Reliance Infrastructure Limited

Q2FY14 Conference Call

November 11, 2013

Corporate Speaker: Lalit Jalan (CEO)

Moderator: Ladies and gentlemen good day and welcome to the Reliance Infrastructure Limited Q2FY14 earnings conference call which will be represented by Mr. Lalit Jalan - CEO along with other senior management members of the company. 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 telephone. Please note that this conference is being recorded. I now hand the conference over to Mr. Lalit Jalan. Thank you and over to you Sir.

Lalit Jalan: Good evening all analyst friends, as has been always the case what I would do I will take 15 minutes and give you the key highlights of the quarter and then we will open it up to as many questions as all of you. This has been a very encouraging quarter for Reliance Infrastructure. The total income for the quarter stands at ` 5273 Crores, the other operating income is ` 50 Crores which is an increase from ` 19 Crores, it is mainly owing to recovery of some of our EPC dues which we written off earlier from Yamuna Nagar and also some consulting income from Ethiopia. The EBITDA is at ` 1,060 Crores and the net profit is at ` 427 Crores which is an increase of 12% over previous year. On an half yearly basis the total income stands at ` 11000 Crores, EBITDA at ` 2,077 Crores, net profit ` 842 Crores. Our balance sheet strength continues. Our networth is at ` 26110 Crores with a book value per share of ` 993 and we are very conservatively financed with debt equity of 0.79:1 which is clearly the lowest amongst the infrastructure peers. Coming to our various businesses coming to the Mumbai Distribution business I think this has been a path breaking quarter for us. We have got the new MYT tariff order in second quarter and what that has done is that it has Reliance Infrastructure competitive owing to the correction of the cross subsidy charge. What the regulator has done is that he has corrected the cross subsidy charge of all the four discoms operating in the state of Maharashtra, the BEST, us, Tata and MSEB. Since our cost of power is more competitive compared to Tata's our network cost is significantly more competitive compared to Tata's, then because of the correct cross subsidy charge we are reaching the consumers at a significantly cheaper rate than if they were to buy from Tatas. So as a result two things have happened, our cross subsidy surcharge which was at ` 100 Crores per annum is now at ` 820 Crores per annum and the recovery for that has started and we have recovered ` 72 Crores in the first month itself in October. The second part is that owing to the correct charges even the consumer starts seeing that their billing from Tata is higher is compared to us, they are coming to us in huge numbers, so of all the load that got transferred to Tata in the first four years, more than 20% of that load has come back to us in the first month itself and we expect that almost all the commercial and industrial consumers who had migrated would all come back to us before the end of this financial year. The second very big thing that has happened is that the regulatory assets which had been accumulated over the last five years they have now allowed us recovery and the total recovery has to be of ` 5550 Crores over a period of six years and this has to be recovered whether he is being served by our bill or whether he is being served by Tata bill and in the very first month itself we have physically collected ` 80 Crores towards regulatory assets, so this makes our Mumbai distribution business extremely healthy, besides the normal operating cash flow of the business we will get an additional ` 925 to ` 950 Crores annual owing to regulatory assets and we expect to get all our consumers the high end consumer, high end residential, commercial and industrial consumer back to our supply. Also on the transmission as I reported earlier the MYT order is out which has given us the regulatory assets recovery of ` 100 Crores in this year itself. In Delhi distribution, minor tariff hike of 5% was approved by the regulator in August and the regulatory assets surcharge continues to be at 8%. In the order they have mentioned that they will look at regulatory assets surcharge as well as the trajectory for the recovery of the regulatory assets in the next three months of the order, so we expect that the recovery path for the regulatory assets of the amount recognized by them together with any enhancement of the regulatory assets surcharge we are expecting that from the regulator shortly. In our two marquee cities of Mumbai and Delhi we have added more than 1.5 lakh consumers and then between Mumbai and Delhi we are serving almost 62 lakh consumers. In generation we have generated 1243 million units in the second quarter and Dahanu plant continues to operate at 100% PLF for the last 7 years. In the transmission business we have operationalized the Pune-Bardi line which is 311 kilometers. It has just gone on stream last week, so this is the seventh line out of the WRSS. The eighth line is expected. There were one or two towers which were creating problem owing to ROW; we expect that the eighth line will get operational in the current month.

