Reliance Infrastructure Limited

Q1 FY18 Earnings Conference Call of Reliance Infrastructure Limited

August 03, 2017

Moderator: Ladies and gentlemen, good day and welcome to the Q1 FY18 Earnings Conference Call of Reliance Infrastructure Limited. 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 phone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Lalit Jalan – CEO and Group Director, Strategy and Corporate Affairs. Thank you and over to you, sir.

Lalit Jalan: Good Afternoon, friends, and a very warm welcome to Reliance Infrastructure's Q1 Earnings Concall. The company continues on its well articulated strategy which was informed to all the analysts and the investors. The numbers, the Media Release and the Results are all with you. I will quickly go through the highlights over the next 15-20 minutes and then we will open the floor to as many questions as you might have.

Coming to the key numbers: The standalone total income for the quarter has been at Rs. 3,209 crores which is a slight increase of 2%, the standalone EBITDA is at Rs. 1,449 crores which is a strong growth of 16% and the standalone net profit is at Rs. 417 crores which is a growth of 5%. Coming to the consolidated numbers: We have the consol income at Rs. 7,848 crores which is up by 4%; the consolidated EBITDA shows a similar trend at Rs. 2,303 crores, up 14% and consolidated net profit at Rs. 334 crores. The consolidated net worth of the company stands at Rs. 23,619 crores which gives us a book value of Rs. 898 per share at the end of Q1 FY18.

I will quickly just run you through the key operational highlights and key transactional highlights before I dwell into the business verticals in a little more detail. During the quarter, we won an EPC project in Roads for Rs. 700 crores. As you might have read in the newspapers, we are already L1 in two of the metro projects in Mumbai, of course, we are awaiting the LoI, the total value of those are Rs. 1,270 crores but clearly we will be making a formal release once we get the LoI in hand. We are also L1 for another Power project which we expect to get the LoI this month and we will be making a formal announcement on that also.

The Distribution business continues to grow and continues to perform admirably. We have added 74,000 new customers in Mumbai and Delhi in the first quarter itself which is on a target to add about 3 lakh consumers every year. Our recovery in both Delhi and Mumbai on the regulatory asset continues. The last level both in Mumbai and in Delhi have achieved very attractive levels and will come into that in great detail later.

Our Road business in spite of the demonetisation and also the impact of GST in June showed handsome growth of 8%. There are particular roads like Gurgaon-Faridabad, Delhi-Agra, Kandla-Mundra which showed double-digit growth of 15% plus.

Our daily ridership on the Metro business grew at more than 15% in the first quarter and we have now touched a peak number of 3.8 lakh customers per day on the Mumbai Metro.

Our shipyard, RDEL launched two naval offshore vessels for the navy and thus we become the first private sector shipyard to launch warships for the Indian Navy.

On the key transactional Highlights, we won the Delhi Metro arbitration award which is very critical for the company. This was a metro which was taken away by DMRC way back in 2013. They have been operating the metro, running it, and have been earning the revenues, but we have been servicing the debt and everything since then and the arbitration tribunal which was formed out of the three arbitrators as per the panel made a unanimous 3-0 judgment in favor of DAMEPL. Of course, they did not uphold all our claims but they have given us a claim of Rs. 4,700 crores and may we talk about it. So we filed Section 9 petition against DMRC for quick payout of our 75%. They went to court against it. They lost in the Delhi single bench, then they lost in the Division bench and then they lost in the Supreme Court and Delhi High Court said, "While we will hear your case, you please deposit Rs. 60 crores immediately to service interest for the next three months." Which they have done. So from now on, at least no interest needs to be funded by Reliance Infrastructure.

The roads InvIT fund had received very good interest but owing to weakness in the InvIT market, we decided not to launch at that time but we feel now that the InvITs markets have improved. We propose to launch our InvIT of the seven roads in the September timeframe.

The Transmission project, the CERC hearing is complete. The judgment is reserved. This is for transfer of license of the two WRSSS assets to the SPV and we hope to complete this transaction over the next 45 days.

