Reliance Infrastructure Limited - Q2FY13 Earnings Call

November 07, 2012

Corporate Speaker : Lalit Jalan (CEO - Reliance Infrastructure Ltd.)

Moderator : Rupa Shah (Analyst - Prabhudas Lilladher)

Operator

Ladies and gentlemen, good day and welcome to the Q2 FY13 earnings conference call of Reliance Infrastructure Limited hosted by Prabhudas Lilladher. Please note that this conference is being recorded. At this time I would like to hand the conference over to Ms. Rupa Shah from Prabhudas Lilladher. Thank you and over to you, ma'am.

Rupa Shah ***- Prabhudas Lilladher - Analyst***

Yes, thanks, Shyama. Good afternoon everyone and welcome to the call. We have Mr. Lalit Jalan, the CEO of Reliance Infrastructure, along with his senior team management who would be present in the call. We can start the call by some initial remarks by Mr. Jalan and then move to the Q&A. So over to you, sir.

Lalit Jalan ***- Reliance Infrastructure Ltd - CEO***

Thank you and good afternoon all analyst friends, and I'm very happy to report the second quarter results of Reliance Infrastructure. It has been a very encouraging quarter for the Company. I will read out the key highlights and go over the key highlights of the business before opening up to all the questions that you might have.

The total operating income for the Company for the quarter is at INR 5,515 crores. Net profit for the quarter is at INR382 crores, which is an increase of 6%. The EBITDA of the Company for the quarter is at INR 953 crores, which is an increase of 15%. We continue to have a very well funded balance sheet. Net worth on a consolidated basis is at INR 25,133 crores, giving us a book value per share of INR956. Our debt/equity ratio at the end of September stands at 0.68:1 and clearly this is the lowest in the Infra sector and we are the most conservatively financed, which opens lots and lots of opportunities for us going forward.

Coming to the Electrical Energy business, I'll briefly touch upon Bombay distribution. In Bombay Distribution we added 17,800 customers during the quarter. We have added about 35,000 for the half year. The total number of customers that we are serving now stands at 29 lakhs. The business plans for our Generation and Transmission businesses have been received and for the Distribution business is expected very shortly. We based on the business plan will be filing the MYT in the next two to three weeks and we expect the new tariffs to be in place early next year.

One of the major highlights of the quarter was the decision by MERC to stop the cherry-picking of customers by Tata's. And in a judgment they have very clearly said that no customer excepting residential customers below 300 units of consumption, which are the subsidized consumers, can migrate to Tata's. This has effectively put a complete stop of the subsidizing customers through competition. Although this had decreased quite a bit, but with this, this has now become a complete zero. Also the hearing on the cross-subsidy quantity and applicability is going on at appellate and we expect decision on those very shortly.

Coming to the Delhi Distribution business, the new tariff announced in July 1 is fully in force, which is the tariff increase, the power purchase adjustment as well as the regulatory asset recovery. During the quarter we have added 47,500 customers and we have added about 81,000 customers during the first half. The total number of customers that we have added or the total number of customers that we serve in Delhi stands at 31 lakhs. So between the two mega metro cities of Bombay and Delhi we are now serving 6 million accounts, which is almost like 25 million consumers.

Coming to our Transmission business, we are the largest private sector transmission player. Talking about our three projects which are under construction, the Mumbai Transmission project, we've commissioned the eighth EHV station at Chembur. This helps in bringing more than 300 megawatts of power to the power-starved island of Mumbai. This is also a compact GIS EHV substation, multi-storied. And the reliability of the transmission network of Bombay transmission is at 99.7% versus the target of 98% by MERC, leading us to earn additional incentives.

The WRSS project will be complete during this financial year. Six of the lines are operational and the balance three lines will be done over the next couple of months. The joint venture with Power Grid, Parbati Koldam, where the construction is happening at a very, very rapid pace, we expect the project to be fully operational by the middle of the year 2013.

