



Reliance Infrastructure Limited
Q4FY16 Conference Call of Reliance Infrastructure Limited
May 30, 2016

Moderator: Ladies and Gentlemen, Good Day and Welcome to the Q4 FY16 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 presentations concludes. Should you need assistance during this conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. At this time, I would like to hand over the conference to Mr. Lalit Jalan, CEO and Group Director Strategy and Corporate Affairs. Thank you and over to you.

Lalit Jalan: Good morning friends and welcome to the Q4 2016 Earnings Call for Reliance Infrastructure and thanking for joining in large numbers. I will give a brief rundown of the activities of this quarter and then I will open it up to your questions. We had very encouraging quarter in Q4 FY16. The total income for the quarter was Rs 4,975 crore which is same as last year. The EBITDA has shown a big improvement of Rs 1730 crore which is an increase of 53% over the same period last year and the Net profit has moved up to Rs 660 crores which is a growth of 44% over last year. Coming to the yearly numbers the total income for the year is at Rs 18,976 crores which is a marginal growth over last year. The EBITDA for the year stands at Rs 5,559 crores which is a growth of 22% and the Net profit is at Rs 1,975 crore which is a growth of about 10%. Coming to the balance sheet, the consolidated Net worth of the company at the end of the year stands at Rs 27,676 crores which gives us a consolidated book value of Rs 1,052 per share. Reliance Infrastructure is the most conservatively financed Infrastructure Company in the Indian infra structure space. The current debt equity ratio at 0.92:1 is the lowest amongst the infrastructure peers. Coming to the key highlights for the year, we have announced three major transformational M&A activities for Reliance Infrastructure SPVs and I will give you some update on all of them. On the cement side, the binding agreement between Birla Cop was signed last quarter and what has happened in the current quarter is that the MMDR Act has now been approved by Rajya Sabha also, so it is a law. The draft rules were circulated. The last date for comments on the rules was 28th of May, we expect that the rules will get notified in the first half of June. After the rules get notified, we will be in a position to apply to all the states for transfer of license. We expect that this process should happen over the next 45 states. So in Q2 of the current financial year, we expect the deal to get closed and money to be received. On the road side, as we have

been saying, we are at advance level of discussions now with 2 consortiums for our entire portfolio of 11 road assets. We are in final discussions and expect to get into exclusive discussions with one of them shortly.

On the Mumbai power distribution business for which we have signed non-binding agreement with PSP which is a Canadian Pension Fund of Canada. The detailed due-diligence of PSP is over and the documentation is in process. We expect that this entire activity of closing of documentation should get done over the next few months. The monetization of the cements, road and Mumbai power business, the 49% is expected to be very value accretive to the shareholders and we expect that the three monetization's would make Reliance Infrastructure debt free on a standalone basis. This as we see will be a unique transformation for an infrastructure company which is clearly the first in India.

Defence is our new focus area for growth and we continue to engage with the government to seek new orders. We continue to engage with international partners to seek new partnerships and we have received during this short period of 1 year, 35 industrial licenses across wide spectrum of missiles, ammunitions, land, naval & aero system. Coming to highlights by business, the Mumbai power business continues to grow. There are no net reverse migrations happening. The growth in billing is in excess of 4% and the recovery of whole regulatory assets is on way. We have recovered around Rs 900 crores last year totaling to Rs 2,248 crores till March of 2016 out of the total recovery of Rs 5500 crores as approved by the regulator. On the Delhi Distribution business, last year was operationally a very strong year. There were some power credits which we received for the change in CERC regulations which have happened last year, while Delhi discoms is EBITDA positive . Last year the EBITDA actually was in excess of Rs 2,500 cores for both the discom combined together on 100% basis. Between the two discom, we have added 2.7 lakh new customers out of which predominantly 2 lakh are in Delhi and 70,000 are in Mumbai. Between the two mega metro cities we are proud that we are the largest supplier of electricity and we served over 67 lakh household/commercial establishments. If we include an average of approximately 5 inhabitants per dwelling, we are serving more than 3 crore consumers between Mumbai and Delhi. Coming to the transmission business, all our transmission projects are fully complete. So our entire western regions strengthening schemes totally to 9 lines and 1500 km is fully operational and has started generating revenue. Also the entire Parbati Koldam project is completed.

