



Reliance Infrastructure Limited

Q1 FY17 Conference Call of Reliance Infrastructure Limited

September 14, 2016

Moderator: Ladies and Gentlemen, Good Day and Welcome to Q1 FY17 Earning Conference Call of Reliance Infrastructure Limited. 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 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 – CEO and Group Director, Strategy and Corporate Affairs. Thank you and over to you, sir.

Lalit Jalan: Good Afternoon all analyst friends and thank you for joining the call on a very busy day when there are many companies having analyst call. I am going to talk to you, give you some back up points for our results which we announced yesterday. I presume that the 'Quarterly Results' together with the 'Media Release' is with all of you and I will just give you the Key Highlights:

The Financial Performance: It has been a very encouraging performance for Reliance Infrastructure in a very challenging environment. Our total consolidated income is at Rs.7,640 crores, EBITDA is at Rs.1,751 crores which is a growth of 4% and our net profit is at Rs.439 crores which is a growth of 7%; however, this includes loss of Rs.50 crores on account of a newly acquired Defence business which is at early stages of ramp up, and if you would exclude on a like-to-like basis, then the net profit growth is up 19%. Our balance sheet continues to be very strong; our net worth is at Rs 25,920 crores which gives us a book value at Rs.986 a share.

Coming to the key highlights for the quarter: There were two big things: One, we won two arbitration awards for two NHAI Road Projects. Even bigger than that was this new CCEA initiative to unlock the funds in the Construction/BOT sector. So what they have done is that they have taken a decision and they have given guidelines to all the government companies.

So the key highlights are Point 1, that in case the arbitration award has been won by a private party, then of course the government organization reserves the right to challenge. But if they decide to challenge, they should pay 75% of the award won to the private sector company against which a bank guarantee will be given by the bank which has funded the project and this will at least remove the interest cost and give great relief and make cash available to the Construction sector.

The other part they have requested their urge of course is not a mandate that even if the arbitration started in the old act, they urged that they should transfer into the new act.

Thirdly, for newer disputes as well as the older disputes, they have even recommended that Conciliation Committee comprising of independent experts be put for speedy disposal of cases. These landmark initiatives I think will boost the stressed infrastructure sector and help infuse the much needed liquidity in the system as per reports circulated by government and by many of you in your reports the total amount of funds against awards won by the private sector could be between Rs. 30,000 and Rs. 45,000 crores at 75% of the award won. Sure we are watching the developments on this very closely and our time for challenge of two awards is there in the next one month and we will see how NHAi behaves although NHAi Chairman has gone on record saying that "They welcome this initiative and that they will be inclined to pay this 75%."

Besides the two road projects arbitration that we have already won, there are another about eight arbitrations which are at very advanced levels of closure. The total value that we have claimed is around Rs.14,000 crores. We expect half of these maybe to close even in this financial year and on the basis of CCEA initiatives we expect some cash flow to accrue to us.

Coming to the EPC Business: EPC is now going to be one of the very strong pillars of growth for your company. This is just to update; we have already executed more than Rs.33,000 crores worth of EPC projects over the last six years and we have done more than Rs.50,000 crores over the last ten years. We have build up our EPC team, added domain experts across the new verticals and we are strongly looking at the following verticals. So we are looking at the entire Power sector vertical which is Generation, Transmission, Distribution including Nuclear Power BOP areas, we are looking at the entire transportation sector which is Roads, Railways, Metro Rail, we are looking at the entire Marine area; Ports, Inland Waterways, Marine Works, Ganga Cleaning, we are looking at the major civil infrastructure across all the verticals and we are also addressing Mega Infrastructure Projects, be it Sea Link, Trans-Harbour Link, Bullet Train or Specific Expressways. Based on our analysis, based on what we see at this level, the total opportunity from Government of India alongwith these verticals would be to the tune of almost Rs.2 lakh crores a year.