The JV between Dassault and Reliance Defence is progressing well. We plan to do ground-breaking in the next couple of months and get the facility ready by the end of this year. This will be critical both for the fulfillment of Rs. 30,000 crores offset contracts as well as the MRO for the Rafale Jets that will come into India.

Coming to our business vertical: One of the most highly focused verticals for us is our EPC business. We have explained to you what is the reason, why we are focusing so hard. The government is bidding out between Rs 2 lakh crores to Rs 3 lakh crores worth of projects which are of interest to us on a yearly basis. We have further equipped ourselves with talent, with joint ventures where required with world majors to be able to participate in all these opportunities. We expect that we will be able to bid between Rs 1 to 1.5 lakh crores worth of new projects every year. In the last few months we have won two new projects – one, a Power project and one, a Road project for Rs. 4,400 crores and in two projects we have been declared L1 but we are awaiting LoI, one is for Power and two are for Metro, these are totaling to about Rs. 5,000 crores. So, we have already got more than Rs. 50,000 crores of bids submitted across Nuclear Power, Railways, the Power FGD business, Coastal Roads, Sewage Treatment Plants, the Expressways, and also the Sea Link. We have tied up with world majors like Dogus of Turkey, CGCD of China, NMDC of Abu Dhabi, Rizzani of Italy, Mostro of Russia, to name a few of our joint venture partners. We are committed to move towards our target of reaching an order book of Rs. 50,000 crores by end of FY19.

Coming to the arbitration award which I spoke in detail. Clearly, we have now got the relief; the next hearing is on 9th of August. The matter in question is that the DMRC is saying we are not a PSU and this circular does not apply to us. We strongly feel that we have a very strong case and will be fighting for it. We are very hopeful that will get the judgment and should be able to get 75% of the money in the near future. In Roads, we have won arbitration award for 2 projects and are awaiting the money from NHAI. There are more than Rs. 11,000 crores worth of arbitration at various levels of the arbitration and we expect that a huge sum of money in excess of Rs.10,000 crores will flow to Reliance Infrastructure over the next three financial years. This we have divided both as 75% on winning and 25% after it goes through the court process.

Coming now to the Power Business: As I mentioned that our recovery of arrears in both Mumbai and Delhi is progressing well. There is no hedge at all. We have achieved lowest distribution loss level of 8.5% in our Mumbai distribution, despite serving more than 10 lakh consumers in the slums of Mumbai. You will appreciate that managing loss levels in slums is very difficult and if I remove the slums out, then our loss levels will be in the region of 6.5% and lower. Our tariffs which got corrected in the last MYT Order where the Cross Subsidy Surcharge was corrected, enabled us to become more competitive than our competitor on the changeover customers and I am happy to report that all the HT consumers who had migrated had reverted back to Reliance and even the high end LT customers are in the process of all moving back. On the Delhi Distribution side, in spite of no tariff increase, owing to the growth in input as well as the reduction in AT&C losses, the increase in revenue is more than 10%, the loss levels have gone down to as low as 10.7% from 13.1% in our Rajdhani business and in the Yamuna business it has gone down from 15.9% to 12.7%. We expect that Rajdhani will come into single digit loss level in the current financial year and Yamuna will come to around 10% in this financial year. This is despite the severely difficult areas in our network which are very attached to the external states as well as areas like Jama Masjid and all that where getting in itself is almost impossible and it is very unfortunate that we lost one of our junior colleagues in one of our theft raids more than a month back.

Coming to the Infrastructure Business: Our Roads business, we achieved a revenue of Rs. 270 crores from the 11 operational road projects which is a growth of 8% and as mentioned we clocked (+15%) growth in Gurgaon-Faridabad, Delhi-Agra and Kandla-Mundra Roads. In Delhi-Agra and Kandla-Mundra we expect to get PCOD, that is Provisional Completion by December of 2017 which means predominantly all the structures would be ready as traffic flow would become very smooth and which will then very substantially add to the revenue of these road projects. In fact, just to give an example, in the Delhi-Agra Road project, because of the massive construction of 55 structures across the highways, we have got almost nil growth over three years because most of the traffic was moving to Yamuna Expressway in spite of the higher tariff. Now, as the structures are getting complete, this year we have seen almost 20% growth in traffic and the customers who are to the Yamuna Expressway for a better experience are coming back. Over the next two-three months, the balance structures will be complete and we expect that all those customers who have moved away would all move back to the Delhi-Agra main highway.