EPC business, the revenue is at ` 1279 Crores for the quarter and the order book stands at ` 8100 Crores as of the end of September 30. This order book gives us a visibility of about five quarters for this level of revenue to continue. Our EBITDA margins in our EPC business continue to be 8% plus over the last five years. The projects in pipeline in the EPC business as we have informed to you earlier we are at advanced stages depending on the approval of Reliance Power at the Sasan expansion, Tilaiya, Chitrangi, together with cement expansion of Reliance Infrastructure.

Coming to the infrastructure business, the revenue from the segment has grown strongly by 56% to ` 173 Crores versus ` 111 Crores last year. Coming to the road businesses we have the ninth road project which became operational in the last quarter which is the Jaipur–Reengus NHAI four-laning road. All our roads are ISO9001-2008 certified. In the Mumbai Metro as many of you would have seen we have started the trial run for the entire stretch of 12 kilometers from Versova to Ghatkopar, the electrical lines have been charged. We expect barring any unforeseen problems and subject to all necessary approvals from CMRS that the metro would become operational in the next couple of months.

Cement, our first 5 million tonne plant integrated cement plant at Maihar in

Madhya Pradesh will become operational in the current month and we are at a very, very advanced stages of commissioning in our cement business, so summing up our revenue from infrastructure projects increases by 56% and this will continue to grow with more and more infra projects coming on stream, with our metro coming on stream. By the end of FY 2015 all infrastructure projects to be revenue operational and our current capital that has to be committed now with this one all the projects get completed, we will become capital lite. Capex intensity has been drastically reduced.

On Mumbai distribution as I said we have become competitive with reverse migration has started in full flow, regulatory assets has started being recovered and our competitiveness is showing in the huge amount of inflow of consumers back to us. Delhi distribution the accrual of regulatory assets now is significantly lower than what it used to be in the past. The path for regulatory assets will be announced shortly by the regulator. With these words I will hand over the floor for questioning.

Moderator: Ladies and gentlemen, we will now begin the question and answer session. First question is from the line of Mr. Sumit Kishore from JP Morgan. Please go ahead.

Sumit Kishore: Good evening sir, thanks for the call. My first question is on Mumbai distribution business, as you mentioned that ` 80 Crores arrears recovery has come in the first month which I assume is September, 13 what amount has actually gone through the P&L?

Lalit Jalan: No actually the recovery is ` 80 Crores in the month of October because the order has come in to effect from September 1consumption.

Sumit Kishore: Okay, so I was wondering whether it should be in September itself, so it is in October.

Lalit Jalan: Yes, first month of collection which is October in this case?

Sumit Kishore: Theoretically what portion of this ` 80 Crores will flow through the P&L just assuming that you tell me theoretically for one month?

Lalit Jalan: It will be on an overall basis the way the regulator has worked this out is that he has said that the total principal amount is about ` 3000 Crores and the balance amount is the interest and we have not accrued any carrying cost in our books, so the interest amount which will be broadly 50% of the overall amount would flow through P&L in the next six years and the principle amount will go towards written off the regulatory assets which are accrued in our books.

Sumit Kishore: So post tax the carrying cost amount should directly add to profit?

Lalit Jalan: That's right.

Sumit Kishore: Sir on the reverse migration bid, this other MERC order on transfer of Reliance Infrastructure 7.92 lakh low end residential consumers with consumption of 0 - 300 units to Tata Power's distribution now from November 1, what are your comments?

Lalit Jalan: See the implementation of the order has been deferred. There are issues related to our handing over the customers because these customers have a choice of their own. Nobody can remove their choice. There is also the issue of us billing on behalf of Tatas so the migration is allowed the consumers can migrate to Tata because they have to fill the paperwork and move it is their active choice but I cannot bill to them on account of somebody else because there will be half the consumers staying outside the area who for the same consumption would be billed differently by me, so that is our thing, the matter is in appellate and appellate is hearing it on 13th of the month.

