



Reliance Infrastructure Limited
Q4 FY-14 Results Conference Call
May 20, 2014

Moderator: Ladies and Gentlemen Good Day, and Welcome to the Reliance Infrastructure FY-'14 Results Conference Call. 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 at Reliance Infrastructure Limited. Thank you. And over to you, sir.

Lalit Jalan: Good Morning, and Welcome to the Reliance Infrastructure Con-call for Q4 2014. I am happy to announce a very encouraging quarter for Reliance Infrastructure. The results are with all of you, but I will just spend the first 10 minutes giving you certain key highlights and as we see Reliance Infrastructure. Earlier the key concerns that most of you have expressed and then open it up to Q&A.

For a very detailed numbers what I would request is that for people can speak to Amit post the call for any fine details or any numbers that they might need and we can focus of this call more on strategy and direction for Reliance Infrastructure. The total turnover for the company was at Rs.5,036 crores, which is a growth of 19% over the quarter, the profits are at Rs.621 crores which is a growth of 38% over the quarter. For the whole year there is an EBITDA of Rs.4,071 crores

and the net profit is Rs.1,914 crores. The balance sheet continues to be strong. The net worth for the company is at Rs.27,143 crores which translates to Rs.1,050 per share. The company is comfortably financed with the debt-equity of 0.921 which is clearly the lowest getting ratio in the infrastructure space with most of our colleagues being in the 3, 4, 5:1 ratio.

Also when you look at the numbers specially when you look at the year and the Q4 in particular, in Q4 of the previous year there was Rs.210 crores tax credit which loads up the Q4 of last year if you correct for the tax anomaly, there is a growth in the Q4 on a year-on-year basis also, and also last year there was a one-time exceptional gain of Rs.380 crores on sale of RPower stake. So without the extraordinary item the profits are up for the year.

Coming to our 'Power' business, Mumbai is the flagship of the group, and we are proud to say that we are the most competitive supplier in Mumbai among all the four suppliers in Mumbai, namely BEST, Tatas, us and MSEB. Based on MERC numbers, our average power tariff is the lowest in Mumbai. Once the tariffs the level playing field has happened for the consumers in Mumbai with the imposition of adjust cross subsidy surcharge. The same formula has been used for all our competitors namely Tatas and MSEB also, and they also have similar cross subsidy surcharge which basically makes the level playing field. Just to give you the example, even though my average tariff may be Rs.7, I might be billing the low end consumers at Rs.3-3.50, and the high end consumers at Rs.9.50-10. So the high end consumers are cross subsidizing by low end consumers. So if you take my high end consumer you have to pay me a cross subsidy surcharge to levelize the gain. The regulator last year had cleared a recovery of Rs.5,550

crores over 6-years which is Rs.950 crores a year and during the first 6-months because the order came into effect on October 1 we have recovered Rs.498 crores as the regulatory asset surcharge. And also on the cross subsidy front we have been able to recover Rs.290 crores.

I am happy to announce that all the HT consumers who we had lost to Tata Power over the last 4-years, we have been able to regain them back over the short period of 4 to 5-months. So by March 31 all HT consumers who had migrated to Tatas are now back on our supply.

Coming to the 'Delhi Distribution' business, the tariffs in Delhi still do not cover the current cost, although the cap has narrowed from a very high number to a smaller number today. So if I look at my Delhi Distribution business, the regulatory assets continue to build up as per the statutory advice given by the regulator to the Government of Delhi, the total regulatory assets built up for all the three Discoms up to FY-'13 had touched a number of almost Rs.20,000 crores, and that number as per the DERC Staff Paper now has crossed Rs.25,000 crores. So as a result of that, and the fact that the tariff in spite of promises of DERC are still not current cost reflective, banks are also finding it very difficult to lend to the Delhi Discoms, and as a result in FY-'14 we were able to pay a little more than 80% of our power costs from our collection. So currently, it is a Supreme Court order which talks about BSES companies to pay about Rs.700 crores up to May 31, which we are in the process of organizing both from internal accruals as well as from banks to meet the Supreme Court directions. The new tariff for the current year, the process is underway and we expect that new tariff should be announced by the end of June. We have been able to add about 3 lakh consumers in Mumbai and Delhi, we now serve

more than 29 lakh consumers in Mumbai and 34 lakh consumers in Delhi.