The Mumbai Metro: We earned revenue of Rs. 63 crores. We are strongly EBITDA positive at 44%. We are carrying 3.8 lakh commuters on a peak basis during the week days and 30 crores commuters have traveled with 100% train availability on this metro network. We have also improved the frequency during the peak hours to give further relief to our consumers. We continue to look at non-fare based revenues. Three of our stations have been branded with large corporates like Bank of Baroda, Magicbricks, etc., There are eight electronic branches of major banks like Kotak, SBI, IndusInd, Bank of Baroda which are operating on our metro stations. So it is moving very properly and we expect that over the next two years this business will also become cash breakeven and it still have 25-years of concession to go and it will become a very profitable project for Reliance Infrastructure.

On the Defence, I mentioned about the 51:49 JV with Dassault. The groundbreaking will start and the construction of the project will complete by end of this financial year. On our Shipyard business, we have two bids which are to open. There are only two bidders in this field and these two bids are for Rs. 30,000 crores, they are for Landing Platform Dock as well as for Anti Submarine Warfare Shallow Water Craft. We have strategic tie-ups across Navy, Airforce as well as land systems and we are pursuing lot of opportunities in the defence area.

Summarising: We continue stridently on our transformation path which was articulated to all of you. So we want to move to an even stronger balance sheet, stable cash flows and asset light model. We are focusing on three business verticals going forward – the EPC vertical which of course is one of the primary verticals. We of course have the Power Distribution business which we will continue with the organic growth and also look at any privatization opportunities that might come in that area, although right now whatever we see is smaller area of franchise which do not attract us so much, and of course, the defence vertical both through our shipyard as well as through our airforce and land systems. EPC is negative working capital, defence is very low capital intensity business and power since it is a positive cash flow business, the one-third of the capex required for which we have to put equity, come out from the operating cash flows itself. Our capex cycle is completed, the reverse cash flow has started which is reflecting in strong EBITDA and lower increment in capex. All our projects are revenue operational and we are moving towards low debt and unlocking value for our shareholders who have been patient with our company.

With these words, I will hand over the mic to you all for any questions that you might have.

Moderator: Thank you very much, sir. Ladies and gentlemen, we will now begin with the Question-and-Answer Session. The first question is from the line of Mohit Kumar from IDFC Securities. Please go ahead.

Mohit Kumar: Sir, is it possible for you to give a broad timeline for demonetisation of our Mumbai distribution business and divestment of transmission assets? Of course, I think you spoke about the road assets you are looking at the timeline of September.

Lalit Jalan: I did mention our transmission, we should be able to complete by September of this year, InvIT also we propose to launch in September. On the Mumbai distribution we are exploring opportunities both with international strategic investors as well as on the InvIT route and we should be able to come to a conclusion in between the third or fourth quarters as to which route to take finally.

Mohit Kumar: One clarification; when talking about transmission assets, you are talking about both the assets, PKTCL and the WRSSS?

Lalit Jalan: That is right.

Mohit Kumar: Why operating income was much higher in the particular quarter, can you specify the reason behind it?

Sridhar Narasimhan: This is more of a classification thing. The part of it relates to our EPC business wherein as and when we close the contracts, the extra cost provision which we provide while accounting on a stage payment basis, gets reversed back. That is part of it. Also, the other part is relating to our electricity business wherein as and when we get clarity to any regulatory orders or any judgment, we reverse the excess provision. It is part of the normal operating business actually.

Mohit Kumar: If you could quantify the amounts on the EPC part and the electricity business?

Sridhar Narasimhan: EPC part is around Rs. 80 crores - Rs. 100 crores and the rest is in the electricity.

