



“Adani Transmission Limited Q1 FY-2020 Results Conference Call”

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Moderator:

Good day, ladies and gentlemen and a very warm welcome to the Q1 FY 2020 Results Conference. We have with us today from the management; Mr. Anil Sardana – Managing Director and CEO of Adani Transmission Limited, Mr. Kaushal Shah – Chief Financial Officer of Adani Transmission Limited, Mr. Ashwin Bajaj – Head of IR, Adani Transmission Limited and Mr. Jay Ambani – Analyst, Adani Transmission 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. Kaushal Shah for his opening remarks. Thank you and over to you sir.

Kaushal Shah:

Good evening and welcome to all our Adani’s friends and investors who have joined us for this Q1 FY20 Call. You must have gone through the press release and also the presentation that has been uploaded on our website. We have reported a strong operational and financial performance for the quarter and let me share with you the key operational highlights:

In our transmission business, we continue to register excellent availability of all our assets at close to 100% during the quarter. This has resulted into incentive income of almost Rs. 13 crores. Our distribution business; Adani Electricity, Mumbai Limited, which we acquired last started and started contributing significantly to the ATL’s top line and bottom line and we have also improved our AT&Cs losses round about almost 1 percentage point year-on-year and supply reliability reaching to almost 100% during the quarter.

On key financial highlights:

Our consolidated operational EBITDA was up 139% year-on-year and our consolidated comparable PAT after removing one-time interest income grew by 80% year-on-year.

Coming to the segmental performance of our Transmission business:

Operational EBITDA is of Rs. 615 crores, increased by 23% and our operational EBITDA margin was maintained at about 92%.

Also, the comparable PAT has grown by 33% year-on-year. The major contributory in this transmission business is that the 7 lines have become operational mostly in March of last financial year, so that has started contributing and in the first quarter we have a revenue of around Rs. 147 crores from these new transmission lines which have become operational.

On the distribution side:

The operational EBITDA is Rs. 584 crores, which is up by 21% year-on-year and this has translated into operational EBITDA margin of 28%.

Adani Transmission has a strong commitment towards ESG; we have been publishing Sustainability reports over the years, however this year we took a further step forward and published our first integrated annual report for FY19, in line with the framework laid out by the International Integrated Reporting Council. This is the first such initiative within the Adani Group and one of the first in the Indian Power Sector. We remain strongly focused to maintain high standards of governance and transparency. In addition to this, we have strong emphasis on safety and sustainability and contributing to some of the UN Sustainable Development Goals.

Let me just cover the debt front now:

On the debt side our consolidated net debt is close to Rs. 18,000 crores including the debt of our acquired distribution business of Adani Electricity Mumbai Limited. So, if you consider our annualized EBITDA, which is Rs. 1200 crores in the first quarter, then here we are in the range of around 4x debt to EBITDA. So, this is a very healthy sign and all of you are aware that in this quarter, we have been rated with the stable outlook by some rating agencies that had negative outlook before.

On the project on hand:

We have around six projects on hand with the capex of roughly around Rs. 4,000 crores which we will be doing over a period of two and half years. Then on the distribution front; we are planning a capex of around Rs. 1200 crores this year. We are also doing an HVDC transmission line in Mumbai to augment our distribution capabilities. So, these are my summary comments on the numbers and the results, we are happy to take any questions we have from the analysts, thank you.

Moderator: Thank you very much, ladies and gentlemen we will now begin the question and answer session. We have the first question from the line of Mohit Kumar from IDFC Securities. Please go ahead.

Mohit Kumar: Sir my two questions; first is on the accounting side, the interest cost has gone up substantially Q-o-Q, is it due to the IndAS 116 impact? And what is the cost funding impact on the expense side, if you can elaborate on that?

Kaushal Shah: So, I think the reason why the interest has gone up because last year in the similar quarter or even in the Q4, we did not have 7 operational assets. So, this quarter onwards, we will have

revenue coming up at the top line level as I mentioned that we have Rs. 147 crores revenue and the debt corresponding to that asset is reflected into the interest cost.

Mohit Kumar: Sir the depreciation has not gone up to that effect, to that similar level, there is hardly any Rs. 9 crores increase Q-o-Q.

Kaushal Shah: Sorry, you are saying that depreciation has gone up?

