



“Adani Transmission Limited Q3 FY18 Earnings Conference  
Call”

**January 17, 2018**



**MANAGEMENT: MR. KAUSHAL SHAH – CFO, ADANI TRANSMISSION  
LIMITED  
MR. RAJIV NAYAR – CFO, ADANI GROUP**

**Moderator:** Ladies and gentlemen, good day and welcome to Adani Transmission Limited Q3 FY18 Earnings Conference Call. 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 now hand the conference over to Mr. Kaushal Shah – CFO, Adani Transmission Limited. Over to you sir.

**Kaushal Shah:** Thank you, good evening gentlemen and ladies. Thank you for your time for these quarterly results. I am pleased to share with you the consolidated financial performance for 9-month 2017-18 of ATL.

We have achieved a robust performance in this quarter. In terms of operational highlights our all transmission line of – operational lines basically 8511 circuit km have consistently achieved more than the normative availability which is range of almost 100%. So we are entitled for full incentive which is available at 99.75%. So that is a great achievement of our operational team who is maintaining the lines.

Much awaited and as we have informed to all of you that we have received a true-up order from the CERC which entitles company to recover arrears of Rs. 883 crores. So net of tax it will be close to Rs. 700 crores. And on a recurring basis there is an additional tariff of Rs. 132 crores per annum which we will be receiving. So this is a great news from a company perspective and we expect the cashflow to come in this quarter in three months.

As you are all aware that this is all PGCIL assets so we expect the recovery very fast. On the update on the MERC side also, you know we have given all the information and explanation to the regulators, so that order also we are expecting anytime. So we are working on that as well. That is the update on that particular front.

On another side, on the acquisition front at the ATL level we have acquired 2 operational lines from our infra so that acquisitions of two lines have been completed on 31<sup>st</sup> October, 2017. So this is now 100% subsidiary of Adani Transmission Limited, so that has been there already. And as you are also aware that we have signed a binding SPA with R-Infra to acquire their Mumbai generation transmission and distribution business, so generation will be the Dahanu plant and then the entire Mumbai Transmission and Distribution which is available with us.

The GTD business, as you all are aware that this caters to the 3 mn customers. This is making the country’s largest private sector integrated power utility entailing that almost 1900 MW of power distribution along with generation facility. And there are 540 circuit km of transmission network. Now we have Rajiv Nayar – our Group CFO.

So I would request him to explain the fund raising plan for these assets.

**Rajiv Nayar:**

Hi, good afternoon everyone. As you may be aware, we signed the SPA for the BSES assets on the 21<sup>st</sup> of December for an enterprise value of Rs. 12100 crores. Our plan as it stands is to raise long-term bank financing at the target SPV level of approximately Rs. 8500 crores. This will be long-term amortizing debt from banks subject of course to market conditions. Those discussions are well underway together with discussions with rating agencies and we expect to complete that in the next few weeks. The balance amount of funds we expect will be raised from the equity capital markets over the next 6 to 12 months, more 6 months rather than 12 months equity and equity like instruments. In the interim the promoters will provide support to allow ATL to complete this transaction in a timely manner.

**Kaushal Shah:**

Yes, so this is on this fund-raising plan which we have. The next is that with this acquisition apart from the largest distribution network, the cumulative transmission network of ATL will reach around 12000 circuit km and out of which approximate 9540 circuit km are under operations and approximately 2350 circuit km are under various stage of construction. We expect that the lines which are under construction, the major three lines which will become operational over next financial year and we are well ahead of the schedule to make them operational. It is going perfectly as per our plan, in fact from the time and cost both ways we are well ahead of the timely completion.

The transformation capacity of ATL will also increase to 19300 MPA from 36 substations including 8 EHV substations under acquisition which is spread across the country. So Adani Transmission will remain the largest private sector transmission company in the country. As far as the financial summary is concerned the tariff and in the incentive income for the 9-month FY18 is Rs. 2462 crores versus Rs. 1577 crores for 9-month of financial year 2017.

Consolidated operational EBITDA of Rs. 2323 crores which is at almost 94% EBITDA margin of transmission business in the 9-month of FY18. Operational EBITDA for Q3 FY18 is Rs. 1432 crores which is almost 96% of the EBITDA margin. The PAT for the Q3 has increased to Rs. 842 crores compared to Rs. 99 crores for Q3 FY17 and similarly PAT for the 9-month of FY18 has increased to Rs. 993 crores compared to Rs. 321 crores for 9-month of FY17.

