



Reliance Infrastructure Limited Q1 FY15 Results Conference Call
July 18, 2014

Moderator Ladies and gentlemen good day and welcome to the Q1FY15 results Conference call of Reliance Infrastructure Limited. Today we have with us from the management of Reliance Infrastructure represented by Mr. Lalit Jalan – Group Director, Strategy & Corporate Affairs; Mr. M. S. Mehta – Chief Executive Officer; and Mr. Madhukar Moolwaney – Chief Financial Officer. As a remainder all participants' lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your Touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Lalit Jalan. Thank you and over to you, sir.

Lalit Jalan Good evening all friends and thank you all for taking time off on a Friday evening and joining the Q1FY15 conference call for Reliance Infrastructure. Before I start and proceed, I would like to welcome Mr. Mehta as the Chief Executive Officer of our company who has taken charge from me so he is on the call and in fact Mr. Mehta if you would like to make some initial comments before we can get started.

M S Mehta No Lalit, I think it is very exciting sector to be in. There are huge opportunities. Of course they come with associated challenge as well. But right now what excites me the diversity of our company and the big size and the big agenda we have in front of us. So we have been leading this front for last few years and I am especially impressed with the way you led this company in all these years laid up a very strong foundation. I hope that going forward we will be able to make it even much bigger and make our stamp more prominent on India's footprint. So thank you very much ladies and gentlemen for joining this call and look forward to interacting with all of you in near future once again shortly.

Lalit Jalan As traditionally I would take may be in the first 10 minutes to make some initial comments the Results and the Media Release I trust are with everybody. It has been another strong and a very satisfying quarter for Reliance Infrastructure.

The total income for the company stands at Rs. 4,548 crores. The EBITDA stands at Rs. 1,083 crores for the quarter which is a growth of 6%. The net profit for the quarter is at Rs. 458 crores which is again a growth of little more than 10%. Our balance sheet continues to be very strong. The total net worth of the company is at Rs. 27,574 crores and the debt-equity ratio of 0.94x to 1x we feel that we are the lowest amongst the infrastructure sector peers.

The key financial highlights:

The EPC numbers have come down as a first phase of the investment cycle is nearing completion and despite decline in the EPC revenues and the increase in interest costs the company has earned net profit growth of more than 10%. In first quarter there is also the operating loss of the Mumbai Metro which was around Rs. 15 crores and which is also part of the results.

Coming to our PowerVertical:

Coming to Mumbai distribution we continue to win away customers from Tata Power and the recovery of arrears and cross subsidy surcharge which was announced from September 1,

2013, continued. We have recovered Rs. 745 crores arrears till first quarter FY15 out of the approved arrears of Rs. 925 crores per annum for six years. On the reverse migration side we have regained all the HT power consumers who had moved to Tata Power in the last four years in a short period of four months. Currently the Reliance Infrastructure's power tariffs are the most competitive across the entire city of Mumbai. The level playing field has been created with the regulator announcing adequate cross subsidy surcharge and this cross subsidy surcharge has been announced for all the four discoms in Mumbai following the same principles. So even Tatas, BEST, and MSEB enjoy similar levels of cross subsidy surcharge should somebody come and take away customers on their network from them.

On the Delhi Distribution business there has been an announcement yesterday by the regulator DERC. The detailed tariff order is not available with us. Only the tariff schedule which was sent given to all media is available with us. So it is very difficult for us to comment because we do not have the details of the order but they have approved an average tariff increase of 8.3% with immediate effect so that has come in to position from yesterday and this 8.3% is at the low end of the residential base is an increase of 2.5% but then there are certain categories of consumers which see an increase of as much as 25%.

So I think the regulator has tried to keep the impact on the low end consumers that is the 0 to 400 unit consumption per month the residential consumers at the lowest which form 75% of the consumer base in Delhi. I think with the new tariff orders which once we get a chance to go through it we will be able comment in detail that the build of the new regulatory assets should be seized. During the quarter we have added 85,000 consumers in Mumbai and in Delhi and we are proud to serve 63 lakhs consumers across the two mega metros Mumbai and Delhi.