Coming to our 'Mumbai Transmission' business, all our arrears we could recover during the current year and all the transmission projects that we are currently undertaking, namely the western region scheme and the Parvati Coal Dam Power Project will be revenue operational during the current year. In our Gujarat Project there is one line, a very small portion of that pending is owing to the National Wild Life Board, which since it had got dismantled, we are just awaiting the reinstatement of that, so that it will take may be 15 to 20 days to complete the balance of that line.

Coming to our 'EPC' business this is a business which has seen a decline over the last couple of years and that is owing to the fact that all our first phase of projects which had Rs.27,000–28,000 crores of order book at one stage getting completed and we are at the tail end of completion of our first phase of projects. We are now at a very advanced level of being in a position to announce the next phase of projects in our EPC business. Among the various projects that we are looking at are the Reliance Power Tilaiya Project, the Sassen Expansion Project, the Hydro Projects. Also after a long time, we are looking at external EPC projects both in India as well as overseas. We are very hopeful that over the next couple of quarters we should be able to announce some substantial wins in our EPC business.

Coming to the Infrastructure business, we are progressing very satisfactorily on our Roads business; 10 of our 11 Road projects are revenue operational, and the last project which is the Kandla–Mundra Project is under rapid execution, and we expect that road will also become operational during this financial year, so which will mean

during this financial year our entire portfolio will be revenue operational.

Coming to our Mumbai Metro Line-I project which is the Versova Ghatkopar, I am happy to announce that the line is now fully complete. In spite of the media what they are saying, we have been able to complete the line ahead of the allotted time which is unique for an infrastructure project in Mumbai. The inspection from CMRS is over last week, we are now awaiting their final approval, once their final approval comes which could happen over the next couple of days also as early as that, within a week of that we will be in a position to start commercial services on our Mumbai Metro Line-I. There are a lot of apprehensions on the issue of fare to be set up in the Mumbai Metro Line, and I want to explain to all of you the law in operation today. The Mumbai Metro Line-I is governed under the Central Metro Act; it is registered under the Central Metro Act, and our company is the designated metro rail administrator. As per the Act the initial fare of the metro is to be decided by the Metro Rail Administrator which is us. We are in discussions with leading national/international people keeping the mandate of the setting up of the philosophy of the metro line in 2005, and keeping the project affordable, competitive, at the same time meaningful for the viability of the line, and we will be announcing the initial fares very shortly as soon as we get the final approval.

On the 'Delhi Metro' the arbitration is proceeding satisfactorily, and as per our current estimates we expect the entire process to get over by June-July, and an award in the September-October timeframe.

Just to talk about the 'Cement' business which is our newest business, India's largest integrated plant of 5 million tonnes has gone

operational in Madhya Pradesh, and this will be the first full year of operation of the cement line and we are expecting good results. The product -- Reliance Cement has got very well accepted in critical markets of Madhya Pradesh, Uttar Pradesh, Jharkhand, Bengal and Maharashtra and it is strategically placed with grinding plants in UP, Maharashtra, Jharkhand as well as in Bengal. So we are very encouraged by the initial response that we are getting on our Cement business.

So as I said that all our projects will be revenue operational in FY-'15, our capital intensity has come down dramatically. We have about Rs.1,500 crores of capital expenditure to go in the current year. Our first phase of expansion of our infra projects is now behind us, and now with the new government in place, with the new momentum in place, with the new phase of expansion that we see in the infrastructure sector over all the verticals, we think that together with our expertise and leadership in each vertical, our very strong balance sheet, our teams in place, we are placed in a very good position to take advantage of the various opportunities as they would come. With these words, I will hand over the mic for Q&A. Thank you.

