"Reliance Infrastructure FY11 Earnings Conference Call"

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MODERATORS: **MR. LALIT JALAN – CEO & DIRECTOR, RELIANCE INFRASTRUCTURE.**
MR. ARUN KUMAR – ANALYST, HSBC SECURITIES & CAPITAL MARKETS.

Moderator: Ladies and gentlemen good day and welcome to the financial year ending FY11 results and business outlook conference call of Reliance Infra hosted by HSBC Securities and Capital Markets. As a reminder for the duration of this conference, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions at the end of today's presentation. If you should need assistance during this conference, please signal an operator by pressing * and then 0 on your touchtone phone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Lalit Jalan, thank you and over to you sir.

Lalit Jalan: The results are with all of you and I consider that those are read. So I will go straight into the key highlights of the company for the current year.

One thing which you would see is although the net profits for the company for the year are at a growth of 2%, but the quality of earnings which is an issue that some of you have raised in the past has improved dramatically. Our profit from operations has gone up from Rs 1,048 crores to Rs 1,434 crores which is an increment of almost 35% and our other income has gone down from Rs 825 crores to Rs 556 crores and this is because of the cash which was there in the books of the company which is now being invested in all the infrastructure projects and many of these projects are coming into fruition.

Other significant highlight is that owing to the tariff stay being removed in Bombay, we are not accruing any regulatory asset from the third quarter in the Mumbai business. There has been a net investment in the various infrastructure SPVs of Rs 3,300 crores for the year. The company which is India's largest infrastructure company continues to have a very sound balance sheet, very well-funded balance sheet. Our net debt is zero. Our total net worth on a consolidated basis at the end of FY11 is Rs 23,965 crores which gives us a book value per share on a consol basis of Rs. 958.

Coming now briefly to all the verticals – In the road projects, we have currently 3 road projects in operation. We will have further 3 in operations in the month of June and by the end of FY12, we will have 10 out of 11 projects which will be revenue generating and the last project which will be Kandla-Mundra will become revenue operating in FY13. During the year, we won two 6-laning projects namely the prestigious Delhi-Agra project and again the Hosur-Krishnagiri which is on the "Golden quadrilateral" connecting Bangalore to Chennai. Out of these 10 projects, 3 road projects are operational and work is going on all the other projects. Delhi-Agra, the work is expected to commence from next month onwards.

Coming to the metro projects – our Delhi metro became operational in February 2011. The concession agreement for this was signed in July 8, 2010, and the project was ready for operation in November 2010 in a very-very creditable timeframe of 27 months. This was achieved with round-the-clock working by both Reliance Infra, its vendors, DMRC and all concerns. We are very proud that an absolutely world-class infrastructure for many of those who have had a chance to witness it. For others who have not had a chance to ride the metro, I would strongly urge whenever you are in Delhi next and you are in T3, do take the metro, and give us your feedback. So the metro has been operational from February. We have now reached ridership exceeding 10,000 passengers. We are getting very-very strong demand for the retail spaces that we are having in the New Delhi Railway Station and Connaught Place Railway Station and we have already closed 20% of the real estate in the last 3 months at average prices of Rs. 700 per square feet per month lease-rent. Looking at the demand, we are very hopeful that we will be able to close all the real estate through world-class SMBP people, world-class retail people during the course of FY12. On the advertising side also, we are getting good strong demand for the advertising properties that are attached to the Delhi metro and we expect the project to become EBITDA breakeven in the first quarter of next year.

If I look at Mumbai metro line I – Work is going on round-the-clock. We expect the metro line I to become operational by the end of this financial year. This will be in line or little ahead of our concession agreement.

On Mumbai metro line II – The handover of the depot land etc. are all happening and we expect to start construction on that line shortly.