Coming to Generation side of our business, we operate the five generating assets totaling to 940 megawatts of power. We have generated 1,296 million units during the quarter. Dahanu, which is the flagship power plant of the Company, continues to operate at more than 100% PLF, winning more and more records. The Reliance Power where we own 38% and which is a promotee company of ours has now 1,540 megawatts of operating capacity to date and they have commenced coal production at their Sasan unit in September.

In our Power Trading business the total amount of power traded by the business was at 1,234 million units, which puts us among the top five trading licenses in the country. The total capital employed in our Power business at the end of second quarter was at INR 14,220 crores.

Coming to our EPC construction business, our revenues are at INR 1,803 crores for the quarter. We are able to maintain the 7% to 8% EBITDA margin and we have been able to maintain more than 8% on a cumulative basis over the last five years. Our order book as of end of September is at INR13,900 crores. We are in active discussions with Reliance Power for many of their large projects like Tilaya, Krishnapatnam, Chitrangi and Sasan expansion. And we hope that over the next couple of quarters , we should be able to announce some new orders for EPC.

Coming to the Infrastructure businesses, the Infrastructure business as we have been mentioning is something which is under rapid execution stage. The total revenues from the Infra business for the quarter is at INR111 crores, which is an increase of 44%.

Coming to the Road business, out of our total portfolio of 11 projects, we have been able to make the eighth project revenue operational, which is the Delhi-Agra six-laning road. This road happens to be both on the Golden Quadrilateral as well as the East-West Corridor. We expect two more of these projects to become revenue operational in the next few months, making a total of 10 projects out of 11 to be revenue operational by the end of this financial year. The key thing to note that all these projects are very urban-centric, connecting dense urban corridors, so the attractiveness of these projects may be better. And these will get us better growth rates in traffic for the period of the concession, which is between 18 to 28 years.

Coming to our Metro businesses, the Delhi Metro, this is the iconic Delhi Metro which was built by the Company in a record time of 27 months. The operations had to be curtailed owing to major civil defects found in the bearings as well as the girders, which were built by DMRC contractors. Hence in consultation with all the stakeholders we have taken a shutdown of the line, a safety shutdown of the line for complete repairs of the viaduct and all the bearings and girders, and related structures.

I'm happy to report that DMRC has been able to complete the entire repair work over the entire line over the last four to five months. The structure is now being inspected by CMRS. Once they announce that this line is safe to operate and they give us the safety certification, we look forward to starting this line again. We are in full readiness to start the Delhi Airport Link metro.

Coming to the Mumbai Metro Line 1, which is the Versova-Andheri-Ghatkopar East-West line, I have to report that 99% of the civil works is completed. The cable stayed bridge over the Western Express Highway is now fully ready and this has been done without stoppage of even one minute of work -- one minute of traffic on the Western Express Highway, which is a record. The Andheri bridge is also on schedule. Two and half of the three spans are completed. And now the track work, signaling work, communication work, depot work, station work is all going on. We expect the line to be put -- opened to public by the end of this financial year.

Coming to a new business that we had envisioned in the last three years itself, it's an absolute greenfield business, it's the Cement business. From thinking about it to having the first unit start has been done in a record time of three years. Our first grinding unit at Butibori near Nagpur in Maharashtra is operational now and the Reliance Cement has been launched officially in that area. The first integrated plant, which is the 5m tonne integrated plant at Maihar at Madhya Pradesh, this is under fast execution and we expect that this plant will become operational by the middle of next financial year.

We have infused almost about INR5,000 crores of equity in the various infrastructure SPVs and the total amount of cumulative CapEx in our Infra businesses stands at INR11,370 crores.

So with these remarks I would hand over the mic' back to you all and open it up for questions.

QUESTION AND ANSWER

Operator

Thank you, sir. Participants we will now begin with the question and answer session. (Operator Instructions). We have the first question from the line of Shashikiran Rao from Standard Chartered Securities. Please go ahead.

Shashikiran Rao *- Standard Chartered - Analyst*

Thanks for taking my question, sir. I have two questions basically. One is regarding your Delhi Metro. What has been the revenue impact or loss of revenue in this quarter because of some of the metro stoppage?

And secondly on the same point, what -- you said that DMRC has completed its repair work. In terms of liabilities have you claimed any loss of business liability from insurance companies or any other such claims and is there anything -- would you be able to give some view for this completion?