Mohit Kumar: The EPC margin for this quarter was too high. Is there any particular reason for that?

Sridhar Narasimhan: As a stable business, EPC gives us around 10%. I think you should go with the view of 10% EPC margin. But as I said, there are one-off write-offs or reversal of provisions which come in as and when we close the contract. That is why you see a higher margin this quarter. But general guidance is around 10-12% EBITDA margin.

Mohit Kumar: What is the loss in Mumbai Metro in FY17 and Q1 FY18?

Lalit Jalan: Q1 is at Rs. 71 crores which is part of the consolidated results.

Mohit Kumar: FY17 loss was Rs. 250 odd crores, am I right?

Lalit Jalan: Yes.

Moderator: Thank you. The next question is from the line of Mukesh Talreja from Credit Suisse. Please go ahead.

Mukesh Talreja: When the expected monetisation of transmission and distribution assets will bring the debt down and to what level?

Lalit Jalan: There are two things which we are planning – one of course is our monetisation; two is our arbitration award and with these things, we expect that our debt levels by the March, 18 standalone basis should be down to about Rs. 10,000 crores.

Mukesh Talreja: Sir, some impact on the rating as well because of the delay. Any impact on your pricing on interest levels as such?

Lalit Jalan: None that we see so far.

Mukesh Talreja: As per the understanding, once the monetisation is complete, we expect the rating to come back to the A rating grade?

Lalit Jalan: Yes, absolutely, as an infrastructure company, we are very well geared and with very good operating metrics, we strongly feel that our current ratings do not justify the reality. As the debt comes down, and as the Debt-EBITDA and interest cover numbers improve clearly, there is a strong room for upgrade.

Moderator: Thank you. The next question is from the line of Alok Deora from IIFL. Please go ahead.

Alok Deora: I just had a couple of questions; one was on the metro project which we mentioned we are L1. So there have been news reports that the price or the contract is 20-25% above the reserve price which was set. So any indication if you can provide on that front?

Lalit Jalan: Most of the times if you see the reserve price not turning to be accurate at all, there are of course cases when winning bids are below reserve price. So reserve price is just an indication, it is not a deal breaker.

Alok Deora: By when we are expecting this project to get awarded in a month or two?

Lalit Jalan: I think shortly or less than that, but that maybe a question more apt for MMRDA but yes, the Government is very keen to get all these projects done in 30 months, so the 30 months will start only from the day that they would issue the award.

Alok Deora: So the work will actually start say by around November, five six months time?

Lalit Jalan: No, not so late.

Alok Deora: Have we bid for this MTHL project?

Lalit Jalan: We had bid but we did not qualify for that.

Alok Deora: Are there any more metro projects which we are looking to participate here and what would be the potential size of that?

Lalit Jalan: If you see the Government of India's broad plan, they have identified the 20 top cities that are very congested and they feel that all these urban centers should have metro lines and all the metro lines are bid out to private sector. So we expect that it is a humongous opportunity in times to come. Delhi itself by the end of their next expansion will become 400 kms of metro line. Mumbai, among the lines which they had launched, they have a plan to make 200 kms over the next four-five years. So like this all kinds of cities who are adding up to metro lines and it will keep on adding is what I am saying. Once you do Phase I, then you do Phase 2, then you do Phase 3, then you do Phase 4 and the urban centers continue to grow. As they continue to grow and the outskirts keep on expanding, there will always be an expansion of metro lines. If you look at China and all that, there is still ridiculous amount of expansion of metro network that is happening there even now.

Alok Deora: In the Metro project which you discussed that we are already L1, there have been also in the same news articles, since I was asking about the reserve price, so there is a mention that since it is 20-25% higher, so there might be retendering of these projects. So any input on that?

Lalit Jalan: I have no comment to offer for that.

Moderator: Thank you. Ladies and gentlemen, 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: Thank you, friends. I know it is a busy day and there are lots of results which get announced at this stage and you all have huge amount of coverage to do. So good luck to all of you. Thank you once again for participating in our conference call.

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