Reliance Infrastructure Limited
Q1FY16 Results Conference Call
August 13, 2015

Moderator: Ladies and gentlemen. Good day and welcome to the Q1FY16 Earnings Conference Call of Reliance Infrastructure Limited. We have with us today from the management of Reliance Infrastructure Mr. M S Mehta – CEO; Mr. Lalit Jalan – Group Director Strategy & Corporate Affairs along with other senior management. As a reminder, 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, please signal an operator by entering '*' then '0' on your touchtone telephone. Please note that this conference is being recorded. 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: Good afternoon and welcome to Q1FY16 results call. Let me first share key financial results along with business update for the quarter, and then we can open the forum for questions and answers. Total income for the quarter stands at Rs. 4,829 crores with a growth of 6%, EBITDA stands at Rs. 1,241 crores, growth of 15%, Net profit for the year stands at Rs. 401 crores despite Mumbai Metro loss of Rs. 50 crore and cement loss of Rs. 39 crores in Q1FY16. Excluding that, Net profit would have been nearly 5% up at Rs. 490 crores. Our robust balance sheet with net worth of Rs. 27,400 crores and net debt equity ratio of below 1 provide us the strength to participate in upcoming opportunity in the sector. Moving on to business, first at the power business, our Mumbai distribution business continues to perform well on financial and technical parameter. MERC in its latest order has approved tariff hike of 5.2% effective form June 15. In addition, recovery of arrear has been on steady track and we have recovered Rs. 236 crores in first quarter taking the total cumulative recovery to Rs. 1600 crores since September 2013. On Delhi distribution, after a lag of 9 months, they partially allowed PPAC towards adjustment in June 15. Against our case of 19% they have allowed partially 6%. DISCOM sector as you know in general particularly in Delhi is facing unprecedented financial crest as a result of arrears of mismatch between actual cost and tariff basis of India. While we remain focus in managing our controllable cost and operational efficiency, timely allowing tariff increase and amortization of regulatory asset is a must to continue provide world class assets. On the network side, we are happy to report that we have improved network reliability by 30% leading to significant reduction in customer complaints and it has been acknowledged widely in Delhi. We have added 82, 000 consumers in Delhi and Mumbai, taking total tally to over 65 lakhs. On transmission business, our 3 revenue generating projects have earned of revenue Rs. 149 crores in first quarter, a growth of 33% reflecting commissioning of the new project. As far as the WRSS project is concerned, our last band in Gujarat is awaiting Wild Life clearance with a very long wait; awaiting for the Supreme Court to conduct its hearing, but we expect this to happen shortly. We are one amongst out of the 300 cases awaiting similar approvals. Our Mumbai transmission currently has 8 EHV sub-station backed systems with reliability of 100%, thereby ensuring incentives.

Moving over to EPC business, our current order book stands at Rs. 4,200 crores, mostly from the internal project. We are actively exploring, participating in the emerging opportunities in Road, Power and Smart Cities.

On the infrastructure business, as you are aware, our portfolio largely comprises of 11 road projects and a Metro in Mumbai. Total revenue during this quarter was Rs. 213 crores, a growth of 33% over the corresponding quarter last year. On road business, our ten operating roads continue to perform well with traffic roads of 5% across corridors. Last road project i.e. Kandla-Mundra is expected to be revenues operational in the third quarter. On Metro business, we are happy to announce that we have completed first year of commercial operation and we carried nearly a billion commuters providing 99.9% service efficiency to commuters. We have also received approvals from the commissioner of Railway Metro Safety for increasing the maximum operating speed of current 50 to 80 kilometers. Last approval of the Railway Board is awaiting for implementing that. We have received fare order from Fare Fixation Committee constituted by Government of India in July which announced increase in the fare band ranging from Rs. 10 to Rs. 110. As suggested by Fare Fixation Committee, the company has approached Government of Maharashtra to provide subsidy and allows unlocking of other revenue generation opportunities permitted under the Metro Act to contain the Fare rise. As far as non-fare revenue is concerned, we have currently leased out 100% of the permissible space at our station with the key retailers like government owned ATM operators, banks, etc. with a scope to do lot more in this area provided Metro Act provisions are allowed to be used and we received permission from our partner and Government of Maharashtra. On Cement front, Reliance Cement business continues to perform well and has positioned itself as a premium brand in price currently with the brand leaders in the region. During the quarter we earned a revenue of Rs. 357 crore. Within a span of one year Reliance Cement has gained significant market share in Madhya Pradesh, Uttar Pradesh, Jharkhand, Bihar, West Bengal and Vidarbha region. As you are aware, demand growth for cement has been sluggish lately but we hope as the economic activity picks up, the cement consumption will grow rapidly in the coming quarter.