Lalit Jalan *- Reliance Infrastructure Ltd - CEO*

Revenues from the Delhi Metro in the initial stages were not very substantial. Essentially it was the passenger traffic because the retailing had just started picking up. And when we had to take shutdown of the line about six months back we had leased out 60,000 square feet of space, but many of these had not even opened and these, the interior works on these have stopped. So retail, which is a big part of the revenue, had not really kicked in. So the loss of revenue is not going to be very substantial.

On the claims on DMRC, there are two aspects. One is the entire repairs for the line including replacement of all the 2,200 bearings and related structures have been done by DMRC at their cost. Secondly, within the concession agreement and keeping the interests of our shareholders in mind, we have filed for whatever damages and claims that are appropriately due to our shareholders.

Shashikiran Rao ***- Standard Chartered - Analyst***

Okay. Since you're saying that the revenues from the ticketing sales was not substantial so you would say that the loss of revenues would not be a very substantial claim. Am I right in reading that.

Lalit Jalan ***- Reliance Infrastructure Ltd - CEO***

At this stage. See we were at a take-off stage in terms of retail openings, advertising coming in and passenger loads increasing. So once you stop the line, we have pushed the whole thing at least a year back. So a lot of stores which were in the process of finishing their interior work and they would have opened and hence the retail revenues would have kicked in. So there is a huge loss of revenue in that sense, what would have come now had the line been operational for the last six months.

Shashikiran Rao ***- Standard Chartered - Analyst***

Okay. Now my second question is on the Reliance Cement. When do we expect the revenues to start kicking in from the cement units?

And how much is the CapEx that you have invested in Butibori unit and in the Madhya Pradesh unit?

Lalit Jalan ***- Reliance Infrastructure Ltd - CEO***

See essentially this is a unit which we are using for the grinding purposes and getting our distribution network in place. The revenues from the grinding unit are not going to be substantial. Our actual revenues and EBITDA margins will start flowing in when our Maihar unit of 5 million tonnes will become operational in the middle of next year.

Shashikiran Rao ***- Standard Chartered - Analyst***

And Capex, sir. And the CapEx you have envisaged for this Madhya Pradesh unit, sir.

Lalit Jalan ***- Reliance Infrastructure Ltd - CEO***

Excuse me.

Shashikiran Rao ***- Standard Chartered - Analyst***

The CapEx that you envisage for the Madhya Pradesh unit.

Lalit Jalan ***- Reliance Infrastructure Ltd - CEO***

The total appraised cost I think is INR2,800 crores.

Shashikiran Rao ***- Standard Chartered - Analyst***

Okay, sir. Thanks a lot.

Operator

Thank you. We have the next question from the line of Sumit Kishore from JP Morgan. Please go ahead.

Sumit Kishore ***- JP Morgan - Analyst***

Good afternoon, sir. I have two questions. The first question is on the consolidated balance sheet wherein the long term borrowings as well as the fixed assets for the six month period ending September 2012 has shown a reduction. Could you please explain this briefly?

And the second question is on the Delhi Metro. For this project that is suspended as of now, are the capital costs getting added to the overall project cost and is it getting consolidated in the balance sheet as of now?

Lalit Jalan ***- Reliance Infrastructure Ltd - CEO***

Okay let me answer first -- both the questions. First, the reduction in borrowings and fixed assets is owing to Delhi Metro not being consolidated in the numbers because we now own 30% of Delhi Metro directly although the beneficial interest of 95% continues to belong to us. However, as of March the entire 95% belonged to us and hence it was consolidated. So that will be about INR2,800 crores of fixed assets and maybe INR1,800 crores of long term debt. So that is what I would say is the difference between fixed assets and long term borrowings.

On your other questions, all the losses of Delhi metro are not been capitalized. They have been consolidated in our results.

Sumit Kishore ***- JP Morgan - Analyst***

Okay. So what was the net negative impact of the 30% stake that you took for Delhi Metro in the first half of the year?

