

Reliance Infrastructure Limited
Q2 FY15 results' conference call
November 13, 2014

Moderator: Ladies and Gentlemen, good day and welcome to the Q2 FY15 results' conference call of Reliance Infrastructure Limited. Today we have with us from the management of Reliance Infrastructure, Mr. LalitJalan-Group director Strategy and Corporate Affairs, Mr. M. S. Mehta-CEO and Mr. MadhukarMoolwaney-CFO. As a reminder, all participants' 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 * and then 0 on your touchtone phone. Please note that this conference is being recorded. At this time, I would like to hand the conference over to Mr. LalitJalan, thank you and over to you Sir.

LalitJalan: Good morning all investor friends and thank you all for being on the call on a very busy day where I know it is a time when multiple companies are coming out with results and conference earnings' calls. I would like to hand over the mike to my colleague Mr. Mehta, who is the CEO of the Reliance Infrastructure and then I will join him in the Q&A.

M. S. Mehta: Good morning and welcome to The Reliance Infra con call for Q2 results. I am happy to report encouraging set of results for Infra, results are already with you and I would like to share key highlights of the business and then upon take up your questions. The total income for the quarter stands at Rs. 4487 crores, the EBITDA stands at Rs. 1154 crores for the quarter with a growth of 9%. Net profit for the quarter is at Rs. 431 crores. Despite the operating loss at Mumbai Metro which was around Rs. 57 crores during the quarter, the net profit has marginally increased by 1% compared to corresponding quarter last year. If we exclude Mumbai Metro loss, net profit would have been around Rs. 488 crores which is a growth of 14% over the previous corresponding quarter. Our balance sheet continues to be very strong. The net worth of the Company is at Rs. 28,000 crores and debt equity ratio of 0.9, which as you know is lowest amongst the Infrastructure PF. Moving on to the details, Mumbai distribution, we continue to add new consumers here, recovery of arrears across subsidiary charges which were around till September 13 has been on a smooth track. We recovered 468 arrears in H1, making total, cumulative recovery of around Rs. 1000 crores arrears in last 12 months. On reverse migration side, which was a big issue few years ago, we regained all the esteem consumers who had Tata power in the last 4 years in short period of 4 months. On Delhi distribution business, while one see some movement in right direction in terms of tariff hike of 8.3% received in July this year and some positive direction towards the monetization of historically accumulated regulatory assets. We would need **(Inaudible) 3.57** staffs that is truly cost reflective. During Q2, we added 77,000 new consumers in Mumbai and Delhi DISCOMs. And in all, we have honor of serving 64 lakhs consumers across 2 metros; Mumbai and Delhi. We continue to provide very strong efficient distribution network of individual standard to our consumers in these metros. On transmission side, our Western region, **(Inaudible) 4.30** project in Maharashtra is fully complete, during the quarter, we have commissioned ParbatiKoldam transmission line in Himachal Pradesh in generating revenue now. The last and the final lag of ParbatiKoldam, WRS Gujarat is nearing completion and we expect all projects to be revenue operational within FY15 this year. Total capital deployed in power sector stands at Rs. 13,500 crores, end of Q2. moving on to EPC side, as you have noticed, the current order book for Rs. 6000 crores essentially reflects completion of ongoing projects, in a way it also reflects groups' projects getting completed which is now turning into revenues generating mode. We continue to achieve our EBITDA guidance of 8-10%. On one hand, we see tapering down our revenue from EPC business, we also look forward to participate in next phase of growth, including completion of ongoing projects both within the group from Reliance power and Reliance Infrastructure, and we also would look at selected external opportunities around across Power roads, Metros and Smart City. Our Infrastructure revenue was Rs. 215 crores in Q2 compared to Rs. 173 crores in the prior period, a growth of 24% a very significant one. Our Infra, just for information sake, comprises of Roads, Metros

and Cement business. On road business, we have 10 out of 11 projects have a revenue operational and remaining project mainly Kandla-Mundra is expected to revenue operational within this year. Our Mumbai Metro, which has been the first full quarter of commissioning and I am very happy to share with you that we had over 40 million passengers boarding this train in first 5 months' operation. We complete around 45,000 round trips, with having the efficiency level of higher of 99%. Obviously, the commuters are enjoying the reduced travel time of 90 minutes to 20 minutes on East-West corridor from Versova to Ghatkopar. All the retail and advertisement agreements for non trade box revenue has been fully tied up. And as when you did service, our stations and trains have full Wi-Fi connectivity.

