Reliance Infrastructure Limited

Q1FY14 Earnings Call Transcript

July 31, 2013

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

Operator

Thank you for standing by and welcome to Q1FY14 results conference call of Reliance Infrastructure Limited. From Management we are represented by Mr. Lalit Jalan, CEO of Reliance Information and along with him we have other senior members of the Management. So we will start the call with some initial remarks by Mr. Jalan and proceed to Q&A

I would like to hand the conference over to Mr. Jalan now. Over to you, sir.

Lalit Jalan ***- Reliance Infrastructure Limited - CEO***

Thank you and good morning, all my investors and analysts [friends] and I'm very happy to present these key highlights for the first quarter of FY14. I presume that the media release and the investor release and the results are with each one of you. However, let me just take 10 to 15 minutes time in just walking through the key numbers, the key highlights as we see it and then we will open the floor to as many questions as you might have.

Coming to the financial performance for the first quarter, our total operating income is at Rs. 5450 cr with EBITDA of Rs. 1017 cr. Our net shows a marginal increment at Rs. 415 cr with a cash profit of Rs. 573 cr. The key highlight of Reliance Infra has been its extremely exceptionally strong balance sheet. Our net worth is at Rs. 26,433 cr, giving us a book value at Rs.1005. We are the only company in the infra space which has a debt equity ratio of less than one. We are currently at the end of quarter 1 at 0.92 debt to equity which is the lowest amongst the infrastructure sector peers.

The key highlights for the quarter, if I just quickly run through, have been that the revenue from our infra projects, which is now gathering traction, is up by 83% together with a increase in the EBIT. For the Delhi distribution the regulator has just announced an increase in tariff of 5% and the detailed tariff order is still not out. We are awaiting that and we will be able to comment further on this, but they have also accepted additional regulatory assets approval of more than Rs. 3000 cr, taking total regulatory assets to Rs. 9000 cr plus.

In our road portfolio, the 9th Road Project is now revenue operational and we expect that the balance two roads will become revenue operational in the balance of this financial year. We successfully completed the trial run of the Mumbai Metro 1 project. The trial was flagged off by the CM of Maharashtra and end of last quarter we finally handed over the trains of the Delhi Metro which we had terminated earlier to DMRC and starting July 1 they have taken over the entire running of the Delhi Metro Airport line operations. Our claims are under arbitration but going forward, the line now belongs to DMRC.

The other very big highlight for Reliance Infrastructure is that each and every project of ours which are under construction today will be revenue operational by the end of this financial year, so all the roads, our metro business, our cement business, all our transmission assets, everything will be revenue operational. So each and every project of ours will be giving us reverse cash flow. We are entering a time of much significantly lower CapEx intensity and given our balance sheet we will be in a very, very good position to look at both assets in the primary opportunity space as well as in the secondary opportunity space.

Coming to the segments, the Mumbai distribution business continues to perform very well. There is no accrual of regulatory assets, it's a cost effective tariff. The regulator has got the clearance to announce the new cross-subsidy surcharge and the recovery of the regulatory assets for our distribution operations. They have announced first Tatas, and we await that within the next seven to 10 days our own tariffs would be announced. With the announcement of the tariffs we expect that we will become competitive compared to Tatas to all our large customers. If you see based on the business plans approved by the regulators our tariff costs are lower than Tatas and if both of us use the same network with the correct cross-subsidy charge we will reach the end consumers at competitive price.

So with this, we expect rapid reverse migration to happen which will have a significant impact in our top line in Mumbai. The Delhi distribution, as I mentioned briefly, the tariffs have been announced, we are waiting for the detailed tariff order and we will be able to throw much more light once we are able to go through the details. Gradually, while we have been working on our distribution operations, we have basically used all the [domain] knowledge that we have acquired in the IT technology space and have become one of the bigger players in this space in the country and a little bit overseas. We have won the IT implementation for the Bihar, which is a Rs. 180 cr contract. This year we will complete the IT implementation at Chhattisgarh.

We are also providing consultancy to eight states in India and we are also providing consultancy to Ethiopia and Nigeria overseas. The customers added for the first quarter between Mumbai and Delhi stand at 78,000 which takes us -- our total number of customers to more than 61 lakhs. In the Mumbai transmission business the MYT order was received and all our past accruals totaling Rs. 230 cr has been allowed to be recovered in the current year itself and we have started recovering that from April of current year. Coming to our construction EPC business, it has shown a steady revenue of Rs. 1670 cr and we closed the order book at around RS. 9000 cr which gives us a visibility of five to six quarters of operations at the current pace of revenue.