Mohit Kumar: No, I am asking, while the interest has gone up due to the commissioning of new lines, the depreciation has not gone up to that effect.

Kaushal Shah: No, so this depreciation change of Rs. 6 crores is because of this new lease accounting standard of AS 116, so what has happened is that from 1st of April, 2019, they have introduced the new accounting standard and whatever lease rent which we were paying earlier, used to straight away debited in the balance sheet, in the P&L as O&M expenses, now it has to be bifurcated into the finance expenses and the depreciation expenses. So, because of that there is a change in the depreciation which you are seeing.

Mohit Kumar: Is it possible to quantify the impact on the line items; rather, is it possible to quantify the impact of IndAS 116 on the line items?

Kaushal Shah: So, overall impact on the EBITDA which has increased because of the IndAS is Rs. 1.76 crores net.

Mohit Kumar: Okay, sir I will take it offline.

Management: You can refer the note number 8 of our audited financials.

Mohit Kumar: Sure Sir, I will have a look. My second question is, pertaining to the transmission business. So, you have commissioned 7 new lines and I think the corresponding cost is Rs. 31 billion while we are expecting a top line of Rs. 6.2 billion, am I right Sir?

Kaushal Shah: Yes.

Mohit Kumar: And Sir, when did the commissioning happened for all these 7 lines, has it mostly happened in fag end of April' 19?

Kaushal Shah: Mostly in the month of March.

Mohit Kumar: Okay, Sir we have won two new assets now; the four were under construction, so we have now 6 under construction lines. My question is; what is the cost of funding, what is the revenue in

the first year you are expecting in FY22 and what will be the capital cost of all these six projects put together?

Anil Sardana: You are basically asking for corresponding tariffs for each of those items.

Mohit Kumar: Yes, levelized tariff or the first-year tariff, you know either of it.

Anil Sardana: We will tell you the tariff for the two projects that we won, which is say Rs. 200 crores.

Mohit Kumar: Is that the levelized tariff, Sir?

Anil Sardana: Rs. 200 crore is the annual tariff. In the sense, this is the way we work, you know the original times of how the levelized tariffs used to be calculated for power projects, it is slightly different for the way the transmission's net project value is calculated but you take that Rs. 200 crores as the annualized tariff.

Kaushal Shah: What we can do is that, we will email you these numbers. These are the top line numbers, so we will mail you.

Mohit Kumar: Sure. And Sir we have won two projects and I think the commissioning timelines are very tight and strict, even for all the new upcoming projects which are in the bid pipeline right now. So, what is your view on that and how is the competitive intensity panning out in the recent bids, have you seen the number of competitors increased or it is more or less on the similar lines?

Kaushal Shah: There are two things to it, one is that in the past we have shown our track record of executing the transmission line ahead of schedule as well as below budget, so we are very mindful about the schedule of projects which we have won and secondly, we have a very competitive team coupled with the tie-up with the existing contractor which based on our internal targets allow us to complete projects ahead of that schedule COD, which you are talking about. So, we do not see any challenges as far as the execution of the lines is concerned.

Mohit Kumar: Okay Sir and how is the bid pipeline looking out?

Anil Sardana: On the previous question you asked, I just compiled the figures, so other than the Rs. 200 crores tariff that we told you that we recently won. The previous four projects that we are doing, the tariff will be close to about say Rs. 350 crores.

Mohit Kumar: Okay, so how is the bid pipeline looking out, how do you see the opportunities in the transmission bids?