Coming to the transmission business – We are very happy that the first 100% privately-owned transmission company became operational last year. It is the 1500 kilometer double-circuit 400 kV line which has been made to enhance the capacity predominantly in Maharashtra and Gujarat. This would enable the flow of electricity from the Eastern region to the Western region and thus relieved the Western region of its shortages. This line again, we have got the clearances by October 2009 and we expect to complete the entire project by October 2011 which would be in 24 months. Also we are working very hard to strengthen the transmission system in and around Mumbai. We are happy to report that 3 extra high voltage grid stations have gone live last year in Mumbai where about Rs. 350 crores have been invested. This will be able to bring power from outside Mumbai into remote centers of Mumbai thus relieving the pressure.

Our EPC division has ended the year with an order book of Rs 29,635 crores. You would find that the turnover has not increased much in the current year, but I think we have reached the inflection point in our EPC business and starting Q1 FY12 of this year, you will find significant increase in the top-line and profits of our EPC business.

The company had announced a buyback of equity shares of Rs 1,000 crores at a maximum price of Rs 7.25 per share. Till Friday, we had bought back 18 lakh shares with an investment of Rs 115 crores.

We expect to start the Sea Link in early July and expects construction of second phase i.e Worli to Haji Ali to start simultaneously. We expect to have the second link of the Mumbai Sea Link ready within our concession period of 42 months. Hence if you look as of end of FY12, we will have 10 road projects which will be revenue operating, we will have two transmission systems which will be revenue operating, we will have the Sea Link, and we will have 2 metro systems. So we will have many of the assets in which we started investing from 2007 onwards to become revenue operating. We have started work on our cement projects in Maharashtra and Madhya Pradesh and we expect that 10 million tonnes of capacity will be built over the next 2 years' time.

Coming to our distribution business – You are aware that the stay on the Mumbai tariff was removed in September of last year and owing to the removal of stay, we are being able to recover our full cost. As a result, no more regulatory assets are being accrued in the books. Also the network continues to be world class. We have added 90,000 more customers during the course of the year and on our network, now we have more than 28 lakh customers being served.

On our Delhi distribution business – Operationally the two Discoms continue to do very well. We have closed the year with losses of 16.8% in Rajdhani and 19.9% in Yamuna, both of which are over achievement to the targets given to us by the regulator. Over the last 4 years besides sharing half our gains with the consumers, there has been a net gain of Rs 294 crores which has accrued to the Delhi Discoms. The CIL petition which was filed against Delhi tariff has now been quashed by the Delhi High Court and the stay which was there on DERC in going ahead with the tariff process have been removed. We have received the letter from the honorable regulator stating that they expect tariffs for Delhi to be out by July of this year.

All of our projects are financially closed and as we go forward, you will see the infrastructure revenues becoming bigger, EBIT from infrastructure to start coming in and the quality of earnings moving towards interest income to business income. With this, I would open the floor to Q&A. Thank you.

Moderator: Thank you very much. The first question is from Harish Bihani from India Bulls Securities. Please go ahead.

Harish Bihani: My first question is on the EPC business. In this particular year, the growth has been low versus whatever was your guidance. So we are looking at guidance for FY12 and also the EBITDA margin guidance?

Lalit Jalan: On the EBITDA, we have been guiding 8% EBITDA margins and we have been able to maintain it upto now. We expect the top-line to increase substantially and I hate to give a number, but it will definitely be more than double of last year.

Harish Bihani: And any particular reason for delays in this particular year?

Lalit Jalan: No because many of the projects which were under construction are now crossing the threshold limits and so they will start coming into our top-line and into our profit accruals.

Harish Bihani: Sir second question is on the road project, we have revenue generating 3 projects in FY11. Earlier we were targeting about 8, so again why the delays over year and how are things looking in FY12?

Lalit Jalan: As I said, 3 projects have got delayed to June and we expect 3 projects to start revenue operations in the month of June. In fact one of them is going live on the first of June itself and the delay predominantly is because of getting land from NHAI.

Harish Bihani: The third question would be on the regulatory assets which are in the balance sheet as on FY11 in Mumbai and Delhi distribution?