Sumit Kishore: So as of now there is a stay?

Lalit Jalan: Yes, the regulator has come out with an order deferring the implementation of the order up to end of the month and the next MERC hearing is on December 15 or something.

Sumit Kishore: On Delhi distribution how has the working capital debt for Delhi discoms moved from FY2013 to H1FY14 and if you could also give the regulatory asset number as of FY 2013 and H1 FY 2014.

Lalit Jalan: The working capital debt of Delhi distribution is almost similar compared to September 2012 to September 2013 and the second issue on the regulatory assets I will give you the number offline, you can just call Amit, that what is the amount which is accrued in our books to date that is to September 30, 2013.

Sumit Kishore: On the metro bit we know that the Mumbai Metro Project cost there was an increase due to well known reasons from ` 23.5 to ` 42.9 billion, where are we in terms of getting state approval for the enhancement project cost in terms of billing the end consumer?

Lalit Jalan: See, there are two aspects, one is the approval for the increased cost, so that approval we already have, they have cleared the financing documents for the Mumbai Metro. The second bid is the change in tariff that matter will now be done since the Metro is under the Metro Act as per the new regulation. The tariff related issues will be done at the central level through fare fixation committee; it will no longer be done by the State.

Sumit Kishore: By which committee?

Lalit Jalan: Fare fixation committee, it is a provision in the Metro Act where the application goes to them and the center fixes the tariff for various metros across India.

Sumit Kishore: What is the latest on the arbitration proceedings with DMRC?

Lalit Jalan: That is progressing quite well and after all our submissions will be over on the main termination arbitration we expect that the first hearing to happen in early January, the date has been given as January 11, so it is progressing quite fast.

Moderator: Next question is from the line of Mr. Sagar Parekh from Enam Holdings, please go ahead.

Sagar Parekh: Hello sir, thanks for taking my question. I wanted to know basically in your infrastructure business what is the toll revenue that you are collecting from this Pune-Satara Road Project, what was it this quarter and FY 2013 full year if possible?

Lalit Jalan: We do not give a road by road split but there is growth in the current year compared to last year.

Sagar Parekh: Is it possible to just give per day collection, toll collection number?

Lalit Jalan: It is almost 50 lakhs a day.

Sagar Parekh: It has grown by how much? What was it in FY 2013?

Lalit Jalan: It is about 6-7% growth.

Moderator: Next question is from the line of Mr. Vishal Sharma from BNP Paribas, please go ahead.

Vishal Sharma: Sir my question is pertaining to the notes of accounts where you have disclosed that you have diluted some equity holdings in certain subsidiary, just wanted to understand what is the rationale behind that and what will be the accounting treatment going forward?

Lalit Jalan: It is an internal rearrangement of equity between our various group companies. The economic interest as we have mentioned continues to be 100% with Reliance Infrastructure and since these companies which have been where the shares have been transferred there accounts will not be consolidated in future.

Vishal Sharma: There were two joint ventures also, the Delhi distribution?

Lalit Jalan: That will happen based on the equity holding.

Vishal Sharma: Equity method of accounting?

Lalit Jalan: That is right, that will continue.

Vishal Sharma: So basically even for BSES Rajdhani Power and Yamuna Power which is nothing but your Delhi business there also the economic interest is supposed to have been reduced to 29%.

Lalit Jalan: Yes, but the overall economic interest of 51% remains with Reliance Infrastructure.

Vishal Sharma: So when I am actually looking at Reliance Infrastructure consolidated accounts will 51% be recorded in equity method or only 29%.

Lalit Jalan: 29%.

Vishal Sharma: Sir another question just following up on previous question, sorry to harp on the same issue, you mentioned about a principal amount and balance will be interest in terms of under recovery from the past, will you first allocate these kind of under recoveries because it is a management decision, so will you first allocate these under recovery collection to interest or principal or on a proportionate basis?

