Reliance Infrastructure Limited
Q2 FY17 Earnings Conference Call of Reliance Infrastructure Limited
November 14, 2016

Moderator: Ladies and gentlemen good day and welcome to the Q2 FY17 earnings conference call of Reliance Infrastructure Limited. 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 '*' then '0' on your touchtone phone. Please note this conference is recorded. I would now like to hand the floor over to Mr. Lalit Jalan-CEO and Group Director, Strategy and Corporate Affairs. Thank you and over to you, sir.

Lalit Jalan: Good afternoon all my analyst friends and welcome to this Q2 FY17 conference call for Reliance Infrastructure. As has been the usual practice I will take maybe the first 10 minutes to give you a brief of the key highlights for the quarter that went passed by and then open it up to as many questions as you might have. I presume that the results and the media release are all with you so I will consider and I will move forward.

We have had a very encouraging Q2 for Reliance Infrastructure; the total income for the company is at ` 7,429 crores. We have an EBITDA of ` 1,779 crores which is an increase of 3%. The net profit for the quarter is at ` 571 crores which is an increase of 34%, even if we exclude the exceptional gains pertaining to sale of cement investments of ` 86 crores the net profit would increase by 14%.

Coming to the balance sheet, we have a consolidated net worth of ` 28,148 crores which gives us the book value per share of ` 1,070. Coming to the key highlight, under Defence in the last quarter we have signed a strategic partnership agreement with Dassault Aviation to execute the offset contract for the 36 Rafale fighter jets for ` 60,000 crores which has been signed between Government of India and a French company and this joint venture between us and Dassault will undertake this 50% offset obligation which is the biggest ever offset contract in India. The proposed strategic partnership will also focus on promoting research and development project under the IDDM Program which is the Indigenously Designed Developed and Manufactured. Under the Defence procurement procedures, the JV can fulfill the offset obligations through a mix of these avenues namely transfer of technology, FDI, purchase of goods and services from Indian companies where Indian companies have 51% or higher stake and investment in machinery and equipment. The transfer of technology will not only help this program but will also have incremental benefit for future programs as no one in the public and private sector has access to such technologies today.

During the quarter, we have received two arbitration awards in our favour for two of our road projects. This is from NHAI. The total award in our favour is to the tune of ` 170 crores on the basis of the recent Cabinet directive asking the Indian Government company or department to pay 75% of the arbitration amount to us. We expect in this quarter that the 75% of ` 170 which will be approximately ` 125 crores would be given to us during the current quarter. We have written to NHAI and we have written to Niti Ayog and they have expressed that they are working very hard on it and we expect the cash flow on this account. We also have ` 14,000 crores worth of arbitration which is at advanced stages. Our Delhi Metro arbitration the hearing is concluded and we expect the award in the current financial year. The Mumbai Metro arbitration is also progressing satisfactorily. Then we have a big EPC, Yamunanagar arbitration where the arbitration proceedings are completed and the judgment is reserved.

Coming to our EPC business which is going to be a very large focus area for Reliance Infrastructure going forward, we have bided for ` 15,000 crores worth of projects over the last three months and for some projects we have lost and for other projects the RFQ and analysis of the bids are taking place and we are very hopeful that sooner than later we will start winning major EPC contracts. The company plans to bid for more than ` 1,00,000 crores worth of EPC projects in the next 12 months and this will be across the series of verticals where we have the expertise or we have acquired the expertise, so this will be in the power sector, all the three verticals namely generation, transmission, distribution. It will also be across Nuclear Power Corporation, balance of plant, entire transport sector namely roads, railways, Metrorail, Marine sector then special megaprojects whether it be bullet train, high speed train, be it Trans Harbour Link, Coastal roads or Mumbai-Pune Expressway. The total opportunity as we see and which is increasing is almost `2,00,000 crores per annum and we think that out of this opportunity said we should be able to bid for more than ` 1,00,000 crores every year.

On our continuing focus on asset monetisation, we have signed a binding term sheet with Adani Transmission for sale of our three assets namely WRSSS (B and C) and Parbati Koldam. All the three projects are commissioned and are revenue generating and we expect to conclude the binding documents in this quarter itself and we expect the transaction to be consumed in this financial year.

Coming to our business highlights for the quarter, on the Mumbai distribution business, the recovery of past arrears continues to be on track. We have recovered ` 2,710 crores out of the ` 5,550 crores which were approved by MERC. In the new MYT order which has just been released, the cross subsidy surcharge has now been corrected as per the national tariff policy. The earlier cross subsidy surcharge which was calculated in the previous tariff order was incorrect. What this does is that for each and every competitive category it makes Reliance Infrastructure more competitive compared to Tatas. So we expect that over the next two quarters, the remaining customers in the competitive category who have remained with our competition we will be able to pull them back to our supply system. The HT consumers have anyway all reverted back to us.

