



Reliance Infrastructure Limited
Q2FY16 Results Conference Call
November 05, 2015

Moderator: Ladies and gentlemen. Good day and welcome to the Reliance Infrastructure Limited Q2FY16 earnings conference call. We have with us today from the management of Reliance Infrastructure, Mr. MS Mehta – CEO; Mr. Lalit Jalan – Group Director Strategy & Corporate Affairs along with other senior management. 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 entering '*' then '0' on your touchtone telephone. Please note that this conference is being recorded. At this time, I would like to hand the conference over to Mr. MS Mehta. Thank you and over to you, sir.

Management: Thank you. Good afternoon everyone welcome to Q2FY16 results call. Let me first share few key financial headlines along with business update then we will open the forum for questions.

Total quarterly income recorded 8% growth over the previous year at Rs 4,841 crore, EBITDA at Rs 1,295 crore, registered a growth of 12% and Net profit recorded a growth of 5% over the previous year at Rs 451 crore. This as you know is despite the losses at Mumbai Metro and Cement business of roughly totally Rs 99 crore in Q2. If we exclude the Cement loss, Net profit would be up by 16%, at Rs 501 crore. Cement as you know is ramping up and should turn the corner very shortly. As you can see we have a Net worth in excess of Rs 27,000 crore, with debt equity ratio below 1 which is one of the best amongst the peers in the sector.

Starting with our Power Business, Mumbai distribution business continues to perform well on all financial and operational fronts. It has recovered Rs 227 crore in Q2 taking the total cumulative recovery of Rs 1,844 crore including interest against RA built up since the order in September 2013. Mumbai Discom as a part of ongoing initiative for enhancing consumer service has launched a new application which is expected to significantly add to our consumer experience and convenience. On Delhi distribution, we have improved our network reliability by another 30% and it has been widely acknowledged by all stakeholders. While we remain focus on managing controllable cost & operational efficiency, allowing timely tariff hike and amortization of regulatory

assets is a much for us to continue providing world class service. To that extent we are disappointed to see no hike in tariff order dated July 15. Favorable order in CAG vindicates our stand. We remain committed to provide best service to Delhi consumers and Mumbai consumers. With the addition of 1.7 lakh consumers in Mumbai and Delhi in first half of this year, our total consumer count has moved to 66 lakh consumers.

Moving on to transmission business, we earned revenue of Rs 156 crore in Q2, growth of 24%. Long awaited green bench clearance for the last leg of WRSS was received in October and that would pave way for commissioning of Rs 300 crore assets within few weeks. I am happy to share that we continue to operate Mumbai transmission system which is the backbone of our reliability in Mumbai at nearly 100% availability.

Moving over to EPC business, our current order book stands at Rs 3,875 crore. As I mentioned earlier we are actively pursuing select external opportunities across sectors - Power, Road, Metro Rail and Smart Cities.

Our revenue from infrastructure business stands at Rs 212 crore in Q2 an increase of 15% over the previous period. As we speak Kandla Mundra road project has been partially commissioned, with that all 11 roads are now revenue operational. Currently 3 lakh vehicles cross our roads every day which connects high growth corridors. We have witnessed about 5% growth in traffic year-on-year and we expect it to further increase as GDP growth picks up.

While on the back of convenience, safety & affordability, Mumbai Metro continues to get good response from Mumbaikars, but is still incurring significant losses. Currently the company is maintaining the earlier fare by offering discount on the fare recommended by the fare fixation committee in July. In order to achieve the dual objective of affordability of fare and business viability, the company has approached Government of Maharashtra for providing subsidy and unlocking other revenue generating avenues permitted under the Metro Act to contain fare rise. Mumbai Metro has also launched a smart phone application which enables its commuters to plan their travel in Metropolis. As far as non-fare revenue is concerned, we are fully tied-up with range of retailers i.e. ATM operators, pizza outlets, food outlets etc. We have also marketed a lot of advertising space by bulk marketing to Times OOH. We are also offering in Mumbai Metro online recharge facility, Audio-Video facility in-line with the current generation requirement.

On Cement, we have progressed well on ramp-up and stabilization operation to achieve desired operational efficiencies. In not so good market condition of the cement industry, we have registered steady improvement in EBITDA margins. Our current EBITDA margin is now touching Rs 800/tonne and is expected to increase in line with the seasonal uptick.

On Defence side, we are awaiting approval from Gujarat Maritime Board so we can start the open offer process of Pipavav. We expect Pipavav acquisition to be completed in this financial year. At the same time we are in discussion with large number of international defence majors for strategic partnership in order to capitalize on every defence opportunity that comes up for participation for the private sector.