Lalit Jalan: The balance sheets are going to be out very shortly over the next 10 days and may be you can just call in offline and we can give you the exact numbers.

Harish Bihani: My fourth question was on the balance sheet numbers, so we will get the balance sheet numbers after 10 days, is it?

Lalit Jalan: Yes.

Moderator: Thank you. The next question is from Parag Gupta from Morgan Stanley. Please go ahead.

Parag Gupta: Firstly if I look at your standalone numbers, your effective tax rate is significantly low which kind of implies a negative tax in the fourth quarter. Could you give us a sense if there is any adjustment out there and secondly if I look at the total power purchase from Mumbai distribution, the implied number for the fourth quarter is significantly lower on a sequential basis. Could you give us an understanding of , has there been a reduction in the power purchase and if yes what is the reason for that?

Lalit Jalan: Two things. One is on the tax side, there has been a tax refund which reflects in Q4 numbers, tax refund of earlier years. On the power purchase, we can give you the exact numbers, but predominantly it will be because of lower consumption during Q4 and lower prices.

Parag Gupta: And just lastly could you give us a sense of what is the regulated asset base in Delhi distribution at the end of fiscal 11?

Lalit Jalan: Can I give you offline? I do not have the number offhand.

Parag Gupta: Sure, no problem.

Moderator: Thank you. The next question is from Ankush Mahajan from KR Choksey. Please go ahead.

Ankush Mahajan: Sir if you find the consolidated numbers, the cost of electrical energy purchased it has gone up, any particular reason for it sir for Q4 FY11 sir?

Lalit Jalan: That would be I think because of the Delhi distribution and these are actual costs which we are incurring. You are saying Q4 is higher than Q3 or Q4 is higher than Q4 of last year?

Ankush Mahajan: Q4 of this year versus Q3 FY11?

Lalit Jalan: I would request if you could speak to Amit offline and he can answer your query.

Ankush Mahajan: Sir would you throw some light on Delhi business, BSES Rajdhani and BSES Yamuna Power Limited because 2-3 weeks ago we read in the newspaper that there is some cash crunches going on and banks are not lending us, something. Would you elaborate these things?

Lalit Jalan: Good question. BSES Rajdhani and Yamuna are two of the Discoms which we won in the privatization in 2002 and at the time at which we received the two distribution companies, we have been able to reduce the losses from 55% plus to less than 20% now. The privatization process has been a big success for all the stakeholders and the Delhi Government itself has saved more than Rs 25,000 crores over the last 9 years which is extremely well documented. What unfortunately happened is our purchase mix of 80% of the cost of sales and in Delhi distribution for various reasons, the regulator has not given a tariff increase over the last 6 years. However, the power purchase costs during these 6 years have more than doubled. So instead of being 80% of cost of sales, the power purchase cost has now become almost like 130% to 140%. So, all the discoms including two of ours and one of TATAs since last 2 years borrowing money took care of this cash flow problem. Now clearly the amount of debt that the discoms can take is not unlimited and we are reaching the end. So clearly on an operational basis, the distribution companies are doing extremely well. The loss reductions are better than set up. There have been no costs which have been disallowed by the regulator. So everything is skewed to us from future tariff increases including carrying cost which has been mentioned in letter received from the regulator and this is as per national tariff policy, but clearly all the discoms are in the severe cash crunch.

Ankush Mahajan: So basically sir our strategy would be that increase in tariff cost in future will help us?

Lalit Jalan: There is no solution besides that because 6 years there has been no tariff increase.

Ankush Mahajan: Sir how we will cooperate this situation now?

Lalit Jalan: The tariff propsal is lying with the regulator. We have filed for the current year tariff. The details have been published in the newspapers. I think, we might get some direction by early June and then there will be a public hearing process post which, the regulator will come up with the tariff as per the timelines suggested which could be sometime in the middle of July and once the new tariffs come into force, we expect this cash flow position to ease out.

Ankush Mahajan: Sir Q4 FY11 EBIT margins for electrical energy division, is 8%., your guidance on the same?