We have already put in bids of Rs.15,000 crores in the last three months. The total bids in pipeline that we see which we are addressing over the next few months is almost Rs.20,000 crores. We think we will be in a position to get qualified and shortlist and bid for 1 lakh crores worth of projects over the next 12-months and the initial internal milestone that we have worked for the EPC team is to reach our previous highest order book of Rs.30,000 crores and we will keep informing you of any developments in this as we win any award.

On the asset Monetisation, I am very glad to announce that we could conclude our Cement transaction. This transaction has happened in less than six months between closing of documents and money in the bank. This is despite several regulatory challenges and we worked very closely with the buyer to make it happen. There was the amendment in the MMDR Act and the rules had to

be notified and all those took time. In spite of all that, we could close the transaction in six months. The entire proceeds have been already used for debt reduction. We are now looking for the roads and Mumbai Power 49% stake sale transactions. Both are progressing satisfactorily and we will update you on these in the days to come.

Coming to the defence vertical, we have executed the sub-concession agreement for Pipavav valid up to 2046. So that has got the longevity that we wanted. That was a major regulatory approval that we needed. We have received 27 industrial licenses across the entire spectrum of defence initiatives. The CDR exit has been approved by RBI and has got approvals from many banks and we are looking to get out of CDR in the near future. The defence team also is looking at multiple opportunities across the land, the aerospace, and the naval systems and we hope that we will be able to make some good announcements over the next couple of quarters

We have announced strategic partnerships with world majors primarily Rafael of Israel, Antonov of Ukraine, Abu Dhabi Ship Building of United Arab Emirates defence Industries, UAE, SAAB of Sweden and United Shipbuilding of Russia. We are also looking at other international majors for tying up for various products and information which will be shared with all of you .

Coming to the Power business, the Power business is the cash flow machine for Reliance Infrastructure business. The Mumbai Distribution continues to perform very well. We perform well across all parameters of customer care, quality, the transmission losses, the availability of power, all the technical parameters, the recovery of regulatory asset continues on track and we have already recovered almost Rs.2500 crores of regulatory assets from the approved amount of Rs.5500 crores, the balance amount we see being recovered over the next three years. Broadly, on a regulatory basis, it is slightly regulatory surplus in the current quarter. So the good part is no new regulatory assets are truly being added.

On the Delhi Distribution side, the issues which we had bought in Supreme Court in 2014 regarding our pending regulatory assets and multiple issues with the regulator, they have been heard, the entire hearings are over, the judgment is reserved from January. As per the recent mentions of Supreme Court in other cases, regarding Delhi Power, it seems that the judgment is expected shortly and we feel that this judgment will go a long way in resolving the regulatory challenges that we have in Delhi. However, on the good part, the business continues to perform very well; AT&C loss reduction continues to happen, quality of power supply to consumer remains to be very good, we benchmark ourselves with Mumbai across all the parameters and we are very-very neck-to-neck on multiple parameters, Delhi Distribution is even ahead of Mumbai Distribution.

Both the businesses continue to grow. We have seen 4% unit growth in Mumbai and almost 10% unit growth in Delhi. We have added 63,000 new consumers across Mumbai and Delhi and we proud to serve 67 lakhs consumers across the two marquee cities of the mega metros of Mumbai and Delhi, we are supplying power to two-thirds of Mumbai and two-thirds of Delhi.

Now, I come to Transmission, all our transmission projects are fully complete and 4,000 circuit kilometers is operational and these transmission lines work at almost 90% EBITDA margins.

Coming to our Infrastructure businesses, we have the Road business. So all the 11 Road projects are revenue operational.. The traffic growth continues to be in the range of 6% to 7%.The EBITDA margin is in the region of almost 88 to 90%. The total revenue growth has been 27% of course that is also because of one new road which came into the thing in the last one year is Kandla-Mundra Road.

The Mumbai Metro, I am happy to state that we are seeing very accelerated growth in the last 45 to 60 days. The ridership is showing a growth of 18% to 19% during week days. The overall growth from April to August has been around 12% to 13%. It has emerged as the densest metro in the country, we carry including weekends also more than 3 lakh consumers on a daily basis for a short line of 12 Kms. We already carried 200 million consumers with 100% train availability, multiple international companies have even come and appreciated the quality of work and the quality of our operations at Mumbai Metro. The implementation of FFC which was challenged in high court, the hearings are scheduled in October '16 and we expect that this will be heard on a day-to-day basis and the judgment on the FFC would come out shortly.