Reliance Infrastructure continues to provide the most efficient distribution network international standard customer service. The five generating plants have produced 1,198 million units during the first quarter. On the transmission business our western region strengthening; Maharashtra project is fully complete. We have now got the sanction on the Gujarat project two of our lines are fully complete. The third line there is a small portion of 10 kilometers which was stuck owing to environment clearance. And today we have got the clearance from the Gujarat Government and we hope to get the Stage-2 clearance over the next couple of weeks from Delhi after which will take us barely a month to complete that line. So that will complete the entire WRSS strengthening projects. The total capital employed in the Power Sector business stands at Rs. 13, 815 crores as of the end of the quarter.

The EPC revenues for the quarter has been at Rs. 590 crores this has been a very large reduction compared to on a YOY basis. This is owing to the tail end of the 1st Phase of EPC projects that we had. The order book stands at Rs. 6,181 crores as of June 30th. So we have maintained as per our guidance an EBITDA margin in the range of 8% to 10% over the last six years over the very large portfolio of EPC projects that we have done. We are proud to say that we are may be in the top three private sector EPC players in the country in the power space.

We are looking at the new phase of growth both within the group both with Reliance Power and Reliance Infrastructure for our EPC businesses and we are also going to look at select external Indian opportunities which is thrown up by this huge infrastructure push made by the Government of India across the entire power space that is generation, transmission and distribution the entire urban transport space that is your metros and high speed rail and what have you the 100 smart cities that the country wants to make and we feel that we can add lot of value on those 100 smart cities and we will address all those opportunities across our EPC portfolio; our operations portfolio as well as our development portfolio.

Coming to the Infrastructure Business:

Our total revenue is at Rs. 193 crores compared to Rs. 180 crores in the similar period last year. Roads – we have 10 out of 11 road projects operational. The Kandla-Mundra Road

Project we expect to be operational by the end of this financial year and by the end of FY15 all our 11 road projects will be operational.

On the Reliance Metro Line in Mumbai I am very, very proud to state that we have become truly the first private sector to launch the metro in Mumbai and we successfully launched the commercial operations on 8th of June and it has become the first metro in the world to carry over 10 million commuters in the first month of operations. We have been able to deliver in the very first month timing efficiency of more than 99%. The travel time for our commuters travelling East to West from Versova to Ghatkopar has decreased from 90 minutes to 20 minutes and we are proud to say that we have added almost two hours to Mumbai's life in this very, very heavy schedule.

Coming to Cement:

Our two plants in Maharashtra and Madhya Pradesh, the Madhya Pradesh plant is fully operational. The Maharashtra we have the Butibori grinding plant which is on and the other projects at Maharashtra is under construction. The total operating capacity stands at 5.8 million tons. We our Reliance Cement brand is currently present in 40% market of India's country's demand and we plan to achieve capacity utilizations of 90% of clinker production and 80% of cement production in FY15. Currently we are catering to key markets in Madhya Pradesh, Uttar Pradesh, Jharkhand, West Bengal, and select cities of Maharashtra. We plan to expand our presence in the Northern markets of India and Nepal. So we have also started exporting clinkers to Nepal. With the completion of the Maharashtra project our capacity will be at 10 million tons. The total capital employed in the Infrastructure business is stands at Rs. 11,200 crores.

So if you look at the overall if I look at the growth triggers--we have Distribution where we have 50% of the private sector Distributions served by Reliance Infrastructure and more than 255 cities have to follow the Delhi model of privatization or franchisees and puts us in a very, very attractive position to address that opportunity.

On the road side while a very large allotment has been made for the 12th Five Year Plan 8,500 kilometers roads worth Rs. 37,500 crores will be awarded during the balance eight months of this financial year.

On the metro side every city above a population of 2 million is to have a metro. Many of them are either having a metro or under construction or are under planning so this is a mandate. 16 projects worth Rs. 100,000 crores is envisaged in the 12th Five Year Plans.

In the EPC business as I mentioned we feel the Sasan 2; the Tilaiya Ultra Mega Power Project; the hydro projects and then the external opportunities across Power, Infrastructure, Roads, Metros, and Smart Cities we will be addressing to strongly grow our EPC top-line and margins.

Smart City – they have made a notional investment of Rs. 7,000 crores during the current year and three to four cities have been targeted for speedy planning and we expect to be a significant player in the smart city space.