Moving on to cement – we are ramping up a production from a 5.8 million tons capacity in Madhya Pradesh, Uttar Pradesh, Maharashtra, and West Bengal. The states in which we have market presence comprise above 40% of India's market; the states are Madhya Pradesh, Uttar Pradesh, Jharkhand, West Bengal, Bihar and Vidarbha and we also happened to be the high growth pockets within the Indian market. The completion of our Maharashtra project, our capacity will be 10 million tons and we also plan to expand our capacity to 15 million tons in next few years. Our total capital deployed in Infrastructure business is about Rs. 11,500 crores. Moving on to, future opportunity, if you look at the opportunity side, we are present in 50% of the total private sector power distribution of the country and with over 200 cities coming up under the franchise route put us in a very attractive position to address that opportunity. On the roadside, government has announced 8500 kilometer network, will be about Rs. 40,000 crores investment will participate in this opportunity. On Metro side, every city above population 2 million is supposed to have metro or mono rail, many of them are either having metro or under construction or under planning stage. It will throw up a lot of opportunities in next few years. The Smart City concept is catching up very fast and as you would know, we are present in all key areas of smart city concept. In fact, many of the areas in which we were operating, the smart city concepts are in to play in our existing operations; namely in power management on Genco, distribution, transmission, road, metro rail, cement, etc. We believe we are the natural fit to capitalize on this emerging opportunities in the space of Smart City development. Reliance Infra is significant and tall presence in all the Infra areas and that will be the beneficiary of the emerging opportunities. Over the years, we have demonstrated a track record of executing large projects, both as I said owner and as an EPC contractor. Most of our ongoing projects have complete, they are revenue operational, and they are believed to generate free cash flow going forward. We are thus now entering a positive cash generation phase, backed by growing revenues from these newly commissioned projects. With a strong balance sheet having net worth of Rs. 28,000 crores and low debt equities issue, we are well poised to stay on path of growth backed by growing revenue from completed projects. With these initial comments, we will be very happy to take your questions, thank you.

Moderator: Thank you, ladies and gentlemen, we will now begin 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. We have first question from the line of Sumit Kishore from JP Morgan. Please go ahead.

Sumit Kishore: My first question is on The Mumbai Metro, now post almost 5 months of operation, there would have been some stabilization in the ridership numbers, so where are you seeing the daily ridership now and also if you could comment on what sort of FY16 full year net loss or profit should be expecting going forward?

Management: Kishore, this being a long concession period kind of investment, it has to go through this spate of revolution and breakaway in few years. So this is expected to follow what one see in the similar projects elsewhere in the world and India too.

That said; we got a very traction of our ridership in Bombay. We are amongst the largest I would say, footfall in the world to have completed so many numbers in just 5 months. Current ridership around 3 lakhs per day roughly, we expand that to grow certainly as it becomes habit and the people in catchment areas are getting used to using this facility and going forward we expect this to grow steadily along with the economic activity and the comfort of travelling by Metro, people get used to it. We see steady increase in this, very subtle on day to day, week to week basis. It is very difficult to predict what will happen in 15/16 but it will be a desire that by combination of increase footfall ridership and right tariffs, it is possible for

us to have a cash breakeven in next year can be the desire of the company. We will have some cover to ground as Fare Fixation Committee comes into play and there is right fare fixed also.

Sumit Kishore: So initially, the ridership expectation was supposed to go up to I think 5.5 odd lakh so do you think that this kind of a sharp increase can happen, with whatever dynamics such projects have in a course of next couple of years?