With this, I will open it to Questions essentially the three big growth takes for Reliance Infrastructure continue to be our Power business, continues to be our EPC business and now the new emerging defence business. Thank you.

Moderator:

Thank you. We will now begin with the Question-and-Answer Session. The first question is from the line of Ashutosh Narkar from HSBC. Please go ahead.

Ashutosh Narkar:

Two-three data points and then the questions: If you could give me what was the total EBITDA from the Roads business? Second, what was the total revenue earned by the transmission lines? Third was on the data part, what could be the recompense amount once we are out of the CDR on the Reliance defence business? That is the three data points. More so on the business; just wanted to understand now that we are focusing so heavily on the defence segment, can you identify the total business which we are targeting and in specific segments which could give us a much better idea apart from Ship Building of course which can give us an idea about how to evaluate the company much more efficiently?

Lalit Jalan:

So your question, the Road EBITDA will be almost 90%. Then your other question was on the total transmission, our total revenue is Rs.171 crores, this is across our WRSS, Parbati Koldam and Mumbai Transmission and the EBITDA is at Rs.150 crores which is at 88%. On the recompense amount on Reliance defence CDR, it is still under negotiation, it will be a marginal number.

Ashutosh Narkar:

So if I understand it correctly, you would have required under IndAS to reclassify the recompense amount which was to be paid from the time when the CDR became applicable, right, so we would have already passed that through into our balance sheet number, what would that number be?

Lalit Jalan: No, as I said that a) the number is not frozen, right, and b) as per the guidelines received, Reliance defence is not part of the consolidation...

Ashutosh Narkar: I agree with you I just wanted to have an understanding as to what could be the potential amount given that...?

Lalit Jalan: As these things get frozen, we will definitely let you know.

Ashutosh Narkar: Our outlook is that by the end of December this year, we would be out of CDR?

Lalit Jalan: That is our outlook.

Ashutosh Narkar: The other question was on how do we look at your defence business overall excluding the Ship Building business?

Lalit Jalan: We are of course very positive, we are addressing all the verticals, we are tying up with all the world majors, we have got the industrial licenses, the government is also just taking some gestation period in stepping up the orders. The total order flow to the private sector has not been very very substantial over the last one year because they were getting the base line set, getting all the processes set, but I think over the next 12 to 24-months you will see a different situation.

Ashutosh Narkar: If I may try to indulge you on this one, just wanted to understand, we look at trying to focus on the Rotor segment or we are trying to focus on the Radar Systems or specific issues in the electronic side, is that something which you can give us an idea on?

Lalit Jalan: No, we are focusing on all the verticals and that is why if you see our MoU that we have signed up is across all the verticals and going forward as the thing progresses we might decide to do anything different but as of right now we are focusing in all the three systems.

Ashutosh Narkar: So I just want to understand in the latest annual report, our investments in intercorporate deposits have increased meaningfully again and typically we end up earning only around 10% kind of interest on it while on the other hand we are trying to kind of deleverage our entire balance sheet. Is there any way we would look at kind of cutting down on the intercorporate deposits or what is the strategy on that front?

Sridhar Narasimhan: The major difference is because of the increase of our investment in the defence sector in the acquisition of Pipavav.

Ashutosh Narkar: Correct me if I am wrong, so the Rs.3400 crores which we see on the cash flow statement, that would largely be towards Reliance defence?

Lalit Jalan: That is a big part of it and there will be other ICDs also.

Ashutosh Narkar: These are typically would be callable in 12-months timeframe?

Lalit Jalan: That is right.

Moderator: Thank you. The next question is from the line of Dhaval Patel from Antique Limited. Please go ahead.