Moderator:

Thank you very much sir. Participants, we will now begin with the question-and-answer session. Anyone who wishes to ask a question may press '*' and '1' on their touchtone telephone. If you wish to remove yourself from the question queue you may press '*' and '2'. Participants are requested to use handsets while asking a question. We have the first question from the line of Dhaval Patel from Batliwala & Karani Securities. Please go ahead.

Dhaval Patel:

Sir my first question is on the Delhi Distribution business. Sir, could you give us the number for regulated asset for our two Discoms?

Lalit Jalan: The total number that we have accounted for the books is I think Rs.13,000 crores.

Dhaval Patel: And this would be up to?

Lalit Jalan: FY-'14.

Dhaval Patel: And when we say that the power tariffs are not sufficient to meet the current cost, does it mean that it is lower than our power purchase cost plus the 16% regulate that we get as well, or is it only not sufficient to meet the carrying cost per se on the Delhi Distribution business?

Lalit Jalan: No, I am leaving the carrying cost separately, it is not meeting with the current cost means it is not meeting with power cost, operations cost, the approved T&D losses, and the returns. So assuming I am to get Rs.100 tariff may be I am getting only Rs.90 tariff.

Dhaval Patel: Sir, over and above this there would be a carrying cost so that...?

Lalit Jalan: Over and above there will be a carrying cost which we get an 8% carrying cost today which is inadequate to even meet the interest on our current regulatory assets.

Dhaval Patel: But carrying cost in Mumbai that we were getting was SBI PLR, right, sir?

Lalit Jalan: No-no, here also the actual interest that they are giving about 13.2% is the weighted average that they are giving in Delhi, which is not as per the APTEL order which we have asked APTEL again for them to enhance it, but they are currently giving us at 13.2%.

Dhaval Patel: For the Delhi Discom as well, sir?

Lalit Jalan: Yeah.

Dhaval Patel: And we would also have submitted a recovery plan for the regulated asset base. So sir for how long is it spanning for what period?

Lalit Jalan: The matter is sub judice as per the current law, the regulator is bound to give the recovery in 3-years time maximum, and he had gone to Supreme Court I think with 8 AGS or something like that. So the thing is being heard in the Supreme Court, and the next date of hearing is in July.

Dhaval Patel: Sir, on the Mumbai Distribution business now that all our HT consumers are back on our network, is it safe to assume that the CSS would reduce substantially?

Lalit Jalan: Yeah, CSS will reduce, but to that extent my income from

Dhaval Patel: Income from tariff would increase?

Lalit Jalan: They will be upsetting each other.

Dhaval Patel: Sir, standalone debt has been on a rise since quite some time. I was assuming that a huge chunk of it would be towards meeting the working capital requirement for the EPC business, and our EPC numbers have come down substantially if I look at it from March '12 to March '14 but the debt seems to be on a rise even from there on. So sir what is the reason for this and when do we see a reduction in the standalone debt?

Lalit Jalan: I think essentially as I said there were substantial amount of CAPEX in the last year across all our various businesses, and also during last year we have added Rs.1,000 crores of Reliance Power shares which

we have bought to increase our shareholding in Reliance Power to 42%, because we think that the Reliance Power investments were at very-very attractive valuations, and there is also a FOREX loss difference of Rs.600-odd-crores which is reflected in the total debt number, but I think now the total debt that we see in the standalone has reached a peak based on the current phase of projects.

Dhaval Patel: Now we should see it going down...?

Lalit Jalan: That is right.

Dhaval Patel: On the EPC side you said that we are now looking at external orders both in India and overseas. So is there any particular segment that we are looking, or if you could highlight the strategy for the EPC segment basically?