On the debt side and the breakup, we have a total net debt of Rs. 9863 crores at a consolidated level. The cash balance including the current investment is Rs. 359 crores to be precise. The net worth at the end of 31<sup>st</sup> December is Rs. 4324 crores which leaves to the debt equity of 2.79. The book value if now Rs. 37.50. So this is what it is as of now. The equity infusion in the new projects till date is Rs. 928 crores. So in 2017-18 we have infused Rs. 258 crores till December and what we have done is that when we have taken over Reliance we have done the date upsizing and then finally we have a net infusion of Rs. 100 crores as an equity in this.

So along with M&A total infusion of equity in the current year is Rs. 358 crores. And the total CAPEX till date is almost Rs. 2500 crores against the total project cost of Rs. 4000 crores approximately.

This is what is all from my side. Like we feel that the story is very exciting and moving forward we will be able to maintain the operational excellence and with this Mumbai distribution being a part, the long-stop date for this transaction is 30<sup>th</sup> June as we have agreed in the SPA and we expect this transaction to close somewhere on the 1<sup>st</sup> April, that is what is our desire.

There are three approvals which are required. One is the regulatory approval which we have filed with the regulators. The second thing is that we have to file with the CCI, so that application also we have already filed and then the third one is that the lender's approval is also in process. So we expect that the fund-raising exercise and all of this approval will be in place by mid-March so that we are hopeful that we should be able to close this transaction in early April.

With this I leave open for the questions.

**Moderator** Thank you very much. We will now begin with the question and answer session. We have the first question from the line of Shirish Rane from IDFC. Please go ahead.

**Shirish Rane:** Sir just one clarification on the arrears, the 8.72 billion which we have got. Is it all principal or is there also going to be some interest component on this?

**Kaushal Shah:** No, see this is all principal and interest all put together, this is the total amount which we have received.

**Shirish Rane:** How much would be the principal and how much would be the interest sir?

**Kaushal Shah:** Interest component is around Rs. 200 crores odd and remaining is the principal.

**Shirish Rane:** So basically we have booked both principal and interest in the arrears of Rs. 872 crores and incrementally whatever regular you will get you will get. So there is nothing pending on this account essentially?

**Kaushal Shah:** Yes, nothing pending.

**Moderator:** Next question is from the line of Sumit Kishore from JP Morgan. Please go ahead.

**Sumit Kishore:** My first question is what is the balance equity and CAPEX commitment for your under-construction transmission project aside from the Bombay acquisition?

**Kaushal Shah:** So till date we have incurred Rs. 2500 crores as the total CAPEX. Now total project cost of all projects combined is Rs. 4000 crores. So if you consider let us say 30% equity in some of the cases we have closed that 75-25 but for your purpose you keep that 30% equity which is Rs. 1200 crores, so out of Rs. 1200 crores we have already pumped in Rs. 928 crores to be precise. So that much is the equity which is remaining to be pumped in which is around roughly let us

say Rs. 275 crores and then the remaining Rs. 1500 crores you reduce this to Rs. 275 crores, so around Rs. 1200 odd crores we will have a date which we will be raised because all financial closure is there so that will be additional withdrawal of the dates. So overall Rs. 1500 crores is pending to be spent.

**Sumit Kishore:** And this will be spent by when?

**Kaushal Shah:** So major three or four projects by next September we should be spending this amount, major amount. I think around 80% of that Rs. 1500 crores will be spent by then.

**Sumit Kishore:** So in all for the entire 1200 circuit km target network, once everything is operational what is the sort of target transmission income that you would earn from these assets and once again if you are able to maintain about 90% plus EBITDA margin. So what sort of revenue are you expecting?

**Kaushal Shah:** On a ballpark figure we normally do not give guidance but on a ballpark figure I can tell you that our three-transmission line has a EBITDA of let us say around Rs. 2000 crores roughly, Rs. 2100 crores with this thing which has come up, that additional tariff. Then we have Reliance 2 assets and GMR both put together will add around Rs. 250 crores further. So that takes me to around Rs. 2350. When these assets under construction become operational, that will add another roughly Rs. 500 crores of EBITDA so that takes me to around Rs. 2900 crores and then on these assets which we have acquired for BSES we expect the EBITDA in the range of around Rs. 1600 crores. So all in all we are expecting this to go to Rs. 4500 crores at EBITDA level.