On the defence front, as we have mentioned to you in the past, the company is pursuing the opportunities as a sector and on the Pipavav Defence and offshore engineering company, we are awaiting the permission of Gujarat Maritime Board after having received the Competition Commission of India's permission and thereafter the open offer process will start. Before I conclude, I want to remind once again that the robust balance sheet and strong team, we are strongly positioned to capitalize on the emerging opportunities. With these initial words, I will be very happy to take your questions. Thank you.

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

Sumit Kishore: Sir my first question is; could you please share the EBITDA across the Road, Mumbai Metro and Cement businesses for the first quarter of FY16 and incase you have the numbers handy, the same numbers for the full year FY15 as well?

MS Mehta: I can mention to you the broad level; the Cement EBITDA per ton was roughly about Rs. 500 a ton, which is industry norm in Central India.

Sumit Kishore: And the EBITDA for Roads and Mumbai Metro, please?

MS Mehta: The EBITDA for Bombay Metro is also positive and roads of course we are running at about 90% EBITDA margins, so for this entire number is clubbed inside the infrastructure, we can just split the details and give it to you post the call.

Sumit Kishore: And so far for the Pipavav Defense and Offshore Engineering stake; has there been any cash consideration so far or the transaction is yet to be concluded in any form?

Lalit Jalan: No, up to now there is just a definitive agreement between us and the previous promoter. We are waiting all the approvals for the open offer to commence and the last approval of the Gujarat Maritime Board is awaited, once that is done, then we will first take the 18% stake from the promoters at Rs. 63 a share and whatever we get out of the open offer, which is at Rs. 66 a share. Now there is no cash.

Moderator: Thank you. We have the next question from the line of Prem Khurana from Batlivala & Karani Securities.

Prem Khurana: One bookkeeping question; I mean this quarter it seems other income seems to have been pretty high, so what explains that and second; on a sequential basis there is a drop of around Rs. 60 odd crores in our interest cost, why would this be there in these two things if you could explain please?

Lalit Jalan: We had fairly large refund from Income Tax and it is also the interest income on those refunds.

Prem Khurana: How much could that be, if you were to break it down into a normal other income that you get it on a quarterly basis and the number that you would have had on account of this large?

Lalit Jalan: About Rs. 50 crores is the interest income because of that.

Prem Khurana: And how about interest income, it has come off on a sequential basis, I mean given the fact that it has not had any drop in our debt number? Why would this come down by some Rs. 60 odd crores in a quarter's time?

Lalit Jalan: We actually did the WRSS merger in Q4 of last year, so the entire interest which was going in the consolidated for the WRSS, is now coming to the main company, on the debt.

Prem Khurana: No, but on a sequential basis, the number has come off, by Rs. 60 odd crores.

Lalit Jalan: Q4 the whole impact for the whole year was there.

Prem Khurana: And sir, there was some media report suggesting, I mean we are looking a power opportunity in Bangladesh, so is it fair to assume, I mean if we were to take this project by means of EPC work for that would come to Reliance Infra and therefore we would get to have our EPC order back log augmented?

Lalit Jalan: Yes, I would say that is a fairly high probability event but I think the power teams are moving for the 24x7 basis to make the project happen. So as we finalize the PPA, the land, the EPC and financial closure would also be finalized.

Prem Khurana: And how much this opportunity could be worth; as in terms of even if we do the EPC work because I understand the equipment part would be kind of; it would carry us some equipments to that location, so on equipment we would not be able to get anything only. So it will only be EPC, so what could be the opportunity size in this project?