Lalit Jalan: Our focus will be on Power and on Roads.

Dhaval Patel: Sir, have we bid for any projects or are there any projects that we have already identified or any geography that we have already identified?

Lalit Jalan: No, we are in the process; we are looking at 3-4 offers and but we have not bid yet.

Moderator: Thank you. The next question is from the line of Saurabh Mishra from Barclays. Please go ahead.

Saurabh Mishra: This is on your Mumbai Metro business. So if hear you correctly it is driven under that you have authority to set fare. Is it safe for me to assume that you do not need any state government approval in this regard?

Lalit Jalan: This is absolutely correct.

Saurabh Mishra: My understanding was that when we won this project way back in around 2005-'06 the bidding parameter was tariff only right or am I wrong there?

Lalit Jalan: No, the bidding parameter was viability gap funding. We bid BGF of Rs.650 crores and that parameter has not changed.

Saurabh Mishra: Just an update on this, so there was some news article shared in your Delhi Distribution CAG audit. So any progress there or anything that we need to be aware about?

Lalit Jalan: The CAG audit is progressing very satisfactorily from January onwards, and we have given them more than 20,000-25,000 pages of information, we have given them access to our computers, more than 70% of the questions have been answered in full. So we are cooperating fully with the CAG, and we are hoping that this entire exercise gets completed over the next couple of months.

Saurabh Mishra: So in a couple of months we should hear something from them. And sir, just one question on your Cement business stake movement. I understand year-on-year it has not changed and your stake is still 100%, but what was the motivation of reducing the stake between the year and then again taking it back -- is there anything to be read there or is it a normal business operation?

Lalit Jalan: No, there was a thought that time of keeping out of in construction projects may be not in a 100% basis, that our parent balance sheet that is not reflecting the correct nature of the business. So now the business is operational, we now have it fully in our books.

Saurabh Mishra: And sir what has been your total CAPEX in Cement so far?

Lalit Jalan: It is about Rs.3,000 crores.

Moderator: Thank you. We have the next question from the line of Deepak Aggarwal from Elara Capital. Please go ahead.

Deepak Aggarwal: Couple of questions; first on the Delhi Distribution, how do you think this problem will get resolved in terms of the gap between tariff and cost, because this is really eating away the genuine returns which our utilities has to make. So how do you think it will pan out in next 2-3-years?

Lalit Jalan: I think now the overall gap in tariff between the actual cost and tariff being given has now come down to a narrower number. We are very hopeful that in the current tariff dispensation that can be resolved, so the current bleed will stop. Second big thing will be recovering our past dues which given the fact that the amount has become now very-very large it will become almost impossible to collect it in 2-3-4-years, So it has to be collected over a longer period or some creative method of getting some kind of a government support subsidy or something like that which has happened in other states might happen. So we will have to wait and see how the government of the day would look at the matter and address it.

Deepak Aggarwal: Secondly, you mentioned on the EPC the first leg of projects is over and you are looking for the next phase. So how much order inflow potential that you expect in FY-'15 and FY-'16, and what kind of margins do you think this will be having versus in the earlier years?

Lalit Jalan: The total buckets that we are looking at today is in the Rs.60,000 crores to 80,000 crores worth of projects. The margins that we target are in the 8% to 10% margin as we have been targeting over the last

5–6–years, which I think is a healthy margin to give a reasonable return to the shareholders, and also to be competitive so that you are in a position to win those projects.

Deepak Aggarwal: This is at the EBITDA level?

Lalit Jalan: Yeah, at the EBITDA level.

Deepak Aggarwal: My last thing is on the next level of CAPEX, yes, you rightly said that you have almost completed all set of projects that you had on platter over the last 5–years, but if we were to see the next 2–3–years what is the next level of CAPEX, or what kind of asset that you will venture into, be it on a organic route or an inorganic route?