As you might have read, Reliance board yesterday conducted strategic review of businesses wherein board approved monetisation of 11 road projects with investment of Rs 8,800 crore and 5.6 million tonnes of cement capacity. Due diligence has been commenced and we have already shortlisted seven potential buyers for our cement business. Going forward defence will be the primary driver for future growth of the company. From time to time we will share with you any update on this process.

With these initial words I am happy to take your questions. Thank You.

Moderator: Ladies and gentlemen we will now begin the question and answer session. The first question is from the line of Sumit Kishore from JP Morgan. Please proceed.

Sumit Kishore: Sir, my first question is your debt:equity at the consolidated level is still in comfortable territory, by divesting your cement and road portfolio you would unlock a fair bit of equity even after retiring your debt, given that EPC is not very capital intensive and now your focus is in the defence sector. What sort of capex outlay are you looking in the defence sector to deploy? That is my first question.

Management: See, the idea is you are absolutely correct, that our leverage with respect to the metrics which are followed for valuation i.e. debt:equity less than one is very comfortable, but we are also mindful of our quantum of leverage. Firstly, our leverage today at about Rs 26,000 crore on a consolidated basis, we want to significantly reduce it. Secondly, we are planning investment in defence, Yes, you are right these investments in defence sector are not very large as you need in cement and roads. These are quick gestation, negative working capital projects, so we have to spend money on our Pipavav acquisition and building other facilities as we continue to get orders under "Buy and Make in India". So inspite of the investments we make in defence area, you will see significant reduction in our overall debt levels.

Sumit Kishore: Okay. On an earlier call sir, I remember you said, Pipavav acquisition can also be funded by reduction in existing resources in the balance sheet in terms of liquidation of ICDs, preference shares. Given that now you seem to be funding that acquisition by divestment proceeds of your existing businesses, I mean how should we look at the allocation of capital on your balance sheet?

Management: No, the other process i.e. reduction in investments in preference shares & ICDs anyway continues. So whatever proceeds we get from that, will also go towards debt reduction.

Sumit Kishore: Okay. And final question, what is the equity invested in all your road projects where you have given out a number of Rs 8,800 crore invested, what is the total equity invested?

Management: We have at total of around Rs 3,400 crore equity invested and Rs 600 crore of grant received

Moderator: Thank you. The next question is from the line of Latika Arora from Sharegiant. Please proceed.

Participant: Congratulation sir on good set of numbers. I have two questions, first is we are seeing sharp rise in EPC revenue as compared to Q2FY15. Is there any specific reason for the same and can we expect the margins to continue in the future? And my second question is what would be the capex requirement of the company in FY16 and what is the current utilization limits?

Management: What you saw in EPC income is largely reflection of the project closures. So as projects are getting closed, income is getting booked with the final billing etc. So, this is not event specific, it is a routine activity. On the second question, I think we have done a capex of Rs 700 crore in the first half and this amount might be required in the second half as well.

Participant: Okay. And can we expect the EPC revenue to grow in the future also?

Management: No, I think, given our existing order book, we do not see this revenue growing substantially from here the way it is today. Clearly going forward as we have intimated in our previous calls that we looking at external projects very actively. We are focusing on areas like Railways, Metro, Roads, Smart Cities, Transmission and Solar. These are areas where we are actively focusing, besides any opportunity that will come up like Bangladesh relocation of Reliance Power, where we will be leading player which could be much as Rs 8,000 crore – Rs 10,000 crore EPC order book. So, we continue to look at these opportunities and hopefully we will start seeing a build-up in our EPC order book which will then reflect in increased order flows.

Moderator: Thank you very much. The next question is from the line of Ashutosh Narkar from HSBC. Please proceed.

Ashutosh Narkar: Two or three questions. First, on the capital allocation strategy & second on the roads business. On the road business, if you can share with us the details what was the top-line or the EBITDA margin we did in that segment and if I got the number right you said Rs 3,400 crore of equity and Rs 600 crore as grant?

Management: That is right.

Ashutosh Narkar: So if you could share the operational numbers on the road side? Also if you could just highlight what has been the traffic growth during Q1 and Q2 of this year on a YoY basis for like-to-like assets?

Management: I think right now it is Rs 321 crore.

Ashutosh Narkar: Rs 321 crores, Okay. And if I can get similar number for H1 last year and Q2 last year?

Management: Last year it was Rs 300 crore.

Ashutosh Narkar: Okay. And Q2?