**Sumit Kishore:** Just to reconfirm from you the number on regulated equity base that you are looking for the Bombay assets that you have acquired, I mean what is the number?

**Kaushal Shah:** When you say regulated assets which we are going to acquire that asset value is Rs. 5600 crores, the asset which we are going to acquire, regulated assets. Our consideration value is Rs. 12100 crores.

**Sumit Kishore:** What I meant was what is the regulated equity base for the GTD businesses that you have acquired in Bombay?

**Kaushal Shah:** That is of Rs. 3400 crores. I think Sumit one more thing one has to understand is that every year there will be a CAPEX which we are going to incur so the return base will also go up based on the CAPEX, for example for the transmission you saw STU has already approved certain CAPEX for the future so similarly for the distribution and all of that they have approved. So the return based on that whatever CAPEX we incur will be increased further.

**Sumit Kishore:** And for the MERC assets, what is the kind of sort of areas are you expecting to come through and what would be the increase in tariff for the concerned assets?

- Kaushal Shah:** So our overall arrear which we expect that and which we have claimed from them is around Rs. 450 crores and if that goes through then the tariff income will also go up by Rs. 120 crores per annum, which is Rs. 10 crores per month.
- Sumit Kishore:** Okay, Rs. 120 crores per annum increase in your tariff income for the related assets.
- Kaushal Shah:** Right.
- Sumit Kishore:** Okay. And in your press release you mentioned that the promoter has already given a support loan of Rs. 21 billion to R-Infra. Pending the equity capital raise if further support is required the promoter would fund it. Is that right? What kind of cost of funds are you getting from the promoter?
- Kaushal Shah:** That we will be matching more or less whatever is there. What we are ideally doing is that this will be a deeply subordinated kind of a loan and which we are taking out with the proceeds of the kind of equity, equity issuance including the interest component.
- Sumit Kishore:** Thank you so much and wish you all the best.
- Moderator:** We have the next question from the line of Bharat Parekh from CLSA. Please go ahead.
- Mihir:** This is Mihir from CLSA. I just wanted to know one thing. I mean just full amount of Rs. 872 crores plus Rs. 71 crores that is total of Rs. 940 crores, the net of tax amount that you are going to receive is around Rs. 700 crores, right. Is that understanding correct as a full amount of Rs. 947 crores the net of tax is going to be Rs. 700 crores, right?
- Kaushal Shah:** Yes.
- Mihir:** Thanks sir, that is something I wanted to clarify.
- Moderator:** We have the next question from the line of Swarnim from Edelweiss. Please go ahead.
- Swarnim:** Sir a couple of questions. Wanted to understand, while we were acquiring Reliance Infra's transmission projects, there was another asset called Parbati Koldam (PKTCL). So what is the status over there?
- Kaushal Shah:** We are still pursuing the approval process, so I think that will spill over may be next year.
- Swarnim:** And sir in the BSEs business what is the likely CAPEX growth you expect, I mean a ballpark number would also do, somewhere between 3% to 5% range or what it is likely going to be?
- Kaushal Shah:** Historically if you look at that there was a CAPEX of around Rs. 450 crores per annum for the distribution business and then for the transmission the strengthening system has already approved some CAPEX, STU which is I think Rs. 2400 crores which has already been

approved by the STU. But on a ballpark figure on a distribution side you know more or less around Rs. 450 crores per annum will be the CAPEX which we will be incurring.

**Swarnim:** Okay, so that would be around 3-4% on the regulated equity base growth?

**Kaushal Shah:** Yes.

**Swarnim:** Okay. And sir on the fund-raising Mr. Nair did mention that we are looking for long-term loans, so over here it is still early to say but what are the kind of bonds we have issued that somewhere between 2.5% or lesser than 8%?

**Kaushal Shah:** In the structuring of the loan which we will do, we will have some provision for doing that as well. So first what we are doing is that we want to have a closure of this fund-raising that is the immediate target. Having said that we will also have some provision whereby the bank allows us to do this kind of the fund-raising which is the cheaper one. I think Rajeev wanted to add something.