Lalit Jalan: In the same proportion. We have taken accounting advice on this and the money that we recover will be recovered, if I simplify it, its almost equal between principal and interest.

Vishal Sharma: Just to get this right, for example on an annual basis you have somewhere close to about ` 925 Crores of recovery so roughly half of that will go to the P&L as recovery of income or interest and other half will be regulatory assets.

Lalit Jalan: Quite true.

Moderator: Next question is from the line of Mr. Ankush Mahajan from Athena Investments, please go ahead.

Ankush Mahajan: Good evening sir. My question is on the balance sheet side. If you check out on the standalone balance sheet side the long term borrowing as well as short term borrowing both have gone up and if you check trade receivables also have gone up, would you throw some light on that?

Lalit Jalan: No in the standalone balance sheet it is a normal business entry.

Ankush Mahajan: These short term borrowings are used for working capital?

Lalit Jalan: Yes.

Ankush Mahajan: Sir, can you tell us about the current order backlog?

Lalit Jalan: ` 8200 Crores.

Ankush Mahajan: What is our plan to increase it in the near future in one year, two years?

Lalit Jalan: Basically as I mentioned in my original comment there are multiple orders of Reliance Power where they are waiting for the final approvals from various authorities. One is the Sasan expansion, one is Tilaiya UMPP including mining, one is the Tato Hydro Project and the other is the Chitrangi project. Based on their approvals once you get all the approvals they will be in a position to award those orders and we feel that we are very competitive and that we have a very good chance of getting most of those orders.

Moderator: Next question is from the line of Mr. Saurabh Mishra from Barclays, please go ahead.

Saurabh Mishra: Hello sir, thanks for taking my question, again this question is on balance sheet side, two observations, first if I go by the debt to equity ratio that you provide in your press release it effectively says that your debt has reduced substantially to the tune of around ` 3000 - ` 4000 Crores quarter-on-quarter and similarly your gross block has also gone down in the first half, anything to be highlighted here? Your fixed asset came down from around ` 21000 Crores to ` 17000 Crores.

Lalit Jalan: That is the rearrangement of our shareholding as I mentioned in note number 4.

Saurabh Mishra: Similarly the debt would have also gone out?

Lalit Jalan: That's right.

Moderator: We have the next question from the line of Mr. Sumit Kishore from JP Morgan, please go ahead.

Sumit Kishore: Thanks for taking the question again. First question once again on the trade receivables, at the consolidated level the trade receivables have increased from ` 37.5 billion to ` 51 billion, while in my opinion we have not seen a commensurate increase in sales so where did the receivable pile up happened?

Lalit Jalan: In our receivables there is also an element of foreign exchange which gets revalued and so when you compare over a six month period that itself has a pretty large impact on the receivables.

Sumit Kishore:: This will be for which income stream?

Lalit Jalan: It will be for our EPC.

Sumit Kishore:: EPC you bill your customer Reliance Power in dollars?

Lalit Jalan: That's right for things where we are incurring the cost in dollars we are billing to them in dollars also.

Sumit Kishore:: Okay, I was not aware, then the next question is on the road projects, we have been reading in media that Reliance Infrastructure is interested to sell stake in road projects given your low leverage what is driving this, what is the thought behind this?

Lalit Jalan: No basically if you see Reliance Infrastructure is working for its interest of its shareholders. We have now invested five years in building this road portfolio of ` 12000 Crores comprising of 11 roads and 9 of them are now revenue operational. The economic interest of all the 11 roads is 100% the best. We feel as prudent management, part of it is to monetize the true value of the assets that we have created for our shareholders. Owing to consolidation what happens is that true value of the businesses do not reflect, so that is the primary interest for us to drive to the correct valuation of our road business.

Sumit Kishore:: What is the experience given your sizable portfolio on traffic growth in stretches under your control, any specific stretches where you have been grossly disappointed on account of either macro or difficulty in collecting toll?