Dhaval Patel: Sir, could we have a breakup of the arbitration that we have in terms of against whom do we have this arbitration and for what projects and the amount in these eight projects...Delhi Metro would be about Rs.2800 crores?

Lalit Jalan: If I tell you broadly, we have the metro projects which is the Delhi Metro which was handed over to DMRC in 2013...Delhi Metro project is significantly more because we have been servicing interest and everything from the date of hand over. So that is on Delhi Metro. The other one is on Mumbai Metro. Owing to the delay in getting the ROW, the total ROW was delayed by 84-months. So that is on the Metro side. Then we have the Power projects, EPC, which is the two power projects, that big power project which we did for Government of Haryana and then besides that we have arbitration in Goa for money due from them, arbitration in Andhra Pradesh and also some other Road projects.

Dhaval Patel: So of this in the Mumbai Metro basically the Fare Fixation Committee has allowed us an increase in fare up to Rs.110; however, I think the government is opposing that, so you ask for some subsidy. So what is the progress there? When we talk about arbitration will the increase in fare basically take care of the arbitration automatically?

Lalit Jalan: No-no, there are two-three things: One, we have not asked for any subsidy. Subsidy is the solution suggested by FFC and FFC was appointed by Government of India and Government of Maharashtra. We have no member in the FFC. So two members of the FFC were from Government of India and one member was opted by Government of Maharashtra. So this three member committee also hired six independent experts across consulting firms, traffic firms, IIM, all kinds of places and they took their inputs also and they also considered what happens across the world. Based on that they have come with this fare structure of Rs.110, they have also made couple of additional recommendations that a) the entire real estate around the metro system as per the Metro Act, what is allowed anywhere else in India should be allowed for MMOPPL also. Secondly, they have said to the government that in case they feel that if the fare increase is not politically palatable to them, they may consider the operating subsidy.

Dhaval Patel: So if the subsidy is provided in some way in terms of real estate or if the fare is increased assuming, then the arbitration amount gets taken care of, right sir or that is a separate amount?

Lalit Jalan: That is separate amount.

Dhaval Patel: What is the status on Delhi Metro? We are still servicing the interest and debt, the arbitration has been going on for I think about two years now.

Lalit Jalan: Now the arbitration is at the fag end that is the filing of all the rejoinders and everything is concluded and we expect that three months from now we expect an award on the subject.

Dhaval Patel: On the EPC side, now we are saying that we want to build up our EPC order backlog substantially. So apart from beefing up the team, so what are the other steps we have taken because we have been bidding for the Road Projects since I think FY'12 we have not won a Road Project, primarily because of increased competition, so is there anything different that we are doing now for the EPC side?

Lalit Jalan: There is a major difference. When we were bidding for projects in FY'12 and all that, we were at that time not bidding from EPC angle, we were bidding from BOT angle. So clearly perhaps our desire of substantially higher return on equity was making us out of line or other people have been very-very aggressive, whichever maybe the case. Currently, our focus is away from BOT and we are looking to bid for pure EPC . Also a) we are qualified for almost Rs.10,000 crores worth of bidding and secondly the competitive landscape has reduced. So they have started bidding for the EPC on Roads. We have already completed 11 Road Projects on Road side, so we have the expertise, but yes, we are not bidding on BOT side.

Dhaval Patel: On the Hybrid Annuity side sir?

Lalit Jalan: We looked at it, we have not bid for any Hybrid Annuity so far.

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

Mohit Kumar: Sir, in this quarter, what are the changes which you have made on the account of IndAS accounting because our consolidated income from power has gone up significantly?

Sridhar Narasimhan: One major change is VIPL plant which we are having a long-term power purchase agreement. That comes from Reliance Power books to our books as our fixed asset. Now, whatever fixed changes we are paying them, they will be classified as finance cost and depreciation. So our power purchase cost will go down and finance cost and depreciation will go up. That is one major change. Same way our plants of WRSS and Samalkot power plant, they will not be treated as our fixed assets, they will be classified as financial lease now. Those are the two major impacts and of course fair valuation of certain investments which are long-term basis, that have been fair valued as at opening balance sheet.