Lalit Jalan: The total project cost as we see it for the 3 GW solar project including FSRU at Bangladesh, as it is as per the media reports given out by Reliance Power, there is approximately to the tune of $ 3 billion. Out of which, yes you are right; that there be a billion plus will be the equipment, so if we leave out the IDC and everything, so the EPC opportunity could be more than a $ 1 billion.

Prem Khurana: And how about this Himachal Pradesh, Hyderabad, there were some media report suggesting that Himachal Pradesh State is ready to give it to us, so would we be willing to take it, I mean given if either there has been this time lapse and because which cost covenants would have been there and the math would have changed for sure? So if they will offer it to us, would we be willing to take it?

Lalit Jalan: We are in discussion with The Himachal Pradesh Government now, we have just been informed and this is a project for which we had bid in 2006 and so we are in discussion and subject to all clearances, of all our issues with Himachal Pradesh, then we would take a call.

Prem Khurana: And Sir, in your opening remarks you mentioned, I mean you talked about opportunities in Roads, Power and Smart City; so what kind of orders are we looking from these 3 segments put together in this year or next year?

Lalit Jalan: It is extremely difficult to give a number, we have never given a number if you see in our entire history but we are looking at; if you look at the entire Road opportunity, we are talking about in the balance 6 months between EPC, BOT and hybrid BOT, the opportunity is more than Rs. 50,000 crores. If I look at transmission, that opportunity is Rs. 20,000 crores - Rs. 25,000 crores, and on Smart Cities they are talking about overall Rs. 10,000 crores. We are looking at specifically couple of cities for the Smart City including BKC which is coming up. So, it is not clear right as of now as to how much of the EPC, BOT, hybrid BOT or whatever we will be able to get but we are very clear in our mind that we need to work on very good economics.

Prem Khurana: On road side, at least at this time you would have had good number of awards; I mean financial year till date but we have not been able to get even a single bid ruled in our favor. Only we are participating or is it I mean, we have been staying back, we want this competitive intensity to come down and then look at opportunities and the space?

Lalit Jalan: No, we look at all the opportunities closely. We come out with our own bids but many times our bids are lower than the limits that the NHAI is putting and if you see, all the Road projects which have been bid out over the last 6 months and you can just do the analysis at your end, you will find that while most people are at one end, typically in every Road there is one outlier who bids on a premium and miss the road. So, we do not think that that particular company is even getting low single digits IRR for that opportunity. So, we are not interested in that.

Prem Khurana: But we are confident that situation would not sustain and one day you will get to as entity as place and therefore we would be able to get orders. If that is the situation if you were to have outliers for the rest of the year, there again we would not be able to get even a single bid ruled in our favor then, right? So, you believe that sanctity would prevail and then one day you would get to have your orders in place.

Lalit Jalan: Yes, clearly if you also see the intensity has anyway come down, if you would look at the bids of 2008, 2009, 2010, there used to be 10-15 bidders, now there are barely 3-4 bidders in any typical Roads. The only issue is in every road there is one outlier. So, your question is that if there is one outlier continuing to be in every Road then we will not get a single Road on BOT and Hybrid BOT. We are very happy not to bid a single Road, we would rather than go to the secondary market and trade by.

Moderator: Thank you. We have the next question from the line of Mohit Kumar from IDFC Securities. Please go ahead.

Mohit Kumar: Sir what was the WRSS revenue, EBITDA and PAT contribution during the quarter, so that we can make apple to apple comparison?

Lalit Jalan: The revenue for the 8 lines because the 9th line is not operating, for the quarter is about Rs. 44 crores. And for the WRSS-B 6 lines and WRSS-C 2 lines, the EBITDA is about Rs. 40 crores.

Mohit Kumar: And sir how much is the last line, what is the capital cost of the last line which is yet to be commissioned?

Lalit Jalan: 120 kilometers.

Mohit Kumar: Could you quantify in terms of crores, how much crores?

Lalit Jalan: It is about Rs. 250 crores to be capitalized.

Mohit Kumar: And sir, in the last midterm review done by the MERC, there was some comment on the power budget costs around Butibori, so I think we are petitioned for around Rs. 2000 crores of fuel costs and they approved only Rs. 1444 crores, so is this under recovery recognized or how you are able to tackle this going forward and how are you going to address this in coming times?