Lalit Jalan: Good question, I think there are two, three things which are working this year, one is clearly the macros being what they are it has had a severe impact on the traffic growth and that is across India where the traffic growth has become very muted compared to previous years. We expect that as the economy recovers these things would recover with that and in one or two years we should come back to the average growth rate, the second aspect is there are certain micro related issues for specific roads where mining has been banned, so that could be say the road we have in Karnataka Hosur Krishnagiri where the entire mining has been banned, so owing to which lot of the big trailers which carry the mining finished goods or raw material their movement is totally gone. Third aspect is on the collection of money, again we find South India is fairly law abiding but in North India specifically in Gurgaon Faridabad stretch or in Delhi-Agra stretch in Haryana where we have toll plaza and certain incidents even in our Pune-Satara road we even had a shooting incident last quarter where one of our toll operator was shot at. This continues to be a major issue across India, of course much more in pockets around Delhi and those areas. This is an issue which all the road operators are grappling with, we have raised the issue many times with the Ministry and all concerned to find some kind of a solution, you see it all the time on television, they come and even loot out the toll operator, so it is a major issue.

Sumit Kishore: On average traffic growth having disappointed could you put a number, is it on an average 4% growth or is it?

Lalit Jalan: I would say it varies from road to road also because of the micro factor of the mining ban but I would say on a revenue basis we have grown about on a year to year basis about 5% where everybody assumed I guess even we were very conservative in our assumptions compared to our competitors but with the tariff and traffic normally people assume at least 10-11% revenue growth.

Sumit Kishore:: Finally on your transmission portfolio, is there any liability that Reliance Infrastructure would have to bear a toll for the two UMTP projects that your company is looking to relinquish or what is the latest status on that?

Lalit Jalan: No the matter is in appellate, we have bought out the issue of force majeure very clearly with the appellate the fact that we got the section 164 clearance which is critical for building the transmission line was given to us after more than 2 years of our winning the line, so clearly we need the time extension and the cost escalation for it and we are very hopeful that appellate will take a very appropriate view of the matter.

Moderator: Next question is from the line of Mr. Rakesh Vyas from HDFC Infrastructure, please go ahead.

Rakesh Vyas: Good afternoon, few questions from my side, first one, in our infrastructure business the quarter-on-quarter revenue has not changed significantly but there is good decline in the EBIT numbers that we have reported and on year-on-year although EBIT is same revenue has shown a significant increase of 60%, I am just trying to understand what has changed quarter-on-quarter sir?

Lalit Jalan: There were certain one-off expenditure which we have debited in the current quarter which will not be there going forward so I think going forward you will see the Q1 kind of number and that is the only reason why you see that one time dip in the EBIT.

Rakesh Vyas: Will this one-off be around ` 15-20 Crores?

Lalit Jalan: About I would say.

Rakesh Vyas: Sir my second question pertains to the cement business; if you can highlight as to where will we source the raw material for this cement plant?

Lalit Jalan: We have all the mining leases.

Rakesh Vyas: Especially the coal?

Lalit Jalan: We have the mining leases for limestone.

Rakesh Vyas: Where will your source coal?

Lalit Jalan: We are buying power.

Rakesh Vyas: The transmission project what will be the last updated project cost for these lines, WRSS the cost to completion?

Lalit Jalan: It will be around `1600 Crores.

Rakesh Vyas: This is against our initial expectation of?

Lalit Jalan: About 1400 something.

Rakesh Vyas: Are we expected to get any compensation on this or this is what we have to bear?

Lalit Jalan: No, we will get due compensation once all the lines get operational we will file a claim with the CERC.

Rakesh Vyas: Is there BG for the two UMTP, what is the status, you said the matter is under consideration?

Lalit Jalan: There is a BG for the UMTP totaling to about ` 100 Crores.

Rakesh Vyas: Next question is on this Delhi Airport Expressway, I am just trying to understand who is responsible to pay out the debt now, that clarity has not emerged yet?

Lalit Jalan: Once we hand over the line which happened on June 30 the entire asset, people, service contract, revenues everything has got transferred to Delhi Metro, so it is very, very clear since they are paying to all the employees, they are paying to all the vendors, they are paying for electricity, they are paying for everything and they are collecting all the revenue in a separate account that the person to pay the debt is DMRC. They are obliged to pay.