So Summing Up the overall Reliance Infrastructure:

The current phase of the CAPEX cycle is nearly complete and the reverse cash inflows have started during the end of this financial year as I mentioned. All the projects will be revenue operational. We continue with a leadership position across all the business verticals whether it is Distribution, Transmission, Roads, and Metro.

We have the strongest balance sheet in the sector. We are the first mover advantage across our business verticals namely – Metros, Transmission business, and we are among the top three players in the Road business. We have strong management teams in place we have the experience in place being a first mover and with the \$1 trillion being launched by the

Government of India we think that we are in a very, very good position to capitalize on the growth opportunities.

With these initial comments I would like to handover the mic back to the various analysts and we will be happy to answer as many questions as you have. Thank you.

- Moderator** Thank you very much, sir. Ladies and gentleman, we will now begin the question and answer session. The first question is from the line of Sumit Kishore from JP Morgan. Please go ahead.
- Sumit Kishore** Two questions. My first question is on the Delhi Distribution business. With the discontinuation of PPAC based on the media release by DERC yesterday and along with the 8.32% tariff hike and given the surcharge of 8% do you really see the quantum of regulatory assets coming down and I know that you have not gone through the order but what would be your take on this?
- Lalit Jalan** This particular PPAC for the quarter was applicable till July 31 and for the balance 14 days it has got merged in to the tariff. So the PPAC has not been discontinued. The period PPAC has got submerged in to the tariff. The new PPAC based on our new claims for the first quarter and for subsequent quarters whatever are the number as approved by DERC will be charged to the consumers as was explained by the Chairman.
- Sumit Kishore** So the pass through higher power purchase cost shall continue in future as well?
- Lalit Jalan** Yeah, absolutely. In fact all the discoms had asked for a modification of the PPAC formula so that all variations are allowed in the pass through which are outside our control. So we are awaiting the detailed tariff order to study what are the things that he has allowed in addition to what he was allowing in the past.
- Sumit Kishore** And with the 8% surcharge do you see the quantum of regulatory asset actually coming down or does it continue to build up?
- Lalit Jalan** The 8% is only the principle recovery.
- Sumit Kishore** Not the carrying cost?
- Lalit Jalan** The interest on the entire approved regulatory assets has been put in the ARR. So that is part of the 8.3% tariff increase.
- Sumit Kishore** Where we have considered FY12 as the year for calculating carrying cost?
- Lalit Jalan** FY13, we have tried up FY13 they have mentioned the number so this was mentioned in the media release. The total number approved till FY13 for the discoms is Rs. 9,800 crores.
- Sumit Kishore** Sir, my second question is there was a proposal to launch the infrastructure business trust and there have been subsequent developments as well. What is your take on how this is likely to shape up and in what time do you see the launch of infrastructure business trusts in India and in which sectors?
- Lalit Jalan** We are very, very enthused with the launch of all the initiatives in the budget and after that on the infrastructure financing. So infrastructure trust is of course one of the key features with the tax pass through. We are still awaiting detailed guidelines. We think that given our various verticals namely distribution, transmission, roads, metros, and with concession periods up to 40 years our businesses will be able to really take advantage both in terms of reduction of debt as well as monetization of equities through this vehicle. Even besides this commercial banks have been allowed to raise long term infra bonds without any SLR/CRR and priority sector lending. That itself will help to reduce the interest costs.

Thirdly, long-term structures have been encouraged with the flexible 5/25 structure so that the asset liability mismatch problem of the banks can be taken care of and very long-dated infrastructure businesses which typically concessions are in the 30 year range can be optimally financed. So we are very, very enthused. We are actively pursuing all the developments which are happening in this space and as the rules come out details come out we will then move forward to take advantage of these new instruments.