Lalit Jalan: One is we are looking at the current verticals that is the power vertical, the road vertical, the urban transport vertical, and the cement vertical and we are looking at both organic and inorganic growth as the opportunities come, both on the Greenfield side we feel with the new government and the new policies it will kick start a new investment cycle, and as well as there are a lot of very stressed projects in the marketplace and which we are all on a continuous looking basis. So if there is any good opportunity will come... also, a lot of banks have approached us for projects which have become NPAs in their books, and we are addressing those projects also where they want us to come in with the hair cut to the banker and the hair cut to the equity holders, and they want us to come and then complete the project, and take over the projects we are looking at those options also.

Deepak Aggarwal: So these are mainly generating plants or the roads which are under construction and just....

Lalit Jalan: Much more of roads, the power assets would be looked after by Reliance Power.

Deepak Aggarwal: So your acquisition will be if at all it happens it will be more on the Road side?

Lalit Jalan: That is right, and the verticals in which we are -- Road, Cement, Metros there is nothing available, transmission there is nothing available, distribution there was one asset available but that has been sold out.

Moderator: Thank you. The next question is from the line of Nitin Arora from Emkay Global. Please go ahead.

Nitin Arora: Sir, on the Road portfolio which saw a deviation in terms of traffic, any of the projects you wanted to highlight there?

Lalit Jalan: No, we have some challenges in correcting full revenue in the one project of ours, but in terms of deviation the one in which there was to be a severe competition was in the Delhi-Agra project, but I think we have come across very well.

Nitin Arora: Sir Delhi-Agra, can we get what is the toll collection right now there?

Lalit Jalan: We do not give SPB-by-SPB numbers.

Nitin Arora: Sir on the Cement business as we have again recouped the 100% stake back, can you share the dispatch number what we did in FY-'14?

Lalit Jalan: FY-'14 was you can say that the COD is just being achieved, the product is now just now been launched, so FY-'14 number will be very-very marginal.

Nitin Arora: And sir any guidance on the '15-'16 that once the plant will be fully commissioned in '15-'16, then what kind of dispatches we are seeing?

Lalit Jalan: We expect to cross 70% Plant Load Factor.

Nitin Arora: It will be pure cement or it will be clinker sale as well from...?

Lalit Jalan: Predominantly cement.

Moderator: Thank you. The next follow up question is from the line of Saurabh Mishra from Barclays. Please go ahead.

Saurabh Mishra: We have seen tax reversal in this quarter. So I was just wondering what led to that tax reversal – is it in your current taxes or deferred taxes?

Lalit Jalan: If you look at the whole year it is Rs.275 crores. So sometimes you pay more earlier.

Saurabh Mishra: So nothing very specific you did; it is just not sometimes the deferred tax reversal is accounted that way?

Lalit Jalan: No.

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

Mohit Kumar: A couple of questions; first is you talked about –_31:13 of 130 billion. That is our share for 51%?

Lalit Jalan: No, that is a total 100%.

Mohit Kumar: That is the total for BSES, Yamuna...?

Lalit Jalan: 100% of the business.

Mohit Kumar: Can you just share the project cost for Mumbai Metro and how much equity we have invested? And also, same for the transmission assets?

Lalit Jalan: Total project cost for Mumbai Metro is about Rs.4,000 crores with about Rs.2,000 crores of total equity including viability cap funding.

Mohit Kumar: So, how much our share of equity?

Lalit Jalan: About Rs.1300 crores.

Mohit Kumar: On WRSS, how much we have invested till date?

Lalit Jalan: The total project cost is about Rs.1500 crores, and equity will be Rs.500 crores.

Moderator: Participants, that was the last question. I now hand the floor back to Mr. Lalit Jalan for closing comments. Thank you and over to you sir.

Lalit Jalan: Thank you all my analysts friends and thank you for on a very-very busy day for taking time out and listening to what we had to say on the results of Reliance Infrastructure. Thank you and thank you for your support.

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