Rakesh Vyas: Any idea who is paying or that payment has not happened?

Lalit Jalan: That is for DMRC to recover their money.

Rakesh Vyas: But per se you don't have any recourse in either case?

Lalit Jalan: We do not have to pay.

Rakesh Vyas: Sir last question pertains to this MERC order which had got stayed now, close to 8 lakh consumers, I thought that migration of these consumers would be beneficial for the company because effectively there used to be cherry picking, now the subsidized consumers are going away and therefore it should benefit the company, but the way media articles are coming out highlights that probably we are not too happy with the order, if you can highlight as to where my understanding is wrong?

Lalit Jalan: No, the orders that you are saying will help us in terms of cross subsidy and those related impact and all that, the problem is that I cannot force a consumer to transfer, I cannot bill the consumer on behalf of somebody else, there are legal issues, we are not unhappy in that sense.

Rakesh Vyas: It is not the operational aspect which you are not comfortable?

Lalit Jalan: No actually it is not possible. On the commercial and industrial consumers who are the ones who actually give you higher revenue and higher margin those as I mentioned are coming to us on a daily basis, we are the mot competitive distribution utility in Mumbai, our network cost is the lowest, our power purchase cost is the lowest and now with the cross subsidy which is corrected we are now reaching the consumer at a cheaper price.

Rakesh Vyas: Sir, have we done enough for the power procurement for the consumer that are coming back to us, this Butibori plant would be good enough or we need to look at few more sources to source power?

Lalit Jalan: Luckily the second half of the year the consumption is much lower so we will not have to do anything but for the next year we might have to increase our requirement a little bit and that we will appropriately do it at the right time.

Rakesh Vyas: What would be our peak load, I am just trying to understand because we have 600 MW of Butibori, we have Dahanu, additionally how much will we require.

Lalit Jalan: It depends on how much consumers come back.

Rakesh Vyas: How much it would be today?

Lalit Jalan: Today it is about 1250.

Moderator: Next question is from the line of Ankush Mahajan from Athena Investment, please go ahead.

Ankush Mahajan: Sir my question is regarding the standalone balance sheet once again, sir there is an increase in long term loans and advances from ` 572 crores to ` 1926 crores?

Lalit Jalan: No its not there, which line are you seeing.

Ankush Mahajan: Sir standalone balance sheet?

Lalit Jalan: Long term borrowings are ` 3881 crores to ` 4575 crores?

Ankush Mahajan: No sir I am talking about long term loans and advances.

Lalit Jalan: Can we give you the details offline. I will just give you these numbers; I don't have it offhand with me.

Moderator: Next question is from the line of Mr. Mohit Kumar from IDFC Securities, please go ahead.

Mohit Kumar: This question pertains to note number 4, consolidated account, you had said that you have reduced our equity in BRPL and BYPL to 29%, can you throw some light?

Lalit Jalan: I have answered this question, I mean; I think this question has been asked twice.

Mohit Kumar: It was for road project right?

Lalit Jalan: No, we have answered even for BSES and this was holding earlier in 2009 that is what we held, 26%.

Mohit Kumar: We had 51% share in BRPL?

Lalit Jalan: The economic interest is at 51%.

Mohit Kumar: What is the loss of ` 9 Crores booked in this?

Lalit Jalan: That is because of the fair valuation that was done by the valuer, they have thought that when we transfer the shareholding to our associate company that there will be a loss of ` 9 Crores on BSES which we have flown through P&L.

Mohit Kumar: What was the profit in JV of BRPL and BYPL in this quarter?

Lalit Jalan: Almost zero.

Mohit Kumar: Does it mean that the under recovery is zero going forward or does it mean that there is some under recovery?

Lalit Jalan: There is under recovery.

Mohit Kumar: Can you quantify per month how much is under recovery?

Lalit Jalan: We can give you this data if you just speak to Amit, what is regulatory assets at the end of September and what is the under recovery rate at which we are now, we are significantly lower than last year but there is still some under recovery.