Coming to our EPC business, EPC will now become a big focus area for Reliance Infrastructure. As in the past, if you remember a few years back we had a total order book in excess of Rs 30,000 crores with an annual revenue of more than 10,000 crores. Our current order book has now has been almost fully executed. We have just about a Rs 3,000 crore of pending order book order today, so over the last 3 to 5 months we have been very, very active in the

EPC space. On the EPC front across the verticals which I will just elaborate we expect that there will be more than 5 lakh crore worth of opportunity over the next 5 years. The EPC verticals that we are focusing are roads, metros, railways, defence, and the entire value chain of power generation, transmission distribution & smart cities. Conservatively, we feel that more than 5 lakh crore worth of EPC projects will become available for Reliance Infrastructure to participate. We expect that by the end of FY18, we should at least reach our order book of 30,000 crores which we were a few years back.

Coming to the infrastructure business, all our 11 road projects are fully operational. The total capital expenditure that is pending on the 2 road projects which are the expansion projects in Delhi-Agra and Pune-Satara are around Rs 2,400 crores and we expect that latest by June of 2017, the entire expenditure will be done. The debt is fully tied up and the total amount of equity to go is very, very marginal for the balance of the project as we have up fronted the equity.

We have earned a revenue of Rs 675 crores from the 8 projects which are consolidated into Reliance Infrastructure and If I include all the 11 projects, the revenue for the current year was Rs 939 crores which was an increase of 18% over last year. The traffic growth is showing an increasing trend and we are seeing the Q4 for last year was better than the first 3 quarters and we are seeing the April and May of current year is better than the last year the traffic growth numbers. Clearly, there is some movement in the economy and we can see that in our various roads which are spread across the country.

Coming to our metro business, the Mumbai metro business continues to run very efficiently. We continue to serve the consumers of Mumbai at a 100% efficiency level. We serve more than 3 lakh consumers on a daily basis. The commuter growth is showing in high single digit growth compared to last year and up to now we have added 170 million consumers who have travelled with 100% train availability and 600 accident free days.

The fare fixation committee has ruled in our favor where they have made 3 basic recommendations to the Government of Maharashtra. A) Increase in fare from our existing higher fare of Rs 40 to Rs 110. B) Giving away complete land available at metro stations and depot to us for utilization. C) Advise Government of Maharashtra that should they want to keep the fare lower, they should consider giving an operating subsidy. Government of Maharashtra has challenged this order in the Mumbai High Court and now the Mumbai High Court division bench will start hearing on this in the coming month. On the Delhi metro, our arbitration & entire pleadings are over. DMRC pleadings are over. Now the rejoinders from DMRC will start, followed by ours & followed by the written submissions. We expect that the entire process would get completed by September of 2016 and then the judgment would be reserved. We expect to get a judgment during this calendar year.

In the cement business, we had a good complete year. We had revenue of Rs 1,464 crore and the entire capacity was operating at EBITDA per ton of Rs 800 in last quarter and we continue to be among the leaders in the markets that we serve with a very high brand positioning, premium pricing etc. I am happy to say for the first time in April of this year we have actually become PAT positive. With these messages, I will now like to hand over the mike back to all of you and I will answer any questions that you have. Thank you.

Moderator: We will now begin the questions and answers sessions. The first question is from the line of Sumit Kishore from JP Morgan, please go ahead.

Sumit Kishore: My first question is related to the 49% stake sale in Mumbai power business which was planned by FY16 and earlier?

Lalit Jalan: The binding offer is already with us. It is just a documentation which is happening and we expect that the documentation will be completed in the next two months.

Sumit Kishore: The second question is related to road divestment plan. For the road project, where you have 4 road projects, sir you have 49% stake in Reliance Infra, would the transfer of promoter stake to Reliance Infra happen back again so that the Reliance Infra get the full credit of the equity invested?