In Delhi distribution we did serve the highest ever peak demand of 6,400 MW in Delhi very successfully. Out of which 4,162 MW was being served by our DISCOM which was a growth of almost 7%. We have taken a lead in the solar roof top implementation and more than 200 roof tops installations have happened in Delhi with the connected sanctioned load of 7 MW and we are the largest city DISCOM anywhere in this objective of making our cities green. Of course the regulatory challenge continues to be there with the DERC functioning with just one member right now. Our issues with Supreme Court where the judgment is reserved for 1.5 years, as per the Supreme Court announcement in one of the appeal seems that an order would be issued in the very near future.

We have got 59,000 new customers added between Mumbai and Delhi in the second quarter and we are very proud to serve 68 lakh consumers which means if we include five people in one flat we are talking about 3 crore people being served on very efficient distribution network with international standards of technology and customer care.

Coming to our transmission businesses, all our projects comprising 4,000 circuit kilometers are revenue operational. We earned revenue of ` 224 crores which is an increase of 11% and with an EBITDA margin of almost 90%.

Coming to our road business; all our 11 road projects are revenue operational. The increase in revenue is 13% on a YoY basis for the current quarter and the EBITDA margins are at very high around 90%.

Coming to our Mumbai Metro business, it is the densest Metro corridor in the country as well as the densest in the world. We have successfully carried 3.5 lakh commuters on a daily basis. Our train availability is at 100% level and our punctuality is over 99.9% and 221 million customers have travelled on the network as the ridership increased in this current year is to the tune of almost 16%.

Coming to the Defence manufacturing business in our Reliance Defence and Engineering which is our shipyard in Pipavav, it is one of the two shipyards which is qualified to bid for Naval projects, the other being L&T and there is an opportunity set of almost of ` 3,00,000 crores planned for Naval projects in private sector, so we become one of the shipyards which can undertake this opportunity set. We have emerged as the L1 winner to build 14 fast patrol vessels for Indian Coast Guard and recently won an order for refitting of 3 Naval warships which is under implementation. We have of course excluded sub-concession agreement with Gujarat Maritime Board which is now valid up to 2046.

Our CDR exit process is progressing satisfactorily and we expect that over the next few months we will be out of CDR. It is up to now from the time that we got into Defence, we have tied up with several world leaders for technology tie-ups and some of them which I will just mention on the call are Dassault Aviation, Rafael, Israel for Missiles and Guns, Allrig, USA for MRO of Oil and Gas in South Eastern region, Antonov, Ukraine for Medium Military Transport Aircraft, SAAB, Sweden for Combat Management System, Thales, France for Underwater Systems, DCNS, France for Landing Platforms Dock and Abu Dhabi Shipbuilding for Warships like Frigates. Our construction work at our Aerospace facility will start at Mihan in the fourth quarter.

So summing up the three key legs for our business going forward will be our power distribution, our EPC and our Defence. Our Capex cycle is fully completed and reverse cash flow across all our projects have started. We are conservatively financed with the debt equity ratio of less than one. We are moving towards further lowering our debt and improving our gearing ratio. The sale of cement assets got completed during the quarter and 100% of the proceeds were used for debt reduction. Our unlocking of value across roads, Mumbai power and transmission business is in progress. And the arbitrations proceeds that we hope to receive over the next few quarters will further improve the cash positions of our company. With these high-level comments I have overshot my time limit by a few minutes. I open the floor for any question that you may have.

Moderator: Thank you very much. We will now begin with the question and answer session. We take our first question from the line of Sumit Kishore from JP Morgan. Please go ahead.

Sumit Kishore: My first question is related to your Defence manufacturing business. Could you give us one, two and a three years sort of outlook on how your Defence order book, revenue and EBITDA are likely to move both for the Reliance Infrastructure as a whole and Reliance RDEL in particular?

Lalit Jalan: Sumit a good question for which I do not have a specific answer. But as I said that if I come to the Reliance Defence and Engineering, we have got certain orders for which we are already L1. There are certain orders which have already been put in the pipeline and for which decisions have to be taken by Indian Navy. These are typically all lumpy orders and unlike maybe some other EPC companies in this space who are working on several projects so you can give more of a generic idea. Here since the projects are lumpy it is difficult to actually put together a number. It depends on how soon can the Indian Navy award these contracts. The visibility that we have is for our offset contract for Rafael which as I said is almost like ` 30,000 crores over the next 7 years. So of course it will scale up over the next 7 years. It will not be equal across the period that we are looking at. The construction of our facilities should get over in 2-3 quarters and then the offset process will start. So we are very enthusiastic about both of our Navy business as well as our Aerospace and Land Systems business. There are multiple opportunity sets that we are addressing and we will keep coming to you with development as and when they happen.

Sumit Kishore: What sort of investments would you be making over the next 3-4 quarters into the Defence business and at RDEL level as well?

Lalit Jalan: In the RDEL level we have already made our investments to the extent of ` 1,500 crores. We do not expect to make any additional investment. The facilities are world-class and we have got the second largest dry-dock in the world. We have all the machine shop facilities and all the equipment that we need to do -very large projects as well as oil and gas business projects. For our Aerospace business the total investments required are not very significant. It is a JV so the total amount of investments required in the facilities will not be very large.

Sumit Kishore: Less than ` 500 crores?

Lalit Jalan: Yeah significantly less.