Moderator	Thank you. We have the next question from the line of Mohit Kumar from IDFC Securities. Please go ahead.
Mohit Kumar	There are couple of questions. First is pertains to how much is the regulatory asset we have booked in our accounts till FY14 and what was the amount till FY13? This is pertains with delhi distribution.
Lalit Jalan	If you take 100% of the share then the total regulatory assets in the books of the companies are in the range of Rs. 13,500 crores.
Mohit Kumar	And this was the entire the principle amount am I right?
Lalit Jalan	Principle and interest both. And this number was more than Rs. 11,500 crores similar time last year.
Mohit Kumar	So that also included the carrying cost?
Lalit Jalan	That is right.
Mohit Kumar	And my second question pertains to Delhi Metro. So what is the status of arbitration how far we have moved and what is the timeline we are looking at the resolution of the dispute?
Lalit Jalan	The Delhi Metro arbitration is moving forward at a very brisk space. Next week we have day-to-day hearing on our Delhi Metro arbitration. So all the documents given by each party has been verified and cleared by both the parties. The cross questioning of the witnesses is happening next week. We are very hopeful of an award on this arbitration in this calendar year.
Mohit Kumar	My third question pertains to Mumbai Metro. So what kind of revenue we have booked in this particular quarter? And second question is what is the status on the fare are we going to charge are we charging 10, 20, 40 or we have started charging the amount or it is still under court?
Lalit Jalan	The initial month I mean the revenue numbers are little meaning less we had a very low promotional fare we did 10 million passengers in the very first month of operations. So I think this will be much better addressed if we do this in third quarter when the metro stabilizes and the fares are closer to the initial fares that we want to. You can call it literally the trial period of the metro.
Mohit Kumar	My second question pertains to our fare. So are we all clear to charge 10, 20, or 40 now or is this still under court's preview?
Lalit Jalan	No, we have announced that this promotional fare is there till the end of this month and we have announced the initial fare. The courts have upheld our view so how we move this promotional fare gradually towards the initial fare would be up to us. Because the right of fixing the first fare rests with the metro rail administrator.
Moderator	Thank you. The next question is from the line of Prem Khurana from B&K Securities Limited. Please go ahead.

Prem Khurana My question is again with respect to your Delhi distribution business only. So I was looking at this press release and it says it claimed around Rs. 9,400 crores of revenues for BRPL and around Rs. 5,500 crores for BYPL for FY15. But what we have been approved is only around Rs. 7,700 crores and Rs. 4,100 crores. I understand you have not seen the detailed order but in your fair assumption what would have lead to this difference is it difference in power purchase cost or difference in your cumulative revenue capital in it. Because I think this order takes in to account the FY13 numbers for calculation of carrying cost in your revenue shortfall till date so?

Lalit Jalan It is very clear that it is the detailed tariff order will be available with us over the next five, six days seven days. We can all wait for seven days there is no point speculating on because there will be 50 elements to the buildup of the total revenue that we had asked for which of those elements what is assumed what he has put in PPAC; what are all the formulas. It is a very intricate 100 page document that the regulator produces. So let us wait for that rather than being speculative about it.

Prem Khurana And just one more thing on this Delhi distribution business. I mean you said that a surcharge of 8% is kind of there to have partial liquation of our cumulative revenue shortfall which is there with us till date. But then again if were to look at our press release AR are approved with carrying cost of Rs. 7,700 crores for BRPL and the revenue with existing tariff would be around Rs. 7,100 crores. So there is this still shortfall of around Rs. 530 crores and as against that surcharge would be around Rs. 571 crores though the surcharge seems to be just good enough to meet this revenue shortfall which would be there in this year. So Rs. 40 crores is nothing I mean if I were to look at our base of around Rs. 6,000 crores for BRPL the revenue shortfall cumulative Rs. 40 crores of liquidation is insignificant and this is again FY13 number as far as revenue shortfall is concerned. If I were to consider FY14 number the shortfall could be somewhat different so?

Lalit Jalan No, I think you have misunderstood. The Rs. 500 crores shortfall has been met by giving the tariff increase. So that covers the shortfall. The 8% surcharge on top of it liquidates the principles of the regulatory assets. So if the Rs. 7,700 crores is now the revenue the 8% will be about Rs. 600 crores that Rs. 600 crores will liquidate the principle amount. The entire interest of this is in the ARR.

Prem Khurana But there again I mean they are taking FY13 number for FY14 you said the number would be around Rs. 13,500 crores so at 11% on this incremental number the carrying cost would be somewhat different. So then there is hardly any or rather I would say there is you would not get to see any liquidation only?