Management: See, I will give you an example, in Delhi when we started, our initial ridership was in the range of 5000 passengers and gradually over a period of one and a half, two years, we brought it up to 20,000. So it is a very habit for me as forming as Mr. Mehta said and there is huge amount of ground below the line activity taking place in terms of making customers aware of the benefits and to create the infrastructure on the ground on the 'Hub and Spoke' concept where a point to point travel, the Metro becomes the part of their lives. And very good connectivity with the 2 major railway lines, we are very confident as a management team that this 300,000 which is by itself a world record, will soon move up to half a million over the next one year or so.

Sumit Kishore: Sir my second question is on your prestige measures at Delhi regulators has approved recovery of Rs. 21 billion arrears, including carrying cost. Could you please elaborate on that is over what period has the regulator approved this recovery and how does that change your regulatory asset from what it was earlier?

Management: The regulatory assets are to get a carrying charge, which in our case is in the range of 12.5%, so the regulator has approved regulatory assets of approximately Rs. 10,000 crores for our 2 Delhi DISCOMs. So if you take 12.5% as interest and 8% recovery of the principle, which works out to be about Rs. 21 billion for the year. So the principle will go down by that 8% number and 12.5% is towards the interest.

Sumit Kishore: So is this basically, $112.5 \times 8\%$?

Management: No, what is 112.5? Rs. 10,000 crores is the regulatory asset, so 12.5 will be Rs. 1250 crores and the total revenues was in the region of Rs. 12,000 crores or Rs. 13,000 crores, so that 8% is that Rs. 900 crores, that is principle, sub-total of these 2 is around Rs. 21 billion rupees

Sumit Kishore: And my last question, in EPC business, did you book some order in second quarter of FY15 because I find that your order book dip is just Rs. 70 crores, Rs. 80 crores while revenue is about Rs. 580 odd crores.

Management: There is no new order booking in Q2, it is an accounting adjustment. You can just speak Amit offline, he will explain you, and there are no new orders for this quarter.

Moderator: Thank you, we have next question from the line of Mohit Kumar from IDFC Securities. Please go ahead.

Mohit Kumar: Sir one question regarding Mumbai Metro, has the dispute with MMRDA been resolved entirely and we are charging 10, 20, 40 right now or you are still charging Rs. 10 every ride?

Management: We have given fixed tariff fare to lower ranks up to December; we have not started charging the original fare we declared earlier, so we will wait for Fare Fixation Committee in this period to come and try to intervene in this area, so currently it is 10, 15 and 20.

Moderator: Thank you, we have next question from the line of Dhaval Patel from B&K Securities India Pvt. Ltd.. Please go ahead.

Dhaval Patel: My first question is on The Delhi Metro, could you give us a brief of where the arbitration proceeding stands?

Management: The Delhi Metro is, we are working at 2 levels, at one level is the arbitration process which is progressing I would say very satisfactorily and we expect an award in the next 6 months, it has

been one of the very fast run arbitration in the country and the other side is, The Government is discussing among themselves because there is a complete clarity in the concession agreement that in case of termination, even if it is the fault of the private party, 80% of the debt due has to be paid by the Government from the date of termination and that is the same legal advice that they have got from various people and otherwise they have to pay interest at the rate of PLR plus 2%. So that process is also moving in the Government and we expect a positive fall out of that, so between me hindered around that Rs. 21,00 crores of debt, it seems 1675 will be taken up by the Government, file the arbitration, final decision will come.

Dhaval Patel: Sir in the meantime, we are even making the interest payments also, so what happens to that portion of account, would we get any returns on that, I mean would it be termed as equity or would be just the money back.

Management: That is not very clear, that will depend on how a The Arbitrator views it, but we are servicing all the debt fully from Reliance Infra and we are debiting the Delhi Metro.

Dhaval Patel: So basically, we will get the money at least.

Management: We will get the money for sure, whether we get 100% or we get 130% that we will see.

Dhaval Patel: Sir in the current quarter, the depreciation number has gone up substantially, is it because of the transmission projects we commissioned?

Management: See within senior Companies Act whatever revaluation of assets we are having in the past, we used to withdraw the equivalent amount of depreciation from the reserves. Now the new companies have said that you cannot withdraw from the reserves, so that is an additional impact that is all.