Lalit Jalan ***- Reliance Infrastructure Ltd - CEO***

We do not give break up SPV by SPV, but that loss, whatever is there of the 30%, is part of our associates' net profits.

Sumit Kishore ***- JP Morgan - Analyst***

Sure. Sir, just a follow-up question. Given that almost 10 projects will be revenue operational in the Roads segment by the end of this year, could you just give a sense on what kind of revenue and EBITDA should we be expecting in the coming financial year, FY'14.

Lalit Jalan ***- Reliance Infrastructure Ltd - CEO***

Let me put FY'15, which will be, say, the first year of all the 11 road projects being operational, I think the total top line should be to the tune of INR1,400 crores to INR1,500 crores from the Road business. And the operating EBITDA will be pretty close to 90%.

Sumit Kishore ***- JP Morgan - Analyst***

Sure. And one last question sir. In the EPC segment there has been revenue de-growth. Essentially I understand Sasan execution is in full swing as of now. Is it because, besides Sasan, the number of projects is very less as of now?

Lalit Jalan ***- Reliance Infrastructure Ltd - CEO***

No, that is not true. We are working on 13 projects while we speak. So you're right, Sasan's turnover would have increased this quarter versus corresponding quarter. But certain other projects like Samalkot and all that, the turnover in this quarter is significantly lower. So the sum total of everything shows about the 16%, 17% decline in turnover.

Sumit Kishore ***- JP Morgan - Analyst***

Okay, thank you so much.

Operator

Thank you. (Operator Instructions).

We have the next question from the line of Ankush Mahajan from KR Choksey. Please go ahead. Mr. Ankush Mahajan, you may go ahead with your question.

Ankush Mahajan ***- KR Choksey - Analyst***

Good afternoon, sir. Sir, my question is regarding the standalone financials. Can I get the break up of this other income, the INR346 crores of other income, why it's so high in this quarter?

Lalit Jalan ***- Reliance Infrastructure Ltd - CEO***

No, it is essentially the interest income from our investments.

Ankush Mahajan ***- KR Choksey - Analyst***

So the trend will continue in future, sir.

Lalit Jalan ***- Reliance Infrastructure Ltd - CEO***

No, as the money gets deployed then you will see a reduction in interest income and it will go into CapEx.

Ankush Mahajan ***- KR Choksey - Analyst***

Okay. Sir, same way in standalone assets. We see there's a decrease in the fixed assets and working capital is also increasing. There's an increase of INR1,200 crores in the standalone. So basically sir, in the working capital, this money is going to [stuck]?

Lalit Jalan ***- Reliance Infrastructure Ltd - CEO***

Yes, which one, sorry? The working capital, where?

Ankush Mahajan ***- KR Choksey - Analyst***

Sir, in the standalone financials, debt is increasing by INR1,200 crores and the working capital is also increasing in spite of fixed assets are going down. So basically in standalone financials where the money is going to stuck, where the debt level is and standalone level is going, sir.

Lalit Jalan ***- Reliance Infrastructure Ltd - CEO***

No, debt level is same. Even if we take short term debt, it is similar, 93 versus 91. Debt is same.

Ankush Mahajan ***- KR Choksey - Analyst***

Sir, there is any trade receivables? Trade receivables are going up. What was the reason for that?

Lalit Jalan ***- Reliance Infrastructure Ltd - CEO***

These are EPC receivables essentially. EPC receivables and also regulatory asset receivables.

Ankush Mahajan ***- KR Choksey - Analyst***

Thank you, sir. That's it from my side.

Operator

Thank you. We have the next question from the line of Prakash Goel from ICICI Securities. Please go ahead.

Prakash Goel ***- ICICI Securities - Analyst***

Good afternoon, sir. Prakash here. Sir, I would like to know what is the level of ICD and preference share as of now?

Lalit Jalan ***- Reliance Infrastructure Ltd - CEO***

No, we do not give mid-year details for the break up of our investments.

Prakash Goel ***- ICICI Securities - Analyst***

Just to have a flavor like has it gone up or is it stable at the level which it was at the end of the last year?

Lalit Jalan ***- Reliance Infrastructure Ltd - CEO***

We do not comment as a matter of principle.