Lalit Jalan: Yeah, that is true.

Sumit Kishore: The third question is related to the EPC margins during the quarter. They appear to be very high, what is one-off their 55% EPC margins?

Lalit Jalan: Yeah. In the Q4 of current year, there was one of about Rs 300 crores in the EPC margin. This is owing to cost earlier incurred which we have reflected in previous results, but we have got the billing done during the quarter after the discussions with the client. However, also if you see the notes, there is a change in the accounting policy which has reduced EPC margin by Rs 120 crores and there are other hits which we have taken against the metro write-off as well as certain outstanding. We have defrayed big part of the Rs 330 crores jump that we got owing to the one of through these additional items also.

Sumit Kishore: Which EPC project has reversal happened or the recognition happened now. I mean we are not very clear, what these entities really are Bhavnagar Power Limited, Jamnagar Power Limited, etc.?

Lalit Jalan: This was a court scheme approved long back (i.e. 3 years) whereby we were allowed not to eliminate the power margins. These were the 100% subsidiaries of RInfra coming through the demerger of Reliance Industry that time.

Sumit Kishore: Are there any assets on the ground there?

Lalit Jalan: No, it was only the court scheme. Through the scheme, we were allowed by the court not to eliminate the EPC profit which otherwise get eliminated in consolidation. But this is an old note. This is not a new note. The project that you are mentioning is Sasan Power Project where we have incurred the expenditure earlier and if we had accounted for earlier, but we have got the additional billing done in Q4

Sumit Kishore: Would you like to spare out a formal dividend policy going forward, because the company is generating cash and we still see increase in investment and loans and advances.

Lalit Jalan: We have in the past given dividend policy of up to 20% and if you find that our dividends have been increasing continuously over the last several years. So it is our desire that we remain in this 15% to 20% range move there.

Moderator: The next question is from the line of Agastya Dave from CAO Capital, please go ahead.

Agastya Dave: Thank you for the opportunity, sir. The commentary was fairly thorough and most of the questions got answered, but on the cements side can you give you give the volume numbers for this quarter, the previous quarter and for the entire year and also can you describe how pricing is panning and my second question and last question you have made announcement where we are selling the cement asset. When I go through the annual reports you mentioned that there are other mining leases and there is one more 5 million ton in capacity which can be brought online very quickly. Can you elaborate a bit more about these assets?

Lalit Jalan: If I look at last year, clinker capacity utilization was at about 80% and the cement capacity utilization was at 65%. We have done a total volume of 3.6 million last year cement sales, out of which 1.04 million we did in Q4 of last year. That 1.04 was versus 0.7 million in the equivalent quarter previous year. This is when the industry did not grow much in the market that we were serving. Our share went up 50% in those markets.

Agastya Dave: Sir, basically you guys got some Rs 200 and 201 net realization?

Lalit Jalan: No, I don't know how you are getting Rs 200.

Agastya Dave: I am saying the Q4 sales numbers are overall Rs 417 crore, am I right?

Lalit Jalan: Yeah.

Agastya Dave: And 1 million is what you have sold, 1 million tons, so per bag 200 Rs odd?

Lalit Jalan: Net of excise and everything.

Agastya Dave: Your brands seems to be positioned at the premium brand, so what kind of premium you guys get from out of the market and my second question was on what exactly are you selling. I mean what on mining leases if you can just elaborate on that sir. I am done for the day.

Lalit Jalan: I think about a 10 Rs price premium compared to the competitor and we have existing mining releases in Madhya Pradesh and Maharashtra executed which we need to get transferred and of course there are associated prospecting releases which also we need to get change of control done.

Moderator: The next question is from the line of Sandeep from PCS Securities, please go ahead.

Sandeep: Congratulations at the good set of numbers, sir. Can you give us an update on the regulatory asset that is pending now both in Delhi and Mumbai? And are we adding on anything to that or we are in line with recovering these assets.