Lalit Jalan: The electrical energy business is not very conducive to these EBIT margins and things like that because it depends lot on cost of power. Our returns are based on the total equity that we have invested in this businesses and it is irrespective of the top-line of sales or anything. So it is a much more of a regulated business where you make 16% return on equity.

Moderator: Thank you. The next question is from Sumit Kishore from JP Morgan. Please go ahead.

Sumit Kishore: The first one is actually again on the regulated business EBIT, though I appreciate we should be looking at ROE based returns, however, I look at the standalone results. Standalone EBIT for the electrical segment is flat, but it seems to have gone up sharply at the consolidated level. Is it purely on account of the Delhi distribution business where you have booked incentive?

Lalit Jalan: The difference between consolidated and standalone is only Delhi.

Sumit Kishore: Only Delhi, so basically the growth, EBIT for the full year, is about 49%.

Lalit Jalan: Partly it is also of our transmission projects, the 1500 kilometer transmission line which is commisioned. Those are very high EBIT businesses.

Sumit Kishore: Could you give me what is the EBIT for the Delhi distribution business in FY11 that has got consolidated in your full year numbers?

Lalit Jalan: You can just wait 10 days and the balance sheet will be with you.

Sumit Kishore: Sir the second question is on the revenue for RETL it appears that the revenue is quite significant that is getting consolidated in top-line, but of course the margins are very low. So what was the revenue in RETL?

Lalit Jalan: This is a trading business.

Sumit Kishore: Yes, so do you have the number of revenue because it seems your volumes have grown by 68%.

Lalit Jalan: I can give you offline.

Sumit Kishore: And my last question is on the Delhi Airport Express line. If I heard you correctly, you mentioned that it will be EBITDA turnaround in the first quarter of FY13?

Lalit Jalan: Not EBITDA, EBIT turnaround.

Moderator: Thank you. The next question is from Ashish Shah from IDFC Securities. Please go ahead.

Ashish Shah: One what was the CapEx for FY11 and what do you expect for FY12?

Lalit Jalan: The total equity we have invested in the year is Rs 3,300 crores for the year and since the equity does get front-ended, I think the equity calls in the current year will not be as significant.

Ashish Shah: What I meant is in the Mumbai distribution business, what would you have spent as CapEx during the year?

Lalit Jalan: Typically , we are now spending in the range of about Rs 300 crores a year.

Ashish Shah: Sir secondly with regards to your Mumbai distribution business and what is the kind of attrition of your customers into TATA Power and has that credit come down or has that increased and more in terms of attrition of high usage customers. So is it affecting the cross subsidization that typically happens and if you can just elaborate on what could be the impact of that?

Lalit Jalan: It is a good question. See what happens is cross subsidy is a reality in the Indian power sector and may be I can give you a simple example. Suppose your average cost of supply is Rs. 5, you have half of your customers in the low-end, slums and things like that and you want to supply to them at Rs. 2. The other half automatically thereafter will be supplied at Rs. 8. So that your average cost of supply of Rs. 5 is met. So that is the situation with our distribution company which is we have got 20 lakh customers who consume less than 300 units a month. Our competitor also has now cost of supply which is similar to ours. They are also in the Rs. 5 range; however, they do not have any low-end customers. So they are able to supply at even Rs. 5.5-6 whatever the regulator has allowed them. There are very few customers at the lower end. The regulator is now having its meetings to set up the cross subsidy amount not only for Bombay but also for Maharashtra as a whole because we want the open access to carry on, we want the competition to be there but we do not want unfair competition. Taking the same example, if there is no cross subsidy, somebody whose cost of supply is Rs. 6.5 also can take away the Rs. 8 customer. So it is uncompetitive compared to me, but because of no cross subsidy, he is taking away my customers who are subsidizing my Rs. 2 customers. Having said that, we have asked for all the cross subsidies that we have lost in the past and beside cross subsidy going forward, any cross subsidy which we do not get will be built up into the tariff for future. There is no P&L impact of that cross subsidy on our business.