Moderator: Last question is from the line of Mr. Shankar from Edelweiss Securities, please go ahead.

Shankar: Good evening, thanks for taking my question, couple of clarifications, the ` 1300 Crores that is mentioned in the notes to accounts point number one in the standalone number pertaining to the Delhi Metro where we expect some arbitration, does this beyond the equity amount what is the balance amount pertaining to?

Lalit Jalan: It is during the operations.

Shankar: So, the loss that would have incurred the cash losses which you have funded?

Lalit Jalan: That's right.

Shankar: That's the entire amount. Secondly taking off from the earlier question that you replied in the notes to accounts where you have said about transferring of stake while maintaining the entire economic interest the net other income is around ` 18 Crores, so while you mention that there is some loss of ` 9 Crores as far as Delhi discoms are concerned is it something like there are other losses or net-net across all the road projects as well as the discom this is the net figure all of them put together, this ` 18 Crores is a net figure where there is profit in some and losses in some of the things while transfer?

Company Speaker: Basically you see in the valuation since we were already holding 51% share in BSES Yamuna and BSES Rajdhani some profits are already recognized in our consolidation, to that extent the elimination will happen when you see the consolidated numbers, so that is why you see some profit when the standalone balance sheet is there and you see a loss when it is consolidated because some profit element has already been recognized in the books of accounts earlier.

Shankar: The other way to look at this these valuations are based on the NPV basis, it is not absolute?

Company Speaker: The valuations were done by a SEBI registered valuer.

Shankar: I agree but I am saying that the ` 18 Crores that you are routing it via P&L it is based on NPV not book value that Reliance Infrastructure is in?

Company Speaker: It is on book value only, book value and whatever is the valuation done by the valuer, difference between the two.

Shankar: Sir conceptually in the beginning of your comment you mentioned that the cross subsidization charge that has been benchmarked by MERC not only is based on Tata Power and Reliance Infrastructure but also benchmarking to BEST and MSEDCL?

Lalit Jalan: No, it is not benchmarked, see the cross subsidy depends on what is your amount that a particular class of customers is getting cross subsidized by another richer class of customers, if you see in the electricity business typically the commercial and industrial consumers and the very high end residential consumers cross subsidize the low end residential consumers, so to give you an example our consumers in the residential segment who draw between 0 and 100 units have been charged say about Rs. 3 whereas say high end shopping mall or a multiplex could be charged Rs.10 or 11, the electricity supplied to both of them is the same, my network cost to both of them is the same, my average rate could be ` 7, so the low end consumer is being cross subsidized 4 rupees and the multiplex is subsidizing ` 4, assuming that 50:50, so that is how the industry is structured across India unlike overseas, overseas the residential consumer pays the highest, so this cross subsidy has been corrected for all the distribution companies by MERC who have set formula which they use, same formula which they use for all the companies.

Shankar: So you are saying that henceforth the migration will even out after a couple of quarters when this gets streamlined.

Lalit Jalan: Completely.

Shankar: So there is no point in jumping from one service player to another one?

Lalit Jalan: Unless the other guy is more competitive, see his cost of power, suppose hypothetically my cost of power is Rs. 5, his cost of power is Rs. 4, then he has 1 rupee advantage compared to me, then he will reach the consumer 1 rupee cheaper than me.

Shankar: But he has to pay the cross subsidized charge also.

Lalit Jalan: He is not paying cross subsidy for his efficiency. Consumer is paying cross subsidy to the low-end consumer, but if today what I am saying is I am more competitive than Tatas, if you see the regulatory order my cost of supply is lower than Tata's but they were cheaper to my customer only because the cross subsidy being charged to the rich consumer was inaccurate, otherwise you can meet Amit, he will be very happy to explain to you. He has done a full research on it.

Moderator: Thank you. That was the last question from the participants; I would like to now hand over the floor to the management for closing comments.

Lalit Jalan: Thank you, all my analyst friends, now it is a busy day for everybody and many, many results coming out. Wishing you all the best. Thank you.

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