Management: Rs 158 crore in Q2FY16 vs Rs 146 crore in Q2FY15

Ashutosh Narkar: All right, If I could get some idea on the margins of the road portfolio?

Management: See the road business typically has 90% EBITDA margins so there is no difference in that.

Ashutosh Narkar: Okay. So basically on a like-to-like basis you still do around 90% margins.

Management: That is right.

Ashutosh Narkar: And what was our traffic growth during the current quarter?

Management: The traffic growth, if I look at the weighted average across the portfolio is about 6%.

Ashutosh Narkar: This is basically you are saying for a like-to-like basis?

Management: Yes, like-to-like. I am doing weighted average, so there are roads which are doing less and there are roads which are doing pretty good, close to double-digit. So the weighted average of my ten road projects is about 6%.

Ashutosh Narkar: Sure. My second question on the capital allocation, so earlier whole of last year we were also bullish on the cement business. I just want to understand the thought process, why the company is trying to kind of hive off or sell the cement business? Second one is if you can just highlight what the potential investment required in the defence business & what kind of contracts you expect over the next three years timeframe. And the third one, you highlighted that we are trying to liquidate some of our ICDs, we have kind of actually seen an increase in ICDs in 2015 to around Rs 9,200 crore or so around 20% growth so that changed in the first-half of this year?

Management: One, there is nothing wrong in the Cement business, it is still a good business and the reason why we have chosen to divest is, we did a full review of the portfolio where we

feel as of today given the tremendous opportunities that the defence sector brings about with low to medium capex intensity, low gestation period, negative working capital is attracting us much more and we also realize that the company cannot grow dramatically across each of our vertical without increasing our debt very strongly. So if we want our debt to be under control and we want to then manage the portfolio between various businesses, the board has taken a call to divest out of cement which was very good business and also the Roads business. We have a portfolio of 11 Roads, which is all 100% owned by us, all BOT & urban centric roads. These are much high growth roads than national average but as you will understand the results are back ended, so the results of these roads will continue to accrue every year as we go forward. We want to monetize it today so that we can put in businesses which can give returns today.

Ashutosh Narkar: Sure. So to that extent what is the kind of investment we are anticipating in the defence business?

Management: So in defence business our first investment will be in the acquisition of Pipavav which will vary between Rs 1,200 crore – Rs 1,800 crore for the acquisition of shares and once we get the control of Pipavav, then maybe some capex that maybe required in the Pipavav business or in our other businesses like aerospace and all that which will depend on the orders that we get in “Buy and Make in India” program. It is not a capex which is already laid out that we want to spend, so it will be a facility which can also then be used by anybody else. It will be a defence park.

Ashutosh Narkar: Okay. So just on the same defence argument if I am not taking too much time, just wanted to understand, if the landing platform docks for which all the three major private shipyards have kind of placed in how do we fair right now? What is the time line, which we as a company are expecting the orders to potentially come through?

Management: I do not want to make any forward statement on defence orders. We are among the front runners and you are seeing what is being reported in the media. So we expect some positive developments to happen.

Ashutosh Narkar: Okay. And then coming back onto the inter corporate deposits, if you could guide us since you are saying that you are taking active steps to kind of bring it down, but year-on-year it is already up by 20% so has there been a change in the first-half of this year?

Management: No, there is no change, in fact I think, it is regrouping, if you look at the overall number there is no increase in our investments.

Ashutosh Narkar: So, Rs 7,748 crore has increased to Rs 9,272 crore.

Management: No, it is regrouping, it could be as shown as some advances in the previous year and it is just regrouping of the investments, so, there is no increase.

Ashutosh Narkar: And what are the plans on bringing it down?

Management: We plan that in four years time we plan to liquidate the entire thing.

Moderator: Thank you very much. The next question is from the line of Mohit Kumar from IDFC Securities. Please proceed.

Mohit Kumar: Sir, my question pertains to Mumbai Metro, so what was the Revenue, EBITDA and PAT for the half year? And second what is the strategy to make it profitable in the near future and what is the talk with the Government, in the sense are you asking for subsidy or are we going to charge higher tariff, can you just update on the same?