Ashish Shah: Sir in P&L terms, you continue to book tariffs and book revenues as would have in the normal course and whenever that happens is the cash flow impact?

Lalit Jalan: Yes.

Ashish Shah: Sir lastly just bit on the other income side, this time the other income seemed to be higher. So any particular thing or it could just a normal treasury related activities or something?

Lalit Jalan: Are you talking about other operating income?

Ashish Shah: Other income.

Lalit Jalan: Other income has actually gone down.

Ashish Shah: Other operating income?

Lalit Jalan: Other operating income also has element of wheeling charges which we received from the customers who are migrated for using a network.

Moderator: Thank you. The next question is from Shankar K from Edelweiss. Please go ahead.

Shankar K: First thing is on can you throw some light on; in the press release of R-Power, we noticed that the Samalkot Plant, the High Court has rejected, so does it mean that only the Samalkot Power Plant transfer is being stopped or even the other two power plants which we sold to R-Power is stopped and what will be the balance sheet on P&L impact of this, do we have to pay up them back money and get the project back and kind of thing. Can you throw some light on that?

Lalit Jalan: There are two things. One is High Court has not stopped. We have removed the de-merger scheme from the High Court and as a result our current operating plants will continue to remain with R-infra. However, the expansion of 2,400 MW is being done by R-Power at Samalkot itself.

Shankar K: But we have sold them, R-Power has bought those 3 power projects, non-Mumbai license area projects by paying us some Rs 1000 crores at the PV level?

Lalit Jalan: That did not work out because of the demerger which we had planned

Shankar K: So it was an outcome of the demerger rather than being approved.

Lalit Jalan: That is right.

Shankar K: So it is basically then we will have to give them the money back and return back with us?

Lalit Jalan: The deal did not get consumed. This was the deal which was to happen.

Shankar K: And slightly technical question pertaining to that whatever operations that you did in those 3 power plants in this year in fiscal 11, you continue to report both in revenues and power in the P&L in this year, it include that right?

Lalit Jalan: Absolutely.

Shankar K: Now the second point once again slightly technical point which pertaining to this entire distribution license in Mumbai, now what is the permutation and combination that is possible and what is your take and your action likely to be?

Lalit Jalan: I think it is quite a detailed technical question which cannot be answered on the concall, but I would recommend you please come to our office, meet our Head of Distribution Mr. Mehta and he will be happy to spend an hour with you and explain to you the intricacies of the business.

Shankar K: But is it fair to assume that whatever happens, your P&L does not get impacted?

Lalit Jalan: That is our understanding.

Shankar K: Sir lastly on the EPC business is it broadly will you be able to tell out some of the key major projects which are likely to get executed and because I presumed there will be sizable amount of

R-Power related power projects also. If you could give some indication or color on that, not necessarily on the margins but largely on the execution part?

Lalit Jalan: We do not give project to project breakup, but clearly now our project portfolio that we have is predominantly in-house and so we have the one which will get executed between Infra and Power projects.

Shankar K: What I am interested in looking at is by when do you expect Sasan to get operationalize and when do you think Chitrangi or Krishnapatnam to come in?

Lalit Jalan: I think R-Power has announced yesterday that they expect Sasan to be live by end of 2012.

Moderator: Thank you. The next question is from Gautam Bafna from B&K Securities. Please go ahead.

Gautam Bafna: You mentioned that there has been some tax refund in fourth quarter for earlier year. Can you please quantify that amount?

Lalit Jalan: Request if you could may be meet up with Amit Jain post the call.

Gautam Bafna: Sure sir and my other question is regarding Delhi metro, what kind of per day revenue we are generating right now?

Lalit Jalan: As I said currently we are at the start-up sales. We are at about 10,000 passengers a day and our retail and advertising are being built in and as per the guidance as I said, we will be able to cover all our cost and interest by the first quarter of next year.