Lalit Jalan: In Mumbai business the regulatory assets in our book is Rs 2,125 crore and there are marginal things which get added, but if I look at the net recovery, the net addition is negative itself. In case of Delhi we still keep on accruing. We have in our books up to now that is of 100% basis, Rs 15, 575 crore. Against this we have more than Rs 16,000 crore which have got approved by the regulator and accepted in front of the Supreme Court. If I include the other regulatory assets which is at various levels of approvals at APTEL and at Supreme Court the total number is in excess of Rs 25,000 crore.

Sandeep: In Delhi alone.

Lalit Jalan: In Delhi alone on 100% basis for both of our discoms

Sandeep: What is a plan to recover apart from you of course you got the approvals, but there the tariff that is likely to come or else approved project do they help the SEBs there.

Lalit Jalan: It is with honorable Supreme Court and the current recovery is at the level of 8% per year which has been happening for the last 2 years or 3 years, but I think if this regulatory asset percentage is increased, there is also an increasing volume that is happening year-on-year. So if the percentage gets increased little bit and then over 6 year or 7 years I guess the entire thing can be recovered. The total revenue per year is almost like Rs 14,600 and increasing. With the little higher percentage against it, we are not looking at a huge tariff increase for that.

Sandeep: Is your cost going down, sir?

Lalit Jalan: Cost in FY16 were significantly lower than FY15.

Sandeep: And outlook for 17?

Lalit Jalan: In FY16, we have certain one-offs, there were certain credits which we received from the various power generators owing to the new CERC regulations as well as some of the regulations they have done in the past, so those are not expected to reoccur, leaving besides that in FY17 on an absolute per unit basis will be slightly higher than FY16. We optimize it to the best of our ability and sees that the numbers do not increase. At the same time, you know the coal quantities are improving. The imports are decreasing. There is also the stock of optimization of freight. I read with interest power minister statement that with all these optimizations and all that almost 15 paisa to 20 paisa power cost will come down on the generation side, so that will be a big benefit to consumer of Delhi.

Sandeep: My last question is on the roads since you got certain binding offers, is it for all the roads or for some lesser number of roads.

Lalit Jalan: All 11 roads.

Moderator: We have the last question from the line of Sanjay Shah from ASA Securities, please go ahead.

Sanjay Shah: Good morning sir and congrats for good number. Throw some more light on our defence vertical, can you tell something more about it. Pipavav how we are doing there?

Lalit Jalan: In Pipavav what we had mentioned was that we have an existing order book of about Rs 4,000 crores which is to be executed over the next 3 years. On an overall basis, we have this is the Sunrise industry with a huge potential. We have total asset worth more than Rs 6,000 crore and the net worth is about Pipavav Rs 1,500 crore. We are looking at all the verticals in Pipavav, so namely the military, the commercials, the oil and gas as well as the MRO for both civil as well as defence, so that is the area of focus for Pipavav. We have participated in many bids of Government of India. We are hopeful that we will get some of those bids in our favor.

Sanjay Shah: How about our subsidiary Reliance Defence.

Lalit Jalan: That as I mentioned briefly in my call we have received 35 industrial licenses across the entire spectrum of products. We have also signed MoUs with various international majors and some of which are with the Rafael Advance Defense System for air-to-air missiles and surface-to-air missiles. We have signed with Antonov of Ukraine which has the largest Cargo plane of the world has just landed in Hyderabad. Naval Ship building with Abu Dhabi ship building of UAE then broad range military solutions with Emirate Defense Industrial Companies of UAE landing platform dock and p75 submarines with DCNS of France like that. We have signed MoUs with various international majors and that is the way we are.

Sanjay Shah: When we see the traction from all these MoUs means fire up from all these business?

Lalit Jalan: I mean defence is slightly long gestation period, but we are in the race and we have a strong position, comparative position and we will keep on briefing you as some development takes place in this place.

Moderator: I would now like to hand the conference over to the management for closing comments.

Lalit Jalan: Thank you all. I know it is a busy day with many results and thank you for your support as always. Bye.

Moderator: On behalf of Reliance Infrastructure Limited that concludes this conference. Thank you for joining us. You may now disconnect your lines.