- Anil Sardana:** The pipeline is actually bursting at the seams; it is very healthy. In fact, the number of projects that are being bid out are quite a lot, in terms of numbers because one is of course the renewable evacuation projects, the other is the ISTS Projects and the State projects. So, the pipeline continues to be very healthy.
- Mohit Kumar:** Is it possible to quantify the pipeline for the immediate opportunity?
- Anil Sardana:** Already for bids, the RFQ submitted or the RFQ is being demanded is anywhere close to about Rs. 40,000 crores.
- Moderator:** Thank you, the next question is from the line of Jay Prakash from HSBC. Please go ahead.
- Jay Prakash:** I just need some clarification on the total debt number that you had mentioned for financial year ending March 2019, from the annual report I see that it is at Rs. 20,000 crores, in presentation I see at Rs. 18,900 crores. May I just have the difference by how to reconcile that number? It is mentioned as Rs. 18,900 crores or Rs. 18,700 crores in the PPT, but in the annual report I find it at Rs. 20,130 crores.
- Kaushal Shah:** So, if you look at this, there is a regulatory debt of close to Rs. 800 crores which is recoverable from the customers. So, this thing we had when we had an agreement with the Reliance; that whatever was in the past was receivables will be considered as regulatory debt. What we have done is that we have raised the money and given them the upfront and we are collecting regularly from the customers over and above the regular tariff. So, as far as we are concerned, it is neutral for us and that other difference is due to working capital of Rs. 500 crores. So, if you exclude these both figures, I think it should tally with the numbers.
- Moderator:** Thank you, the next question is from the line of Parth Jhala from Goldman Sachs. Please go ahead.
- Parth Jhala:** Just wondering, if you could throw some more light on your CAPEX plan for this year; where it has been spent in the distribution segment, thank you?
- Anil Sardana:** So, Parth the Capital Expenditure plans between ATL and AEML, this year likely is to be about Rs. 4,000 crores. As you are aware, we have a free cash flow after taking care of our interest and repayment obligation, close to about Rs. 1,400 crores, which is good enough for us to leverage and execute close to about Rs. 4,500 crores worth of CAPEX. Since we already have a healthy pipeline of projects at hand, including the approvals that we have received at AEML from regulators, we will spend close to about Rs. 4,000 crores for sure.
- Kaushal Shah:** So, our plan is to maintain the investment grade rating as we are doing it, our debt EBITDA levels will always be under check and accordingly we will be doing the CAPEX for the growth.

- Moderator:** Thank you. The next question is from the line of Shreyas Ravi Kumar from Pioneer Investcorp. Please go ahead.
- Shreyas Ravi Kumar:** Can you throw some operational metrics on what sort of returns you get from fixed returns versus fixed tariff assets as such, what is the difference between the two and how do you see them operationally?
- Anil Sardana:** So, Shreyas as far as the regulated returns are concerned, we are all familiar with the fact that we get 15.5% plus the incentives. Incentives, differ between HVDC and HVAC projects of Centre and State, so you can say by and large we will get anywhere close to 18% returns as far as regulated assets are concerned. As far as tariff-based competitor bid projects are concerned, the projects that we have executed thus far and the way the theme of things are, you could actually look at even double of this.
- Shreyas Ravi Kumar:** Okay and this is purely decided by regulator or there is 'we have no say' in any of the assets on how the returns are generated?
- Anil Sardana:** I think we have to be clear Shreyas. The regulator decides only for regulated assets, for tariff based competitive bid projects, we bid and therefore all upside gets retained with us, otherwise you cannot have the upside of the facts that I am mentioning, it is only because of the financial structuring and because of the lower cost of execution. Like for example just to give an idea that when we bid, we have an estimated cost for those 7 projects because those were completed, so I can readout the numbers, we had an estimated cost of Rs. 3,600 crores as the capital investment for those 7 projects, we ended up completing those projects with Rs. 3,100 crores, so there is an upside that gets built and the second upside comes when we upsize the debt and refinance duly maintaining a healthy debt service coverage and also improving the amortization because now it is an operating asset. So, those two things coupled with the threshold that we have built at the time of bidding actually create the upside which we can retain. So, it has nothing to do with regulator. I hope that clarifies the issue.
- Moderator:** Thank you. The next question is from Rahul Modi from ICICI Securities. Please go ahead.
- Rahul Modi:** Sir just a couple of questions firstly on the distribution business, what is our target in terms of expansion, are we looking at franchise business or license areas in particular. And second question would be, any other transmission assets do you think which is there in the market in terms of M&A?
- Anil Sardana:** It is unfair for you to ask us question about M&A, but yes, the company continues to look at the opportunities that are there in market place, in terms of the M&A. So, we will continue to look at them and we will share with you once we have zeroed down on any of those. What was the first part of your question?