This is a matter which has raised questions about our depleting order book. One of the reasons is that the projects that we work with are large lumpy projects. We are currently under discussions with our associate company Reliance Power for three or four large projects, briefly among them being expansion at Sasan, Tilaya startup in Jharkhand, which is a UMPP as well as the Tata Hydro. We are hopeful that once they receive all the clearances we will be able to announce certain positive things with respect to our order book. I am very confident that we will close the year at significantly higher EPC order book than where we are today.

Coming to our infrastructure business, our revenue for the segment increased 83%. We have nine out of our 11 road projects which are revenue operational and the balance two projects will be operational this year. Unlike other players in the space, all our projects are 100% owned by Reliance Infrastructure, and these have been built with a lot of care and we expect good equity IRRs from these projects going forward. Coming to the Metro project, as I mentioned the Mumbai Metro Line 1 is rapidly nearing completion. The civil work is all done. The finishing is going on. The tests have been conducted. Once we complete the entire system commissioning and get the safety certificates we will be able to start the commercial operations of the Metro during this financial year.

On the Delhi Airport, this has unfortunately turned out to be terminated. This was the first Airport Metro link for the country built in record time, a world class metro in 27 months. However, immediately, within a year of starting of operations we started seeing major civil defects which we brought to the notice of DMRC, the Ministry of Urban Development and the government of Delhi and in consultation with everybody we had to do a complete stoppage of the line for repairs. As far as the provisions of the concession agreement, we filed a Material Breach of Contract in July followed by a termination notice in October of last year, and the matter had moved to arbitration.

As the process of arbitration was slow, we eventually discussed with DMRC and now have handed over the operations to DMRC. We are very, very confident that owing to the termination happening, owing to DMRC Event of Default we will get 100% of the debt invested and 130% of our equity totaling to around Rs. 3000 cr and we are legally advised that our case is very strong and we should be able to get all the money invested in the Delhi Metro operations. This has been mentioned in the Note number 1 of the Accounts and I'm sure there'll be some questions which I'll be happy to answer.

Coming to the cement business, our integrated five million tons cement plant at Madhya Pradesh would be operational by the end of this calendar year. All our infra projects will be earning revenue by the end of this year. The Capex intensity will reduce as we come near the end of the year. Our distribution business and our energy business continue to be a steady cash flow generating business providing us assured integrated returns. We will see a good recovery of our regulatory assets which will give the Company operating cash flow. And the major issues with respect to regulatory challenges in the distribution business have been removed. In the EPC business we continue with steady operations and we are very confident that we'll end the year with significantly higher order book.

Together with this, I have finished my not so brief 15-minute comments and I'll open the house for Q&A

Operator

First question comes from Sumit Kishore from JPMorgan. You may go ahead, please.

Sumit Kishore ***- JPMorgan - Analyst***

Good morning, sir. I have a couple of questions. The first question is on the Delhi discoms. Could you please tell us what the current under-recovery in Delhi is and what is the addition to regulatory assets that you have to do on a quarterly basis?

Lalit Jalan ***- Reliance Infrastructure Limited - CEO***

As per the media release that we have seen of the DERC, they have shown that the current tariffs will give Delhi distribution company, the surplus of Rs. 900 cr in addition to the ROE. So we think the number looks aggressive and we have to look at the details when the tariff order comes out. So we will await the tariff order but as for the regulator it's a cost effective plus tariff.

Sumit Kishore ***- JPMorgan - Analyst***

Okay, so if we were to look back on the last four quarter, what would have been the deterioration in your working capital position in the Delhi discoms?

Lalit Jalan ***- Reliance Infrastructure Limited - CEO***

The Delhi discoms, according to our numbers, have accrued about Rs. 1500 cr of regulatory assets last year.

Sumit Kishore ***- JPMorgan - Analyst***

That's FY13?

Lalit Jalan ***- Reliance Infrastructure Limited - CEO***

FY13, that's right.

Sumit Kishore ***- JPMorgan - Analyst***

Okay, and my second question is on the Delhi Airport Express line. In your assessment, I know you were expecting a positive conclusion of the arbitration but what is the worst case scenario for Reliance Infrastructure's listed company on the Delhi Airport Express line, where list co. holds a minority stake in DAMEPL?