**Rajiv Nayar:** I think as you have seen in ATL what we have seen and what we have demonstrated is the benefit of diversifying funding across markets both in India and offshore and initially at the target SPV level our intention would be to borrow entirely in rupees. Typically, we would want to give this 3-6 months to stabilize the operations, understand the business and in the 1 to 3-year period it would be our intention to do something similar at the target SPV level as well. And in our discussions with banks as we speak today we are contemplating a provision that allows us to refinance and diversify our funding.

**Swarnim:** Okay, perfect. Sir just one last question, was there any Forex gain or loss in this quarter?

**Kaushal Shah:** No, I think whatever is there it is a comprehensive income, because we have already aided the entire thing so as per the provision we have to do the mark to market, but that is a part of my comprehensive income. But other than that there is no major gain or loss in this quarter because we are a fully hedged company.

**Moderator:** Next we have a follow-up question from the line of Shirish Rane from IDFC. Please go ahead.

**Shirish Rane:** Sir just one clarification I wanted on the R-Infra acquisition, there is a Dahanu BPA which expires in next 12 to 15 months, so have we considered that when we were acquiring and what if it expires then what happens to our cash flow?

**Kaushal Shah:** Shirish, we have some technical study and analysis which says that the plant is in a very good condition and it can go beyond 2036 as well. And we have already filed the application with the MERC, I mean R-Infra has already filed, the hearing has also been completed. So we expect this to be renewed at least for 10 years.

**Shirish Rane:** So our base assumption in the acquisition is that it will be renewed for 10 years at least.

**Kaushal Shah:** So our base assumption is that it will be going beyond 2036. Well the plant is in a very good condition. They have all the requirement which is the base plan running in the country and some technical reports are also available with us which says that this is a very good condition of the plant and we believe that this will go beyond 2036. So our base model considers that.

**Shirish Rane:** So essentially, we are not considering that there will be any sort of a termination of PPA or PPA expiry. We expect it to continue for at least next 18-19 years.

**Kaushal Shah:** Yes.

**Moderator:** The next question is from the line of Murtuza Arsiwalla from Kotak. Please go ahead.

**Murtuza Arsiwalla:** Just wanted to check in the Reliance Mumbai acquisition of what is the regulated debt and what is the overall debt that we are assuming in that acquisition?

**Kaushal Shah:** Regulated debt would be around Rs. 2200 crores and the equity will be around Rs. 3400 crores, so all put together is Rs. 5600 crores regulator asset base. That is what is there and what we are saying is that to fund this Rs. 12100 crores we will have around Rs. 8500 crores as the debt and then the remaining will be funded through the equity. And there we have said that necessary clarification has been given in our press release and earlier reply. I just want to clarify one more thing is that while entering into a transaction there is an enterprise value of Rs. 12100 crores which we have agreed. Over and above all of you must be knowing that the regulator has also approved Rs. 1150 crores which is net of tax. The gross value is around Rs. 1400 crores which is receivable by R-Infra. Now MERC as per their thing they are going to pay it from April to March next year. So what we have agreed is that if we receive this money, that Rs. 1150 crores we will be paying it to them. So we are cash neutral as far as that piece is concerned.

**Moderator:** Next question is from the line of Sumit Kishore from JP Morgan. Please go ahead.

**Sumit Kishore:** Sir just one follow-up. In the Reliance Infrastructure disclosures there was an amount over and above Rs. 132 billion in terms of unapproved regulatory claims. So even those would be passed onto Reliance Infra in case they materialize.

**Kaushal Shah:** Yes, so what we have done as per our past practice in all our acquisitions we do not value anything for the disputed items, so what we have agreed is that whenever we receive that net of tax we will be passing it to them. So that is what is the current understanding with them.

**Sumit Kishore:** Okay, but in this case the Rs. 1100 crores over Rs. 121 billion would also not be paid upfront. So they would be paid as and when received between April and March of FY19.

**Kaushal Shah:** Yes, so we have with them some commercial understanding that we will pay them the upfront by discounting that. So that is a commercial understanding.