Management: On the Metro side if you look at second quarter we have total revenue of Rs 54 crore and EBITDA of Rs 20 crore, so at this level of operation it is about 40% EBITDA but this EBITDA will go up as the revenues go up. On the PAT basis we registered a loss of Rs 49 crore. If you see the FFC order, it is very clear that the Metro has to be sustainable and they have given multiple guidance and some forward path. Among the guidance's they have given is that, we should approach Maharashtra Government via MMRDA to get an operating subsidy assuming Maharashtra Government does not want a tariff increase. Secondly, they have also said that within the provision of the Metro Act, entire real estate can be monetized at Metro Stations. Should that happen, it would provide Rs 50 crore additional revenue every year which will help in cross subsidizing the tariff. FFC has said that the fare should go up from Rs.40 to Rs.110. So we are discussion with the Maharashtra Government, we have given them time till December 31 to decide and we hope that they will take a positive decision with regards to the suggestions made by the fare fixation committee. And then we will take a call on the fare hike post December 31.

Mohit Kumar: Okay. Sir on Delhi Metro in the last call we had said that we are hoping for a resolution, so has something happened on that right now?

Management: The arbitration is proceeding; it has taken a little more time. Currently we expect that all arguments, rejoinders everything will get completed by February and we expect the outcome hopefully by this financial year or as late by April.

Mohit Kumar: Sir, On Delhi distribution there was penalty imposed by the DERC, can you update what happened & why there was penalty? Have you appealed against that particular order?

Management: I do not know what penalty you are referring to. If you are referring to some Rs.4,000 which is not correct position, because there is no law that prohibits us from collecting more than Rs.4,000. All was in compliance and like many other issues in which we

are not agreeing with the view taken by the DERC we have gone to APTEL on multiple occasions. On most occasions our view has been upheld. It is a different story that the implementation of APTEL direction has not been implemented by DERC. So there are many others issues which have been directed to the Supreme Court also. So it is one more item and trying to figure out what is the right tariff. So the tariff has been suppressed artificially for too long a period. And as far as the company's stand is concerned, the CAG Court order clearly vindicates company's position.

Mohit Kumar: Sir, on the defence side is it possible for you to mention some of the deals which are likely to come up for bidding or maybe any opportunity that can come in the next 18 months to 24 months?

Management: No, we cannot talk about our multiple discussions which are going on which are at very advance level and you will appreciate these are confidential in nature and as we announce you will automatically be made aware.

Mohit Kumar: Okay. My last question is that Reliance Cement must be having limestone mines. I want to understand that, can the mines be transferred to seller? How will you call about this, will you wait for the clarity to emerge on this policy?

Management: See our view is that we have discussed with our legal authorities and we feel that our case is very different, in our case the entire ownership of the company is getting transferred it is not a sub-sale it is not that we are selling a mine. So we think that it will go through, but of course it will be subject to Government of India clearance.

Moderator: Thank you very much. The next question is from the line of Dhaval Patel from Antique Stock Broking. Please proceed.

Dhaval Patel: Sir, my question is on Delhi Metro again. We continue to fund the interest part of it I believe and we have funded Rs 69 crore in the quarter, given that there is no resolution happening and we have already written off a part of our investment. What is the rationale behind this? And how are we accounting for it?

Management: We are showing it as an advance given to Delhi Metro SPV it is clearly a very bizarre situation where the entire asset and escrow and all the revenues have been taken away by Delhi Metro and they are not even servicing the debt but as responsible corporate, we are going ahead with servicing those loans. The matter is already in Delhi High Court where the bank has gone against the Government of India and Government of Delhi in terms of making their 80% payment. Also if you see that the Honorable Attorney General has advised very strongly that the DMRC should immediately pay that 80%.

Dhaval Patel: Yeah, that is I mean even if we lose they have to pay 80% of the debt?

Management: That is right that is the best case of DMRC. However now the status is from the date of termination they have to pay us interest at SBI PLR plus 2%. So whenever this matter gets decided, either in Delhi High Court or through arbitration they will have to pay it from 2013 with 16% interest rate.

Dhaval Patel: So this interest rate would be for the interest portion that we have servicing right or for the whole?

Management: No, for the whole 80%.

Dhaval Patel: For the whole 80%, okay.

Management: And clearly we are servicing the interest of that 80%, we are actually servicing the interest of the 100%. The 20% will be decided in arbitration.

Dhaval Patel: Correct. And the investment that we say of Rs 1,928 crore that we have made, this has been in the form of equity? I mean what is in the form of advances and what is in the form of equity?

Management: Yeah, it is equity and ICDs to Delhi Metro.

Dhaval Patel: Okay. So sir, what would be the equity portion of this?

Management: The total equity invested is about Rs 750 crore that is the original CAPEX equity.

Dhaval Patel: Okay. So we have actually written off more than that. So we would have written off some part of the debt also, right?

Management: Yeah, that is just very very aggressive accounting.

Dhaval Patel: Sure, sir. Thank you so much. And sir, secondly on the construction side of the business, You are also looking at quite a few orders from group companies, in terms of Krishnapatnam and Tilaiya what is happening on those front? Is there anything can be seen for the construction business?