Lalit Jalan ***- Reliance Infrastructure Limited - CEO***

The total amount of investment in the Delhi metro operation is approximately Rs. 2800 cr, made up of Rs. 2100 cr of bank debt and Rs. 700 cr of equity put in by Reliance Information. In the absolute worst case, in which case that the arbitration comes out with a result that default is owing to us i.e Delhi Airport Metro's default, then the DMRC is liable to pay 80% of that. So we don't get any money on that equity. So that's the worst case.

Sumit Kishore ***- JPMorgan - Analyst***

So, as a minority shareholder n DAMEPL impact would be borne by promoters or by the listed company?

Lalit Jalan ***- Reliance Infrastructure Limited - CEO***

No, the beneficial interest of 95% belongs to Reliance Infrastructure, and so the equity investment made by Reliance Infrastructure would be impacted to that extent.

Sumit Kishore ***- JPMorgan - Analyst***

Sure, sure. And one last question, on the full year from your road portfolio, what is your expectation of, revenue generation from the nine operational projects?

Lalit Jalan ***- Reliance Infrastructure Limited - CEO***

As we see it now, based on the expected startup of road numbers 10 and 11 we expect to close the current year at around Rs. 800 cr of revenue.

Sumit Kishore ***- JPMorgan - Analyst***

Okay. That's all from my side. Thank you so much and wish you all the best.

Operator

Thank you, sir. Next question comes from Dhaval Patel from B&K Securities. You may go ahead, please.

Dhaval Patel ***- B&K Securities - Analyst***

Hello, sir.

Lalit Jalan ***- Reliance Infrastructure Limited - CEO***

Yes.

Dhaval Patel ***- B&K Securities - Analyst***

Sir, on the Delhi distribution specifically, the regulatory surcharge we believe has been kept constant at 8%. Is that right, sir, or will we get more details on the tariff order)?

Lalit Jalan ***- Reliance Infrastructure Limited - CEO***

No, you're right. The regulatory assets surcharge has been kept at 8%.

Dhaval Patel ***- B&K Securities - Analyst***

And that we believe is not even enough to cover the carrying costs, would it be right to assume that the regulatory asset buildup will continue, at least in the sense that the carrying cost is also not recovered?

Lalit Jalan ***- Reliance Infrastructure Limited - CEO***

We will have to look at the details. I think will just about cover the interest on a full year basis. I think the order will be out today, tomorrow. We will see the fine print and then will be able to throw more light on it.

Dhaval Patel ***- B&K Securities - Analyst***

Okay, sure, sir. And the regulatory asset number that was given was Rs. 9,000 cr, which has been approved, until what date will this be?

Lalit Jalan ***- Reliance Infrastructure Limited - CEO***

This is still FY12.

Dhaval Patel ***- B&K Securities - Analyst***

FY12?

Lalit Jalan ***- Reliance Infrastructure Limited - CEO***

Yeah, and what they have also said that there were several orders of Appellate which had been ruled in the favor of ourselves, i.e the discoms, and which according to the admission of the DERC itself in front of Supreme Court was going to have an impact of more than Rs. 4000 cr.

Dhaval Patel ***- B&K Securities - Analyst***

Okay.

Lalit Jalan ***- Reliance Infrastructure Limited - CEO***

They have said that we have decided to recognize all those things over the course of the year.

Dhaval Patel ***- B&K Securities - Analyst***

Okay.

Lalit Jalan ***- Reliance Infrastructure Limited - CEO***

And they have made a provision of provisional recognition of Rs 600 cr for all three discoms on that account.

Dhaval Patel ***- B&K Securities - Analyst***

Okay, so the Rs. 4000 crore number that you were talking about is for BRPL & BYPL?

Dhaval Patel ***- B&K Securities - Analyst***

Okay, so that will make it Rs. 9000 crore plus the number that will come plus Rs. 1500 crore for FY14, right, sir?

Lalit Jalan ***- Reliance Infrastructure Limited - CEO***

At least.

Dhaval Patel ***- B&K Securities - Analyst***

At least.

Lalit Jalan ***- Reliance Infrastructure Limited - CEO***

And the Rs. 9000 crore that they have done is up to FY12 which does not include several things that are in Supreme Court, as well as a lot of stuff like MYT true-up. So unless we see the numbers we will not be able to comment.