Gautam Bafna: And you mentioned about some of the part leased out for retail space, I missed the quantity. Can you please quantify that number, how much has been?

Lalit Jalan: It is about 20% of the retail space that we have available in phase 1 in the two stations and these are being leased out to absolutely the best brand names that we can think of and these rentals on an average we are getting are in the range of Rs. 700 per square feet per month.

Moderator: Thank you. The next question is from Atul Tiwari from Citigroup. Please go ahead.

Atul Tiwari: Sir I have a question again on Mumbai distribution. Is it fair to assume that even in the worst case scenario, if somebody else manages to win the license for Mumbai area, hypothetically the distribution assets will either remain with you or you will get a current fair value of the distribution asset and hence it will not impact the P&L or balance sheet of the company?

Lalit Jalan: It is a good question and I would again request that all of you have questions on distribution to may be send a mail to Amit Jain and what Amit will do is with our leadership team and distribution fix up a one-to-one with all of you there and we can answer all the permutations, combinations, what if this happens, what if that happens, anything. In normal circumstances as per current law, your assets cannot be sold away to anybody.

Moderator: Thank you. The next question is from Satyam Thakur from Morgan Stanley. Please go ahead.

Satyam Thakur: I just wanted to ask about the other income in the standalone business that seems quite high in Q4 even YoY and QoQ both. Could you just throw some light on that? Are there any extraordinary items involved in that?

Lalit Jalan: Offline I can tell you, but I do not think there is any extraordinary item.

Satyam Thakur: And another question was could you shed some light on the progress on the airport project?

Lalit Jalan: The 5 airports continued to be with us and we are now at least about 6000 passengers a month from 0 when we took them over and we have been able to get training academies and other operations at the airports. We have done detailed planning for the real estate around the airports and we expect to start monetizing those. In the current year, we have about 260 to 300 acres of clear land around these 5 airports.

Moderator: Thank you. The next question is from Rupa Shah from Prabhudas Lilladher. Please go ahead.

Rupa Shah: Sir I wanted to ask that in FY11, have we included any revenue from the Delhi metro real estate?

Lalit Jalan: Whatever has come.

Rupa Shah: And sir what would be the area leased out in this year?

Lalit Jalan: What happens is once we signed the agreement, we get about 2 to 3 months for the fit-outs which is free of rent. So really retail revenue will start accruing in starting June of this year.

Moderator: Thank you. Ladies and gentlemen we will take one last question from Harish Bihani from India Bulls Securities. Please go ahead.

Harish Bihani: Sir on the Delhi metro if you recall is there was a penalty charge of Rs 20 crores and we were trying to impress upon the regulator to give us extension of 7 months so that this penalty be waived off. So has this happened in this particular year?

Lalit Jalan: No, this has not happened yet. The discussions are still going on. We have several letters and some meetings are happened, but the matter has not been resolved yet.

Harish Bihani: On the order backlog which is currently there in the EPC business, if we can get a breakup of the project wise that will be great either offline or right now?

Lalit Jalan: We do not give project by project breakup. We give an overall number, otherwise it will become huge excel sheet that we will be giving around.

Harish Bihani: My last question would be on the other income. In this particular year, there has been a huge volatility in the other income especially in the standalone part and there has been a huge concern for the investors pertaining to other income. So if we can just get a breakup of the other income for this full year probably we will be able to appreciate how the things are moving?

Lalit Jalan: Just 10 days the balance sheet will be with you.

Harish Bihani: And also the breakup of the other income?

Lalit Jalan: Everything will be there.

Moderator: Thank you. Ladies and gentlemen that was the last question. I would now like to hand the floor over to Mr. Arun Kumar from HSBC for closing comments.

Arun Kumar: We would like to thank the management of Reliance Infra for this opportunity to host this call and we would also like to thank all the participants for dialing in. Thank you all.

Lalit Jalan: Thank you.

Moderator: Thank you. On behalf of HSBC Securities and Capital Markets that concludes this conference call. Thank you for joining us.