Dhaval Patel: Lastly, could you give us some view on the EPC side, how do we see orders moving, at least on the group company level like Sasan expansion, or Chitrangi.

Management: On the EPC side, there are multiple things that we are looking at and we had changes for the last couple of quarters but we are at very advanced level in terms of looking at the Sasan Expansion, The Salaya project, where we are in the process of getting the final approvals, we are looking at a cement expansion, we are looking at some new projects together with we are also looking at select market EPC projects, non-group, which is how the EPC group was formed. Initially, if you remember, in this 2005, 2006, 2007, and 2009, 100% of our revenue and order book was from third party. So we are now looking at Select projects because we expect that this EPC opportunity across this entire trillion dollar space both from Government side as well as other private sector side, will be very enormous.

Dhaval Patel: Anything that can be expected in FY15 or early FY16?

Management: We are very hopeful, but these are very lumpy projects, we will not take small projects, so to that extent you know it is not like, we take Rs. 100 crore projects and multiple of them so we can give you a run rate. So each new project could be a Rs. 10,000 crore also. So that will give the, maybe it will increase the order book by 3x. So I am very hopeful and we are working towards it.

Moderator: Thank you, we have next question from the line of Pankaj Sharma from UBS. Please go ahead.

Pankaj Sharma: Just wanted to check on 2 things; one is that, is there any development in terms of more clarity and visibility on the roads' space, there have been expectation in last 6 months that the road with lot of outstanding issues that might get resolved. So are you seeing any reasonable and on the ground progress on that and second thing is in terms of the distribution business of yours in Mumbai and Delhi, there have been lot of positive developments in last 12 months and where do you see things going forward in terms of whether there would be a sustainable basis exactly same recovery of cost in terms of your revenue per unit basis?

Management: Let me start with distribution, in distribution there have been dramatically good developments, both at Mumbai and Delhi. In Mumbai as we have been saying, over the last few quarters, our entire concept of correct weaning charge, correct cross subsidy, correct regulatory assets, which regulatory playing field, all our regulatory assets being recognized and given back to us over 6 years. The Rs. 5500 crores have been recovered us becoming comparative and weaning away back to the 90% of the customers that we had lost to Tatas, loan new accumulation of regulatory assets, etc. If I look at Delhi, Delhi you have to look what Mr. Mehta said, see there is 34 lakhs consumers at the other end, so you cannot go and suddenly do a 440 volt attack but over the last 4 years gradually there has been an 85%tariff increase in Delhi, 85% which is the highest in the country, so that is quietly and steadily, that is what has happened and now we are fairly close to our goal of absolutely cost reflective tariff. Secondly, 10,000 crores of regulatory assets have been recognized and we are very sure and hopeful that by the next tariff orders, we will have an addition of maybe 4000 crores or 5000 crores because regulator himself has told Supreme Court that 4500 crores of approved APTELorders, they have put in front of Supreme Court and Supreme Court might remove the stay now. So these developments that makes Delhi cash flow positive so we are hopeful that with the next tariff orders, the Delhi will become cash flow positive, just like Bombay is.

Pankaj Sharma: Do you think that there could be any political disturbances in Delhi that are possible as far as tariff is concerned?

Management: See, we have seen the worst political disturbance which happened was in the end of 2013, when the AAP party had come and in spite of that there was a PPAC increase, then there was the tariff increase in coming year and everything. Now these are things which I do not think are now is become apolitical?There is also a strong move to amend the act to put the Fiscal Distribution Responsibility Bill, in the price act which will give very good powers to The Regulate and that will force to stage to deliver on the distribution reforms. So I am very hopeful, I do not think that the political class will have any more things.

Pankaj Sharma: And on roads, Sir?

Management: Sorry, on the roads, there have been multiple improvements. The lands availability because of the new roads, they are genuinely taking 80-90% and giving it to you upfront. The environment clearances are been given upfront, the mining clearances are been given upfront, the equity dilution clauses have been diluted, the premium re-scheduling has been approved. All our 3 projects have been approved in that so there have been small multiple changes and lot of new projects have come out for bidding now. The projects which had got stuck, they have been taken back and they have been put back on the BOT things. And they want to move from current 3 kilometers a day to 30 kilometers a day. Assuming that they cannot reach 30, they reach 15, that is a 5 ways of where we are to take.