**Sumit Kishore:** Okay, so in terms of funds that you have to raise Rs. 85 billion of debt would have to include the discounted value for this Rs. 11 billion as well.

**Kaushal Shah:** Yes obviously, but you receive that. It will be in a separate TRA account which will be coming up and then we will be paying it to them, so to the lenders basically. What we are saying is that this will be received over a monthly period and then if you look at the past track record we have always received, I mean they have always received on time. So we do not see any issue on that.

**Moderator:** Next we have a follow-up question from the line of Shirish Rane from IDFC. Please go ahead.

**Mohit:** This is Mohit here from IDFC. So the one question I had is the clarity on regulatory asset of Reliance Infra is that regulatory asset which will be received by us and which is part of the transaction. I am talking not about the Rs. 11 billion which we have passed as R-Infra. I am talking about the separate – there was a Rs. 53 billion which was supposed to accrue to Reliance Infra over 5 years. Out of which Rs. 18-20 billion was still to be received. That amount was supposed to come by FY19 end.

**Kaushal Shah:** The answer which I have already given Mohit, what we are saying is that whatever is pertaining through the past period, whatever is the claim which they have made which has been under dispute and if in future if that claim is received by us then we have to pass through to them. Now we are unable to give the comment that whether it will take a year or 2 years or 5 years, we have made the math simple that whenever we receive we will pay them net of tax.

**Mohit:** But sir part of it was not disputed, part of it was clear in the sense that you better approve that regulatory assets as till be accrued.

**Kaushal Shah:** That is 1150 we understand that it has been approved.

**Moderator:** Next question is from the line of Abhishek Puri from Deutsche Bank. Please go ahead.

**Abhishek Puri:** Thank you for all the clarifications earlier but just wanted to understand on the conceptual basis, distribution rationale to get into this business segment because transmission is a very different business altogether. In distribution you are getting into the consumer interface and manage power contracts etc. So what was the rationale and how many years of the supply contract is remaining with or the license of distribution is remaining with you.

**Kaushal Shah:** I think first part I can answer. Second part is I think publicly available that what are the kind of license and all of that is available. Still if you want to understand from me I can spend time on that, no problem. We can discuss that offline. The first part, you know the rationale behind that is that we have entered into a gateway city of India and distribution is considered to be the low-risk business where the counter-party risk is very-very minimal and we wanted to have it to be into the distribution sector there are 3 mn plus customers already there and this asset has a 100 years of history and with less than 9% of T&A losses, the generating plants, the

transmission lines and then the distribution all of that are in good conditions. And we as a company we wanted to have a distribution business apart from the transmission line. So on a larger strategy we have entered into this business.

**Mohit:** So would you be retaining the manpower of Reliance Infra here and is there any possibility of contracts rejig also because I think some of the Reliance power plants also supply to this unit.

**Kaushal Shah:** So what we will do is that we are just pressing out the strategy, that what all optimization, what all we can do it. So we will update you once we have that final strategy ready in place with us.

**Mohit:** And secondly in terms of the EBITDA that you mentioned for BSEs Rs. 1600 EBITDA and the regulated equity number is I think where I probably missed you. Is it Rs. 3400 crores you said and Rs. 2200 crores is a regulated debt?

**Kaushal Shah:** Yes.

**Mohit:** And the CAPEX that you are going to incur, the funding that you are going to do for this, is it through NCDs or only through banks?

**Kaushal Shah:** I think we have answered these questions. I think you were not there. Rajeev answered this question that we are doing it through the fund and there are enough leeway which we will have to do the bond issuance and other stuff. Right in ATL we have initially a bank loan which was refinanced through the bond and other stuff, the similar things which we will be doing it over here as well.

**Mohit:** One last question gentlemen if anybody has, then we can discuss offline if anybody has any questions then you can send a mail to me, Pranav or Jay Ambani so that we can respond.

**Moderator:** Well actually that was the last question in queue. Now I would like to hand the conference back to Mr. Kaushal Shah for closing comments.

**Kaushal Shah:** Thank you so much everybody for taking out your time and if you have questions on this performance as well as the acquisitions do write to us. We are happy to answer these questions. Thank you so much.

**Moderator:** Thank you very much. On behalf of Adani Transmission Limited, that concludes this conference. Thank you for joining us ladies and gentlemen. You can now disconnect your lines.