the opportunities?
M S Mehta	See this formation of subsidiary is a statement of our interest in the sector which is very emerging sector and will become significantly big looking at the vision the prime minister with Make In India kind of theory. That said it is early days for the industry and early days for us as well. We did not have any competency run metro or cement plant in the power so it is not that we need to have a defense competency. And obviously in this kind of initiatives always there will be an expert partner working with us which is a prerequisite for success in this sector. May be you will have more refined questions, we will have more refined answers in due course of time. At this moment it is very early days. That said we believe there is an opportunity and Reliance should be in the forefront too capitalize on that going forward.
Moderator	As we have no further questions I would like to hand the floor back to the management for closing comments. Please go ahead sir.
M S Mehta	Thank you very much for the participants and look forward to stay engaged with you again with more questions. Please get in touch with our IR team led by Abhishek. Thank you very much.
Moderator	Thank you. Ladies & gentlemen on behalf of Reliance Infrastructure Limited that concludes this conference call. Thank you.