Pankaj Sharma: Do we think that there could be so much of an infrastructure leader opportunity that Reliance Infra would again be in a very intensive CAPEX sales going forward?

Management: See we always, whether it was 2007 boom or whether it is 2014, we are very careful. We think of our shareholders first. For us, order book and top line is not so critical. For us, profitable projects are the driving force. So we will look at profitable projects, we expect that there will be lot more sensible bidding and lot better returns available for projects which come out to bid now, going to be the condition of the sector. And we are of one of the very few handpick people who are in the condition to bid and who have a debt equity below 1. And you know the balance sheets of all the other competitors. So you make your own assessment as to who all do you think will be able to bridge this opportunity.

Moderator: Thank you, we have next question from the line of Parvez Akhtar from Edelweiss. Please go ahead.

Parvez Akhtar: Couple of clarification; in your comments you said that around Rs. 10,000 crores of regulatory assets have been in principle approved now, out of which 8% will be paid now as a principle. So should we assume that this is a 10-year recovery period?

Management: No, it is 8% of revenue, Rs. 10,000 is.....

Parvez Akhtar: Even you said Rs. 900 crores, so that means 10-year pre payment, right?

Management: See the revenue is increasing my friend every year, they assume, if you look at the CAGR of revenue of Delhi that is growing at 15%, right? So 8% today is on today's revenue. So tomorrow's revenue, that 8 growing at 15% is 9.2. And in third year will become almost 11.

Parvez Akhtar: So indicatively, at the spelt of whether it will be 5 years or within 7 years'....

Management: They have indicated their desire to give between 6 and 8 years to all the 3 DISCOMS. The other thing is, 8% is not wholly.

Parvez Akhtar: Yes I understand. If you need to trinket it to 6, obviously it has to be higher number.

Management: They have told to Honorable Supreme Court in an affidavit that they will give interest which they have given in the correct order and that they will pay off in 6, 7, 8 years, I think is the 3 DISCOMS, there are 3 different timelines, that is given.

Parvez Akhtar: When we met last time, you said that based on indicator, the fiscal 14 numbers, the entire regulatory asset both the DISCOMS in Delhi would be close to Rs. 20,000 crores.

Management: Yes, we still stand by it.

Parvez Akhtar: I agree that. But you said that around 14,500 or 15,000 is what you indicatively as of now, there is some clarity you will recover. So the balance 5000 you are still in negotiation or discussion terms with them to clarify that, when will that get recovered or something of that sort?

Management: No, it is very simple. 10,000 approved, 4500 approved by Aptel, DERC has gone to Supreme Court, Supreme Court has given no stay and Supreme Court will only look at, and the reasons DERC has gone that it will lead to tariff inches. Supreme Court does not care, if there is a point of law, and they will look at it. So that is almost 15,000, so then there is a true up of FY14, that is last year and then there are other 4,5 cases which are going on in Aptel and there are certain disallowances with they did in the FY13 order, which we have challenged, this will all be another 5000 crores.

Parvez Akhtar: So this 10,000 is pertaining up to which year, Sir?

Management: This is as per their FY13 true up.

Parvez Akhtar: So this 4500 also up till fiscal 13, then?

Management: That is right.

Parvez Akhtar: Two more things; if you look at your standalone balance sheet, your long term borrowings has increased to the extent of more than Rs. 800 odd crores but if you see that there is no corresponding on the asset side except on the investments' side, so just wanted to understand is this largely some kind of a borrowing for some of the subsidiaries or what has happened?

Management: Basically, it will also, fair amount of money has gone into our SPVs also, as in the expense and some new loans have come and some short term loans have been paid off. If you look at our consolidated basis, our fixed assets have increased by about Rs. 1000 crores.