- Rahul Modi:** Sir it was more on the distribution side, are we looking at growing in the franchisee areas if it comes to bidding or only license areas and how do you see this landscape looking ahead?
- Anil Sardana:** So, Rahul at this stage as we talk, there are opportunities being promoted by two States, one is Odisha, that has already come out with both, three DISCOMs on PPP basis and one DISCOM with 15 franchisees and we are evaluating those. The other is the state of Rajasthan which has hinted at 4 more towns to be covered, though what they call as franchise, but it is mostly nearing the contours of a PPP because they allow you to do CAPEX and take it to the regulator, so we are open to all of that and the entire reason why we have got into distribution business is because we believe that there will be tremendous opportunities in designs they have and we will be open to looking at those.
- Moderator:** Thank you. The next question is from the line of Amit Jain from Franklin Templeton. Please go ahead.
- Amit Jain:** I see in the presentation that you mentioned that there is expected TBCB pipeline of Rs. 17,000 crores in FY 2020, can you talk a little bit about the competitive intensity that you are seeing in these projects that you are bidding, particularly in TBCB?
- Kaushal Shah:** Amit at this stage we have seen there are three permanent players, which is Power Grid, Adani Transmission and Sterlite. In addition, we find players who come in and depending on different jobs of interest and they include, we have seen ReNew participating, we have seen Torrent participating, we have seen some of the other companies come in and go by but right now the real competitive intensity is getting increased between three large players.
- Amit Jain:** And in terms of the pressure, the way it is being bid or anything of that sort?
- Anil Sardana:** So, Amit the pressure is the function of the jobs in size, since the pipeline has moved between what you saw at Rs. 17,000 crores to what we now have currently, which is certainly swell to 40,000 or so, I guess one can decide the threshold and stick to that. So, I haven't encountered at this stage the pressure, there could be always anxieties in terms of which job you want to have and what price that goes but on a generic way, because your question is very generic, I will say on a generic basis I do not see those pressures.
- Moderator:** Thank you. The next question is from the line of Mohit Kumar from IDFC Securities. Please go ahead.
- Mohit Kumar:** Sir for clarification is there any regulatory asset build up in Mumbai or largely in line now?
- Kaushal Shah:** No, according to us there is no Regulatory Asset built up.

- Mohit Kumar:** Sir, given the fact that distribution losses are now around 7.8%, how much low it can effectively go and what is the benchmark for FY 2020?
- Anil Sardana:** Okay, so the distribution loss consists of three types of losses. One is the technical loss, the second is the theft and the third is the erroneous billing or poor collection that is the third category. Now, as far technical losses are concerned in an underground network of the adage and pedigree that we have in Mumbai, our estimate is that loss is anywhere close to about 6%. To reduce the technical losses below 6%, one we will have to do an intense capital addition in terms of putting additional cables, additional transmission capacities, etc. So, that is the situation with regards to technical losses. As far as the balance part of 1.7% of losses under the other two categories, I do not see any reason why we should not be able to address that over the next 2-3 years.
- Mohit Kumar:** And sir last question there was this ongoing case with Supreme Court on standby litigation, I think which was ruled in favor of Adani electricity Mumbai. So, is the entire thing passed to the consumers or is there any benefit which we can keep out of that particular amount?
- Anil Sardana:** So, Mohit as far as the consumers are concerned, they have already realized advantage of this, so nothing is to be passed to the consumers and this amount entirely is squaring to the account of R-Infra as per our agreement.
- Mohit Kumar:** Okay, so it is nothing to do with us, am I right?
- Anil Sardana:** Nothing to do with Adani Electricity. In fact that of course as a part of the SPA if any amount is due to us from them, we can square off but that is between us and Reliance Infra. As far as the amount is concerned as adjudicated by Honorable Supreme Court, it entirely belongs to Reliance Infra.
- Moderator:** Thank you. As there are no further questions, I now hand the conference over to Mr. Anil Sardana, for closing comments.
- Anil Sardana:** Thank you so much for being on the call, really appreciate for joining this Q1 call. As I have always mentioned that it is not necessary this is the only media through which we can engage. You are welcome to get in touch with our Investor Relations Team and we will be very happy to take all your questions and anxieties that you have. Once again thank you for being on the call. Look forward to joining us for Q2 FY20. Thank you and good day.
- Moderator:** Thank you very much. Ladies and gentlemen on behalf of Adani Transmission Limited that concludes this conference call for today. Thank you for joining us and you may now disconnect your lines.