Sumit Kishore: So the current order book for RDEL?

Lalit Jalan: It's about ` 2,850 crores. This does not include the fast patrol vessels and all that because we haven't got the formal order.

Sumit Kishore: And you mentioned that the Delhi Metro arbitration and the Yamunanagar arbitration have got concluded, what sort of arbitration awards, what was the outcome of those arbitrations?

Lalit Jalan: We of course feel the arbitration was positive but as in any exam we will wait for the results.

Moderator: We take our next question from the line of Mohit Kumar from IDFC Securities. Please go ahead.

Mohit Kumar: My question pertains to standalone debt. You had guided for a net standalone debt to be zero by March 17. However for the past two quarters if I look at your balance sheet of Q2 FY17, the standalone debt has increased over last two quarters. So it seems that post the Cement deal the standalone debt has not decreased, can you please clarify on that?

Lalit Jalan: No actually the standalone debt has come down. The numbers that you see increased is because of the IndAS impact coming out of the Butibori plant for which we have a PPA, so their debt reflects in our books, so if you remove that our debt is actually come down compared to March.

Mohit Kumar: So like to like companies and how much the debt right now?

Lalit Jalan: It's in the region of ` 14,000 crores, standalone debt without VIPL.

Mohit Kumar: My second question pertains to cement deal, we were under the assumption that the total equity was ` 12 billion and debt was ` 24 billion hence the company would have made a profit around ` 10 billion on the Cement deal, so expecting significant amount of profit in the quarter. However we have seen that there is a loss amount which has booked in the standalone account while there is a profit which is booked on the consol level, so can you please clarify why it is so?

Lalit Jalan: Yeah we can give you the details off-line. It is essentially owing to the IndAS impact so which is why it is showing a loss in the standalone and the difference in the consolidated is because we had book the losses over the last 4-5 quarters which is why the difference in the treatment has been there. But we will be happy to explain to you off-line the details.

Mohit Kumar: What is the timeline for the transmission deal which we are doing with Adani Transmission?

Lalit Jalan: It's a confidential information. Timeline as I told you we expect to consume the transaction in this financial year.

Mohit Kumar: And are you maintaining the timeline for conclusion of road and power deal by the end of March 17?

Lalit Jalan: That's right. The power deal might spillover little bit because of the very late receipt of the MYT order.

Moderator: We take our next question from the line of Suresh S from Catalyst Wealth. Please go ahead.

Suresh S: Just to reiterate can you tell what is the standalone debt as on today?

Lalit Jalan: It is ` 14,200 crores without the VIPL impact.

Suresh S: And how much has been reduced from the last quarter?

Lalit Jalan: About ` 2,000 crores has come down.

Suresh S: And what about the road monetisation plan, did you see any development from the last quarter because the press note says the same thing like it is in advanced stage?

Lalit Jalan: These are multimillion dollar transactions. They do take time in completion so we are very hopeful of consuming the transaction in this financial year.

Moderator: We take our next question from the line of Ashutosh Narkar from HSBC. Please go ahead.

Ashutosh Narkar: I have two questions again on the balance sheet. If you could possibly give us the total debt on the roads business separately, if that is possible, the total debt on all the subsidiaries not just our share that was one. The second one is, on the standalone debt when you talk about ` 14,500 crores or so would that also include the debt or the near term liability in the other current liabilities or the short-term current liabilities?

Lalit Jalan: Yeah your short-term debt question is correct. It includes short-term maturity as well as short-term debt both. And the total 100% of the debt that we have in all our 11 road projects is ` 5,044 crores.

Ashutosh Narkar: And the last question was there been any movement in the intercorporate deposits in the first half of this year?

Lalit Jalan: No, it's pretty similar.

Moderator: We take our question from the line of Ashish Nainan from Moneylicious Capital. Please go ahead.

Ashish Nainan: Regarding the R&D with Dassault, so are we looking at some specific technologies that we are looking to work on or like is it in process that what we are looking forward to because as far as I know we are looking at Dassault Rafael so what are we specifically looking to work on as a company?

Lalit Jalan: No, these are early days for such a specific question. The two teams are working together to work out the entire offset program. It's a largest program for the country and of course cannot be done in a short period of few weeks so that's the detailed program and we will be keeping on informing the media as and when disseminated information which can be shared with investors and media can be made available.

Ashish Nainan: Did I hear this right EPC order book stands at ` 2,850 crores?

Lalit Jalan: For the Defence business, that's right.

Ashish Nainan: No, the EPC order book for roads.

Lalit Jalan: For roads?

Ashish Nainan: Yeah.

Lalit Jalan: Are you asking how much of the road construction is to go?

Ashish Nainan: Yeah the EPC order book for roads.

Lalit Jalan: It's about ` 2,200 crores.

Moderator: As there are no further questions from the participants I would now like to hand the conference over to Mr. Lalit Jalan for closing comments.

Lalit Jalan: I would thank you again to all my analyst friends for being available on a holiday to attend to the second quarter call of Reliance Infrastructure. And I thank each one of them for their support for the company. Thank you once again.

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