Parvez Akhtar: Lastly, in your initial comments you said that around 200 franchises are coming up, now this is as per the vision statement of the Government or you are seeing finally something concrete developments happening because we have been hearing this for close to a decade now.

Management: India takes its own time, because will all of us have stayed multiple years in India, so these are tectonic changes but between you and me there are 5 cities in Maharashtra, which are under franchise, there are some cities in MP, there are some cities in UP, Bihar is trying to do something but the biggest thing is that the government is hell bent to eventually move towards getting government out of these issues. So slowly and surely, you will see that movement happen because see if you want 24/7 power, if you want quality power, you think in UP and Haryana, across the UP is 24/7 power in Delhi with the perfect voltage and that he does not get you 12 hours of power or you see just beyond our territory in Bombay, where across the road, I mean 3-4 hours of load shedding, there are some colleagues of ours who stay on the other side, they say Sir please give Reliance Infra Power there. So there is a deep push by the citizens, you must get ____ **35.44** of people , so this PPP concept in its true sense will come into power distribution, in generation it is already 60-65% of the new generating capacity is coming by private sector, so that will happen.

Parvez Akhtar: But in your realistic estimate, do you see meaningful traction to happen now?

Management: Yes, I am very positive about a positive development and whatever we see in the last 5-6 months that is only increasing my confidence.

Moderator: Thank you. We have our next question from the line of Girish Achhipalia from Morgan Stanley. Please go ahead.

Girish Achhipalia: Just one question on the balance sheet on the consolidated level, the non-current investments have moved up by Rs. 600 odd crores, so just wanted to understand where we have invested in the first half? And secondly, on the standalone tax rate, it has dipped quite a bit, so just wanted to understand why it has happened over such sustainable number going forward?

Management: The tax rate our guidances that we should be around max going forward with that two investments and on the non guided investments, in this week probably Amit will give you the breakup.

Moderator: Thank you. We have next question from the line of Navin Jain from JM Financial. Please go ahead.

Navin Jain: My question is on the Metro projects, so are you seeing any new Metro projects which are going to be awarded on BOT basis maybe in the next 6 months or so?

Management: I think most of the projects that we see on a ground right now on the EPC mode, one came recently in Lucknow also in BOT but most of the projects at this moment are in EPC mode. But I think the government has given a mandate to MOUD and they have sold all the sales that unless the first explore and tries the opportunity of BOT there will be no BGS available to any metro projects. So, it has to be then a project done for need basis which cannot get any commercial results. On the other question of noncurrent investments, if you really look at long term loans and advances, so that has reduced by a similar number. So, some of these things have got restated, that is one of 1600 and the long term loans and advances have come down by 1500.

Moderator: We take up the last question from the line of Sudhakar from Span Capital. Please go ahead.

Sudhakar: I had two questions; my first question is on your note #6 in your consolidated accounts, which says you have reduced your stake in 3 loan credits from 100 to 49% in September 2013. Similarly, in that Delhi distribution business from 49 to 29%. Just wanted to understand, the thought process behind diluting the stake.

Management: The economic ownership of the 100% remains with the group, this is just restatement of the equity for tax purposes and as we broke in time, this equity will be acquired back by Reliance Infrastructure.

Sudhakar: Sir but all this 3 road projects are operational, so does it not make sense for you to consolidated everything in the parent company?

Management: No, but that is what is the guidance on the tax front given to us.

Sudhakar: Okay, so when can we see all this consolidated in the parent?

Management: Maybe couple of years.

Sudhakar: Okay and secondly, what is your stake in your Mumbai Metro Rail?

Management: 69%.

Sudhakar: And the entire thing is merged, even in that company only a part percentage is...

Management: Fully, full 69% is with Reliance Infrastructure.

Moderator: That was the last question that we took from the participants. With this, I would now I would like to handover the conference back to the management for their closing remarks. Over to you, Sir.

Management: Thank you all for your very patience and your inspired questions, I hope we have been able to clarify most of your queries. If there are still some issues, lingering doubts anything, we are all available. You can write to Mr. Mehta, you can write to Mr. Jain or you can write to me and we will be happy to answer as many questions that you may have. Thank you.

Moderator: 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.