Dhaval Patel ***- B&K Securities - Analyst***

Sure, sir. Sir, and on the Mumbai distribution region, last year MERC passed an order whereby customers consuming greater than 300 units were not allowed to go to Tata power network and that was I believe in August, right sir?

Lalit Jalan ***- Reliance Infrastructure Limited - CEO***

That's right.

Dhaval Patel ***- B&K Securities - Analyst***

So post-August, sir, do we expect the migration to happen? I mean, do we expect the order to stay as it is because the order also stated that Tata Power should lay its own network. So will there be an extension to the order or after that we can migrate?

Lalit Jalan ***- Reliance Infrastructure Limited - CEO***

It is difficult to say at this stage. The MERC does a regular review, has done a regular review of the network link by Tatas and there was one hearing as late as this week, where they have really come down very, very hard on Tatas, on their inability and maybe no desire to lay network. They had chosen 11 clusters where there are Tatas to be able to wire up each and every consumer.

Dhaval Patel ***- B&K Securities - Analyst***

Sure.

Lalit Jalan ***- Reliance Infrastructure Limited - CEO***

And they are woefully, woefully short. So in the order when they had come out last August they had mentioned very clearly that should Tatas not be able to lay network they will take a very serious view of this breach. So it depends on MERC what they do coming August.

Dhaval Patel ***- B&K Securities - Analyst***

Okay, sir. and one more thing, DERC has laid off the employees that were there, as per the news reports. So will we take them back on our payroll or, you laid off some employees

Lalit Jalan ***- Reliance Infrastructure Limited - CEO***

You see, what happens is we were running a 20 kilometer, 23 kilometer line.

Dhaval Patel ***- B&K Securities - Analyst***

Yes, sir.

Lalit Jalan *- Reliance Infrastructure Limited - CEO*

And DMRC has got a 200 kilometer operation.

Dhaval Patel *- B&K Securities - Analyst*

Yes, sir.

Lalit Jalan *- Reliance Infrastructure Limited - CEO*

So automatically they will have some surplus people and there can be some optimization if you merge a 20 kilometer line to a 200 kilometer line.

Dhaval Patel *- B&K Securities - Analyst*

Yes, sir, completely.

Lalit Jalan *- Reliance Infrastructure Limited - CEO*

And so they have found out of the 400-odd people on rolls and offrolls, out of which some 130-odd people, whom they don't want. They are not saying it's surplus, they are saying they don't want either because of their particular skill set that they have or whatever.

Dhaval Patel *- B&K Securities - Analyst*

Yes, sir.

Lalit Jalan *- Reliance Infrastructure Limited - CEO*

Or many of them were outsourced people so they have said we have some security people they might want to use So we needed some people for our Mumbai Metro, which we will take and the rest of the people, to the extent that they are not absorbed within the Group, will be asked to go.

Dhaval Patel *- B&K Securities - Analyst*

Okay, and would there be any compensation that we would be required to pay them?

Lalit Jalan *- Reliance Infrastructure Limited - CEO*

As for the regular contract we have three months' notice pay.

Dhaval Patel *- B&K Securities - Analyst*

Okay. So then the final question, if I look at the debt number, sir, it has gone up substantially in FY12, primarily because of our EPC business which had gone up substantially. But now sir, if I look at the numbers they will come off by close to 40% from the peak. So when do we see the loan books coming off because it has gone up even in FY13? So when do we expect that to come off?

Lalit Jalan *- Reliance Infrastructure Limited - CEO*
Look, there are two or three things which I can say on a standalone basis. One, we are expecting a recovery of almost Rs. 5000 cr of regulatory assets, over the next several years, which will go towards reducing the debt.

Dhaval Patel ***- B&K Securities - Analyst***

Okay.

Lalit Jalan ***- Reliance Infrastructure Limited - CEO***

Secondly, we have investments and some working capital in our EPC business which we expect to receive, and thirdly, our pressure on capital expenditure, as I mentioned, is completely going to come down dramatically by the end of this financial year. So we expect that these numbers would start showing downward territory going forward.

Dhaval Patel ***- B&K Securities - Analyst***

Sure, sir, sure. Thanks a lot, sir.

Operator

Thank you, sir. Next question comes from Gautam Pathak from Standard Chartered. You may go ahead, please.