Mohit Kumar: So the income of power has increased significantly because they put you for a power plant is being recognized as financial lease in our books, am I right?

Sridhar Narasimhan: Fixed asset in our books and financial liability.

Mohit Kumar: Why it is so? Because this is owned by Reliance Power, right?

Lalit Jalan: These are the IndAS requirements. If we have a very long-term till the life of the plant power purchase agreement, then this is the treatment that is to be given, other companies have done similar treatment, yes, it will create some confusion, it will take some time for all of us to understand the full impact of IndAS. We have given the reconciliation in the notes.

Mohit Kumar: I will take it separately. Second question sir, can you just share the Mumbai Metro Revenue EBITDA and PAT for the quarter?

Lalit Jalan: Mumbai Metro for the quarter it is revenue of Rs.55 crores. PAT is about Rs.(-70) crores.

Mohit Kumar: Since you have paid the debt for the proceeds for the Cement business, so what is the standalone debt right now as of 30th June 2016?

Sridhar Narasimhan: Standalone debt as of 30th June was around Rs.16,000 crores which was more or less same as the 31st March and the Cement transaction was concluded in the month of August, so the standalone debt as of now would be around Rs.13,500 crores.

Moderator: Thank you. The next question is from the line of Ashutosh Narkar from HSBC. Please go ahead.

Ashutosh Narkar: I just want to understand how much is the total investment we would have made in Reliance defence until date? Second one is just a follow up question on my earlier peer who asked about Mumbai Metro Rs.55 crores. Can we get the FY16 number and if you can break that up into fare box revenue and non-fare box revenue and the EBITDA margin we are earning on that?

Lalit Jalan: It is predominantly fare box. The non-fare box is more like I would say Rs.13 crores to 14 crores in a year and if I look at revenue, the revenue has gone up from Rs.49 crores in FY15 to Rs.55 crores in FY16 and the net loss is almost similar. To your first question on Reliance defence part, we have invested around Rs.2,000 crores.

Ashutosh Narkar: So Rs.2,000 crores would be the total amount including the ICDs?

Lalit Jalan: Yes, including ICD, including equity, including everything.

Ashutosh Narkar: So the equity component would be close to Rs.1,500 crores, right?

Lalit Jalan: Yes.

Moderator: Thank you. The next question is from the line of Kapil Popat from PNB Metlife. Please go ahead.

Kapil Popat: My question is on the Road Projects. Can you give us some timelines on when would the entire road projects be monetized? What would be the approx amount you are aiming for and what stage they are in currently?

Lalit Jalan: A) Please understand that these are multi-billion dollar transactions across 11 geographies requiring huge amount of due diligence and then of course all the regulatory approvals that goes with it. So we are at advanced stage of progress on the transaction and we expect that it will be concluded soon. So that is on point 1. to your second question, we have invested up to now between equity, debt and everything is to the tune of Rs.9,000 crores. So we expect that at least we should be able to recover our investment.

Kapil Popat: Would it be fair to say it will get completed in this year or next year it can take another few months?

Lalit Jalan: I am very hopeful.

Moderator: Thank you. The next question is from the line of Sachin Jain from Raga Securities. Please go ahead.

Sachin Jain: A couple of questions from my end: So the first one, what exactly is the debt on your books right now and is the company sticking with the guidance of being debt-free by FY17?

Lalit Jalan: As Sridhar mentioned, debt is in the region of Rs.13,500 crores on the standalone basis and we expect that with the closure of the road and the Distribution transaction, we will be very close to our target.

Moderator: Thank you. That was the last question. I now hand the conference over to Mr. Lalit Jalan for his closing comments.

Lalit Jalan: Yes, I would like to thank all of you again for taking time out for the Reliance Infrastructure Conference Call. Should you have questions later on, please get in touch with our Head of Investor Relations, Mr. Abhishek Mani and his team.

Moderator: Thank you. On behalf of Reliance Infrastructure Limited that does conclude this conference call. Thank you for joining us and you may now disconnect your lines.