Lalit Jalan: No basically what happened was; when we had applied for the tariff of Butibori, we had gone to MERC, at that time the FSA prices of coal were significantly lower and while we have tried very hard over the last 2 years that our case is at the top of the list to get the FSA for both the units completely. We have so far been able to get FSA for only half of one of the units, so the rest of the coal we are going to buy it through E-Auctions and things like that. So they said that since you do not have the FSA, my FSA price was that much, so we have got it represented to them and explain to them that these are the 25 steps that we have taken to get our represent because to get the FSA we have to get MOP, MOC moving. Our case is very higher, we have met with MOP and MOC and the FSA should happen. And going to the past, the company MERC, we are expecting a favorable orderwhere they do the true up for Butibori.

Mohit Kumar: Sir, what is the update on Delhi arbitration, is there something which you can share?

Lalit Jalan: The Delhi Metro Arbitration is pretty much at the concluding stages, we expect judgment to be made in the October-November timeframe of the DMRC arbitration. On another related development all the lenders led by Axis Bank have filed a appeal to Delhi High Court against DMRC and Government of India for not paying their 80% termination payment and that is due for hearing tomorrow.

Mohit Kumar: What is your plan of Mumbai Metro, are we going to increase the fare in near term, what is the timeline when you can see that rightly as you can say that we increase the fare or Government of Maharashtra give us some subsidy?

Lalit Jalan: Well see, if you look at the FFC ruling; that is available on our website and also in our media release is what we have mentioned that The Honorable FFC has allowed us to raise the fare up to Rs. 110; however, as part of the recommendation they have suggested that we should explore opportunities with Government for: a) getting additional land for monetization, so all the retail space that be available on the station which is also consumer friendly in terms of services which we offer to them and this is allowed as per the Metro Act, additional advertising or any other subsidy support that we can get which can help defray the backed up tariff of the consumers. So, we have written a detailed proposal to Government of Maharashtra mentioning all the things suggested by FFC and we have also intimated that for the next 3 months up to October end, we will be maintaining the same fare. Also we are going to make all efforts to see that ideally there is no tariff increase, we are hopeful that Government of Maharashtra being a partner in our project, will see the recommendation of FFC and also the provisions of the Metro Act and help because as part of the Government's directive, it is to help the consumers of Mumbai.

Mohit Kumar: And the last question; is it possible to share the Reliance Cement volume for this quarter and when the second 5 MTPA plant to be commissioned?

Lalit Jalan: We actually did about 65% capacity utilization during the quarter, it is more or less at par with the acquisition with going up to 70% and we hope to do better in the coming quarter.

Mohit Kumar: And when do you expect the second 5 MTPA to be commissioned?

Lalit Jalan: I think next 5 MTPA we are yet to set the ground as yet, we have all the blueprint ready, engineering ready, we have not started the ground work as yet. So once we start the ground work that will take about 24 months or so.

Moderator: Thank you. We have the next question from the line of Saket Kapoor from Kapoor and Company. Please go ahead.

Saket Kapoor: What has been the net debt level as on June and its comparison vis-à-vis March?

Lalit Jalan: The total borrowing number as of end of June is at Rs. 26, 600 crores and in compare with March at Rs. 26, 300.

Saket Kapoor: This is what the general trend is, means we are comfortable maintaining it? What is the ratio sir, if you can quantify, as we speak of the ratio?

Lalit Jalan: Debt equity ratio is little below 1.

Saket Kapoor: Sir, now coming to the point about the Delhi Metro Express part wherein in your press release you have mentioned that we have provided for a sum of Rs. 156 crore for the June quarter also to the DAMEPL, when the agreement has been freezed,still now we have to continue funding it, could you explain the part please, press number release 2, wherein you have mentioned Rs. 157 crore in?

Lalit Jalan: Yes, there was a loan repayment of Rs. 156 crores in the DAMEPL it was due during the Q1 which we have funded.

Saket Kapoor: We owed the money to DAMEPL?