Prakash Goel ***- ICICI Securities - Analyst***

Okay, then no issue. That is what I wanted to know. That's all from my side.

Operator

Thank you. (Operator Instructions). We have the next follow-up question from the line of Mr. Sumit Kishore from JP Morgan. Please go ahead.

Sumit Kishore ***- JP Morgan - Analyst***

Yes sir, I just wanted to follow up on the Mumbai Metro project. You mentioned that by the end of this financial year the project would be close to completion. There have been newspaper reports regarding the completion of maintenance depots which could get delayed for the rolling stock. Is there some veracity in these reports?

Lalit Jalan ***- Reliance Infrastructure Ltd - CEO***

No, no. I think we are very confident that we'll be able to start operation of this metro which, believe me or not, is one of the most challenging engineering assignments that anybody can have, if you have seen the very, very narrow ROWs which are available. This will be ready around March 2013.

Sumit Kishore ***- JP Morgan - Analyst***

Sure. And the ridership numbers that we have been working with are quite dated. So as of now what is your initial estimate of the ramp-up of ridership on this project?

Lalit Jalan ***- Reliance Infrastructure Ltd - CEO***

I think since we are now few months away from start-up, let us look at one quarter of stable ridership and -- because any amount of planning and modeling is not going to help us.

Sumit Kishore ***- JP Morgan - Analyst***

I appreciate. Thank you so much, sir.

Operator

Thank you. We have the next question from the line of Dhaval Patel from B&K Securities. Please go ahead.

Dhaval Patel ***- B&K Securities - Analyst***

Hello sir. Sir, on the Mumbai distribution region we had a regulated asset of close to INR2,300 crores for FY'12, right sir?

Lalit Jalan ***- Reliance Infrastructure Ltd - CEO***

Yes.

Dhaval Patel ***- B&K Securities - Analyst***

How much is the number as of now?

Lalit Jalan ***- Reliance Infrastructure Ltd - CEO***

See the number is same.

Dhaval Patel *- B&K Securities - Analyst*

Okay.

Lalit Jalan *- Reliance Infrastructure Ltd - CEO*

And we have filed additional claims of about INR1,200 crores to INR1,300 crores with appellate, which we are fairly hopeful to receive.

Dhaval Patel *- B&K Securities - Analyst*

Okay, sir. So basically sir, in the annual report we were saying that INR300 crores would be receivable in FY'13. That has not happened because our plan has not been approved as of now, right sir?

Lalit Jalan *- Reliance Infrastructure Ltd - CEO*

That's right.

Dhaval Patel *- B&K Securities - Analyst*

As and when it gets approved we can expect a similar number, INR300 crores in FY'13 and FY'14 going forward?

Lalit Jalan *- Reliance Infrastructure Ltd - CEO*

It depends on the regulator.

Dhaval Patel *- B&K Securities - Analyst*

Okay. But assuming our plan for [six year] gets approved.

Lalit Jalan *- Reliance Infrastructure Ltd - CEO*

No, I think it should be more than that during the year.

Dhaval Patel *- B&K Securities - Analyst*

Okay. It should be a little more than that.

Lalit Jalan *- Reliance Infrastructure Ltd - CEO*

Yes.

Dhaval Patel *- B&K Securities - Analyst*

Sure sir. And secondly sir on the implementation of the cap for 300 units, sir the cap is only for a period of one year right till August next year?

Lalit Jalan ***- Reliance Infrastructure Ltd - CEO***

Yes.

Dhaval Patel ***- B&K Securities - Analyst***

And then sir if a consumer or customer wants to switch, is it possible to stay on our network and switch, a customer above 300 units, or will they have to go --

Lalit Jalan ***- Reliance Infrastructure Ltd - CEO***

No. See what they have said in the order very clearly is they've given them half of Bombay and where they've asked them to lay complete network to make it Universal Service Obligation ready. And they have said that in case they are unable to do it the regulator will take a very severe view of this, for this lapse.

Dhaval Patel ***- B&K Securities - Analyst***

Okay.