Gaurav Pathak – ***Standard Chartered - Analyst***

Yes, sir, I wanted to ask what is the timeline that you're expecting for the order to come on the Delhi Metro airport link?

Lalit Jalan ***- Reliance Infrastructure Limited - CEO***

Both us and DMRC together with the government of Delhi and the Government of India are very keen that we close this issue at the earliest because these issues do engage public attention and it is in the interest of the country and interest of the infrastructure sector that we need a speedy resolution to this. Having said that, in the judicial process it is very difficult to give a timeline but we are very hopeful for speedy closure of this case.

Gaurav Pathak – ***Standard Chartered - Analyst***

Broadly, what kind of a timeline are you looking for ?

Lalit Jalan ***- Reliance Infrastructure Limited - CEO***

I think you can choose any number.

Gaurav Pathak – ***Standard Chartered - Analyst***

Okay, and for Mumbai Metro, what is the date of commercial operation?

Lalit Jalan ***- Reliance Infrastructure Limited - CEO***

This financial year.

Gaurav Pathak – ***Standard Chartered - Analyst***

Any closer in you can give me?

Lalit Jalan ***- Reliance Infrastructure Limited - CEO***

I mean it's fairly close, it's within six months.

Gaurav Pathak – *Standard Chartered - Analyst*

Within six, okay thank you.

Operator

Thank you, sir. The next question comes from Shashikiran from Standard Chartered. You may go ahead, please.

Shashikiran Rao *- Standard Chartered - Analyst*

Hello, thanks for taking my question. My question is regarding your current tariff order you mentioned that as per the report you would be Rs 900 crore surplus per quarter or per year?

Lalit Jalan *- Reliance Infrastructure Limited - CEO*

For the whole year

Lalit Jalan *- Reliance Infrastructure Limited - CEO*

That is per the media release given by the DERC.

Shashikiran Rao *- Standard Chartered - Analyst*

Okay and the carrying cost is 8% so that alone would put you into surplus even if it's Rs. 900 crore ? Would that cover the carrying cost of the assets?

Lalit Jalan *- Reliance Infrastructure Limited - CEO*

No, no, no, there are two things. One is a regular surplus of Rs. 900 crore that they see. Two is an 8% surcharge on the entire tariff which will be about Rs. 1200 cr for the year. So that is also the regulatory asset recovery.
As far as the DERC is concerned, they think that there will be a total recovery of Rs. 2100 crore which will be more than the total interest accrued on the regulatory assets.

Shashikiran Rao *- Standard Chartered - Analyst*

Okay Rs. 2100 cr.

Lalit Jalan *- Reliance Infrastructure Limited - CEO*

That's right.

Shashikiran Rao *- Standard Chartered - Analyst*

And your share in that would be?

Lalit Jalan *- Reliance Infrastructure Limited - CEO*

About 2/3rd

Shashikiran Rao *- Standard Chartered - Analyst*

2/3rd

Lalit Jalan ***- Reliance Infrastructure Limited - CEO***

Yes.

Shashikiran Rao ***- Standard Chartered - Analyst***

Okay, and you mentioned the revenue from infrastructure will be about Rs. 800 cr?

Lalit Jalan ***- Reliance Infrastructure Limited - CEO***

That's our expectation for the year.

Lalit Jalan ***- Reliance Infrastructure Limited - CEO***

No, that's not an exit rate. This is will depend on how the projects start, our expected startup of projects. The 11th road project will be starting only in Q4.

Shashikiran Rao ***- Standard Chartered - Analyst***

Okay.

Lalit Jalan ***- Reliance Infrastructure Limited - CEO***

So that would be very little revenue from the last project.

Shashikiran Rao ***- Standard Chartered - Analyst***

Okay, on an actual basis. Okay, thanks. That answers my question.

Operator

Thank you, sir. Thank you very much. Sir, there are no further questions now.

Lalit Jalan ***- Reliance Infrastructure Limited - CEO***

Yes, so I think we can close?

Operator

Over to you for final remarks.

Lalit Jalan ***- Reliance Infrastructure Limited - CEO***

I think we have covered everything. I took 15, 20 minutes to maybe proactively talk about some of the issues which are coming to us from investors and analysts and there are no additional remarks to be made by me.

Operator

Thank you, sir. This concludes our conference for today. Thank you for participating. You may all disconnect now.