Lalit Jalan No, it is not true. This is the regulation of the DERC so they do the true up of the previous year because normally what happens is in the normal situation the tariff is out by the first of April. So since he is working on the tariff he is actually got the audited numbers of the previous year because the tariff process takes place between November, December, January, February, and March. So since he does not have the current year numbers he goes by the last year numbers he does the last year true up and current true up will be done next year. And now in the tariffs being closer and closer to the cost the gaps would not be so large.

Prem Khurana So incremental buildup would not be there anymore?

Lalit Jalan We surely do hope but we will wait for the detailed tariff order.

Prem Khurana And there was some media report suggesting we are going to revive our Hyderabad real estate project so any comments there to say we had land parcel was there with us in Hyderabad?

Lalit Jalan No, this is not a question of we want to revive it is always on our drawing board.

Prem Khurana It was a backburner for quite sometime now so if you could share your thoughts on that if you want to take it up now?

Lalit Jalan No, we are in active discussion with the government there is the new government in place and we are taking this real estate project with them.

Prem Khurana Sir, any update on Parbati Koldam or North Karanpura?

Lalit Jalan No, it is sub-judice. The APTEL had ruled in our favor so some of the buyers have gone to Supreme Court.

Prem Khurana And sir, will it be possible for you to share some financials for your WRSS as in terms of what kind of revenues could be there if I were to consider all the lines would be operational and going to operate at a 100% efficiencies?

Lalit Jalan It is a part of our tariff quoted by us it will be in the range of Rs. 230 crores.

Moderator Thank you. We have the next question from the line of Pankaj Sharma from UBS India. Please go ahead.

Pankaj Sharma Sir, I had a question on the EPC business with hopes of revivals in CAPEX cycle and especially some of the clearances which you would be getting over next few quarters for the case of Reliance Power. Do you think that this business could probably see better revenue profile in coming years and how do you look at that part of your business in next couple of years?

Lalit Jalan We are very enthused with our EPC business. We think if you remember that in the past at one stage we have done more than Rs. 10,000 crores of revenue in a year. We had an order book of Rs. 28,000 crores. The orders that we undertake in our EPC business are not the small orders we take those large orders large projects. So there are the revival of the CAPEX cycle is there and after couple of years after having finished our major projects in house we are actively looking at external projects again. So with both internal opportunities as well as external opportunities which I mentioned in the previous part of my call we are very, very hopeful that we will finish the year with significantly higher order book at the end of the year than we are at present.

Pankaj Sharma Sir, any particular numbers you would be looking at in terms of your steady state revenue etc or you think that it is too early to take a call on that?

Lalit Jalan We do not give guidance on this given the bulkiness of the business.

Moderator Thank you. We have the last question from the line of Sasikiran Rao from Standard Chartered Securities. Please go ahead.

Sasikiran Rao My question is on your EPC business again. With regards to your employee workforce how has it moved through the last three, four years where your activity in the EPC business was not significant and are you seeing any significant ramp up in your manpower capabilities in this business if at Chitrangi projects start entering in to your order book in this year or so?

Lalit Jalan If you would recall we have started this EPC business in the year 2005 and we could ramp up our engineering workforce starting from scratch to all the way to 2,000 people. So as the business is there we can ramp it up very, very quickly. So there is no point because it is having people on the bench is neither good for the people and neither good for the company. So right now we have adequate number of people for the existing projects that we have but should the new opportunities come in given our past track record we will be able to adequately ramp up.

Sasikiran Rao Did you have any downsizing in the past in this?

Lalit Jalan No, not downsizing but the normal attrition as the project finishes.

Moderator	Thank you. Ladies and gentlemen,that was the last question from the participants. I would nowlike to handover the call back to the management for their closing remarks. Over to you, sir.
Lalit Jalan	Thank you and again I would like to thank all the analysts; friends for taking time out on Friday evening and coming to listen to our first quarter conference call and I am sure that the company is in extremely good and strong and able hands of Mr. Mehta going forward. I will wish him on the company all the very best as we move forward and as I take my ne responsibilities at the group.
M S Mehta	Lalit, thank you and thank you all people who have joined this call and we look forward to staying in touch with you. Thank you very much.
Moderator	Thank you all. On behalf of Reliance Infrastructure Limited that concludes today's conference. Thank you for joining us and you may now disconnect your lines.