Lalit Jalan ***- Reliance Infrastructure Ltd - CEO***

This order is first for one year subject to they're being able to take up the entire USO obligation in those, half the area. In that half the area he will not allow switchover on my network and he will have to take all the customers in that area also on his network.

Dhaval Patel ***- B&K Securities - Analyst***

Okay. So the customers which are currently being serviced by our network, they also have to switch to their network.

Lalit Jalan ***- Reliance Infrastructure Ltd - CEO***

That's right. And he will take a call depending on the progress of Tata's in half of Bombay. But as per our knowledge they're hardly laying any network.

Dhaval Patel ***- B&K Securities - Analyst***

Okay. So assuming that does not happen there's a probability that the customers who have switched might be asked to come over to our network. There could be a penalty.

Lalit Jalan ***- Reliance Infrastructure Ltd - CEO***

Yes. That's a very likely possibility because at the end of the day when you have a license you've got to have your own network as per the act.

Dhaval Patel ***- B&K Securities - Analyst***

Sure, sir. That's all from my side. Thank you, sir.

Operator

Thank you. (Operator Instructions). We have the next question from the line of Jitesh Bhanot from Emkay Global. Please go ahead.

Jitesh Bhanot ***- Emkay Global - Analyst***

Good afternoon, sir. My questions would be basically pertaining to the macro developments. Sir, firstly wanted to understand what is the status of our airport venture? How are we placed in terms of developments there?

Lalit Jalan ***- Reliance Infrastructure Ltd - CEO***

No, there is no change in the status of these airports from last quarter of last year. These airports are operational. They continue to service scheduled and non-scheduled airlines and AAI provides support as and when required. And that is where we are. We have a 95 year license on these airports.

Jitesh Bhanot ***- Emkay Global - Analyst***

Okay. And are we looking out for some further CapEx on this particular division in terms of development on the air-side revenue?

Lalit Jalan ***- Reliance Infrastructure Ltd - CEO***

Yes, it's very, very related to growth in aviation traffic because it's only with growth in aviation traffic, all your landing charges, passenger charges are all tied to that.

Jitesh Bhanot ***- Emkay Global - Analyst***

Okay. And sir, in terms of Road sector as well how are you foreseeing the growth in this year in terms of work awarding?

Lalit Jalan ***- Reliance Infrastructure Ltd - CEO***

Growth in terms of new projects or growth in terms of revenue

Jitesh Bhanot ***- Emkay Global - Analyst***

Yes, in terms of awarding from the NH side and maybe from the state side as well, if you can comment?

Lalit Jalan ***- Reliance Infrastructure Ltd - CEO***

No, I think they are fairly confident of being able to meet their target.

Jitesh Bhanot ***- Emkay Global - Analyst***

Okay. And are we planning out for bidding any new projects this year?

Lalit Jalan ***- Reliance Infrastructure Ltd - CEO***

We are always looking for new projects both on the primary market as well as the secondary market. And we review projects which are attractive and which we feel fit into our portfolio. And if we do not bid then that's also an active decision. It's because we do not find the project monetarily attractive.

Jitesh Bhanot ***- Emkay Global - Analyst***

Okay. And can we understand your stand on the EPC awarding which is opening up from the NH side? Are you looking to participate in that particular segment?

Lalit Jalan ***- Reliance Infrastructure Ltd - CEO***

We'll of course evaluate the opportunities as they come and if any of these are attractive we'll definitely be looking at them.

Jitesh Bhanot ***- Emkay Global - Analyst***

Okay. Thanks a lot sir. Thanks for the inputs.

Operator

Thank you. That was the last question from the participants. I would now like to hand the floor back to Ms. Rupa Shah for closing comments. Over to you, ma'am.

Rupa Shah ***- Prabhudas Lilladher - Analyst***

Yes, thanks, Shyama. I would like to thank the management of Reliance Infra for giving us an opportunity to hold this call. Thanks participants. Thanks. Good day.

Operator

Thank you. Ladies and gentlemen, on behalf of Prabhudas Lilladher, that concludes this conference call. Thank you for joining us. You may now disconnect your lines. Thank you.