Management: Those we do not see those projects coming up. Tilaiya is at an advance stage of termination and we do not even see even Krishnapatnam coming soon. Those orders will definitely not flow to Reliance Infrastructure.

Dhaval Patel: So now we would not be looking at anything specific from the group companies that would primarily be from external?

Management: All external.

Management: I just like to reiterate one point what Mr. Mehta said at the beginning of the call that our 11th road project which is the Kandla-Mundra road project, we have just received approval to start tolling from tomorrow. So with this all our road projects become revenue operational.

Dhaval Patel: Sir, there is one more question, we have decided to monetize our road assets but currently if you look at the external environment a lot of developers are in the market and it is a situation where there are too many seller but not enough buyers. So I mean in such a situation the sellers normally have a say in terms of the valuation per say. So I mean why come at this point of time when we have money coming in from ICDs also, our debt to equities is not very high, and these Roads are actually good Roads. So why come at a time when the external environment is not really good?

Management: No, see what you are saying is that there are substantial amount of projects for sale in the market. However, there is a humongous difference in the quality of assets that are available and you will appreciate that people understand quality, buyers understand quality and they pay for quality. So if you have road projects which are in prime areas, we are in prime urban sectors which have been bid very sensibly the buyer will appreciate that and we will give you an appropriate valuation.

Dhaval Patel: Sure, sir, Agreed. Most of our projects were before FY12?

Management: Yes, All of them. If you look at the Delhi-Agra project we bagged the project with a grant of Rs 200 crore and significantly inferior projects like Agra-Etawah are even today going on substantial premiums.

Dhaval Patel: Sure, agreed.

Moderator: Thank you very much. The next question is from the line of Giriraj Daga from SKS Capital, Please proceed.

Giriraj Daga: I want to know the regulatory asset of Delhi Discom, how much is it as of September 30?

Management: Delhi discom regulatory asset is about Rs 15,400 crore.

Giriraj Daga: This is the regulatory asset which Delhi discom has recognized?

Management: Yes.

Giriraj Daga: And how much more will be recognized in the coming quarters? Somewhere I think close to Rs 7,000 crore is still pending to be recognized.

Management: It is based on some conservative accounting but actual amount could be much higher.

Giriraj Daga: Okay. And in terms of your cement business you said you would be transferring the entire subsidiary and that is why you do not expect any legal problem on transferring the mining rights?

Management: That is right.

Moderator: Thank you very much. The next question is from the line of Rajat Budhiraja from Banyan Capital Advisors. Please proceed.

Rajat Budhiraja: My questions are related to Pipavav defence acquisition, you mention initially that we are waiting for Gujarat Maritime approval. So it would be very helpful if you can throw some light on what are the issues that has been pending for a very long time?

Management: It is an approval process which takes some time so there is no nothing unique about it.

Rajat Budhiraja: Okay. As per BSE filings as on September 13, we received a letter from Gujarat Maritime on August 20 in which there are two issues mentioned, that we are waiting for the approval for 26% more? And second one, Is this acquisition through Reliance Defence? So I just want to understand, are these issues big since we are waiting from last 3 months to get approval from Gujarat Maritime?

Management: You answered your own question. It clearly has to be a significant issue for us to wait.

Rajat Budhiraja: Okay. So if you can throw some light, why it is the case that normally you have already received approval from CCI?

Management: We are having it because this is not exactly what we wanted so, unless we get the desired approval we have agreed to wait.

Rajat Budhiraja: Okay, thanks. So my next question is that we will fund this acquisition through divestment of existing assets which may take some time, but in case if you get the Gujarat Maritime approval say next week, are we ready to launch the open offer and what is the plan on that?

Management: No, we have operating cash flows and we have our investment liquidation which is happening. The movement we get the approval then as per SEBI guidelines we will have to launch, we will launch and we will be able to procure the equity that is required.

Rajat Budhiraja: Okay. Any expected timeline on the approval from Gujarat Maritime Board?

Management: We expect the entire process to be closed by this financial year.

Moderator: Thank you very much. As there are no further questions, I now hand the conference call over to Mr. Mehta for closing remarks. Over to you sir.

Management: Thank you very much ladies and gentlemen for joining this call today. If any more follow through questions, feel free to get back to Abhishek. Thank you very much.

Moderator: Thank you very much, sir. Ladies and gentlemen on behalf of Reliance Infrastructure, that concludes the conference call. Thank you all for joining us and you may disconnect your lines now.