Lalit Jalan: No, DAMEPL owed to the bank because what is happening is that the DMRC is not fulfilling its obligations, they have taken over the project but they have not taken over the debt. And they have not even opened an Escrow in favor of the lender, complete violation of the agreement, and which is why all the lenders together led by Axis Bank has filed a appeal in Delhi High Court against DMRC. So, while they are enjoying the revenue, the debt is being serviced by us.

Saket Kapoor: And for this matter only we have a hearing scheduled tomorrow?

Lalit Jalan: That is right, but that is a appeal filed by the lenders, we are a party to it but this RIT is against DMRC.

Saket Kapoor: What kind of outcome can we expect from tomorrow's hearing also sir?

Lalit Jalan: If there is a termination there are only two outcomes, if it is DMRC's fault they pay 100% of debt and 130% of equity. If it is concessioner's fault, then DMRC still pays 80% of debt, so lenders are saying give us; the best case for DMRC is that they have to pay 80% of debt, so they are saying at least you pay 80% of debt and put your money in an Escrow and they are willing to fed the DMRC but DMRC is saying; neither it is their fault but I will still not pay because I think termination itself is wrong but it is you cannot challenge with the termination. If I walked out, I walked out, it is my fault.

Saket Kapoor: That means for tomorrow, had I did not tell you, do this the situation. Then for tomorrow, the judgment it is; had I did not tell you lose, it is going to be in our favor only.

Lalit Jalan: We cannot make any comment

Saket Kapoor: Okay, now coming back to the point Sir; in the Financial Express Delhi, they have covered your results and they have mentioned that meanwhile Reliance Infra portion is 12% fall in net profit with Rs. 250 crores incurred on Mumbai Metro and Rs. 39 crores in Cement business, the losses of Rs. 39 crores. Sir but in your segmental part you have contributed profit of around Rs. 14 crores. Could you clarify that mistake has been done by Financial Express?

Lalit Jalan: No, it is essentially; if you see our media release, media release tells everything, and then you look at the media release, this is the number that is there, Rs. 14 crores is EBIT

Saket Kapoor: And for debt, after providing for this interest part, it is Rs. 39 crores loss.

Lalit Jalan: That is right.

Saket Kapoor: As you know, you were telling that we are purchasing clinker and then packaging and grinding in our cement and now are we into core production, means we are doing the core production or we are again interested in bid trading of clinker and processing it to cement?

M S Mehta: I think, after commissioning of Maihar clinkerization plant, we are running our own clinker in the cement mills.

Saket Kapoor: Okay we are not purchasing clinker form the market now?

M S Mehta: No, we are not doing anything, we might do so, swap here and there for logistic consideration but net-net it is our own clinker.

Saket Kapoor: And the utilization level for this quarter was Sir?

M S Mehta: 65%.

Saket Kapoor: And the last question Sir, which are the key markets we are setting that you just told know, the Bihar-UP front mainly.

M S Mehta: It is MP, UP, Bihar, West Bengal, Vidarbha.

Saket Kapoor: And they are distributing in the same pattern which you have mentioned, but the MP is higher, UP is lower to that and then in that order itself or which is the biggest market Sir?

M S Mehta: UP and MP are almost similar type margin.

Saket Kapoor: Percentage Sir, if you can share?

M S Mehta: I do not have the numbers.

Saket Kapoor: My last question is to the breakup of your other income part sir; to the tune of Rs. 500 crores, if you could just give the breakup of the same; Rs. 492 crores?

Lalit Jalan: This is interest income.

Saket Kapoor: The total Rs. 492 crores is in the interest part Sir?

Lalit Jalan: That is right.

Saket Kapoor: That is the receivables from the consumer and all; that accounts for it?

Lalit Jalan: That if at all, is there in the other business income. That is all interest income.

Moderator: Thank you. Ladies and Gentlemen, that was the last question and we will now close the question queue. I would like to hand the floor back to the management for closing comments.

Lalit Jalan: Thank you Ladies and Gentleman for joining this call today. If any residual query, feel free to contact the Investor Relation. Look forward to talking to you in the next quarter. Thank you.

Moderator: Thank you. Ladies and gentlemen on behalf of Reliance Infra Limited this concludes the conference call. Thank you for joining us and you may now disconnect your lines.