



“Adani Transmission Limited
Q4 & Full Year 2019 Results Analyst Conference Call”

May 28, 2019



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Moderator: Ladies and gentlemen good day and welcome to the Adani Transmission Limited Q4 and Full Year FY2019 Results Analyst Conference Call. We have with us today from the management Mr. Anil Sardana, MD and CEO of Adani Transmission Limited, Mr. Kaushal Shah, Chief Financial Officer of Adani Transmission Limited, Mr. Ashwin Bajaj, IR Head, 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 the 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. Anil Sardana, MD and CEO of Adani Transmission Limited. Thank you and over to you, Sir!

Anil Sardana: Thank you so much. Welcome to Q4 FY2019 conference call. I am sure you would have got the press release, SEBI results, details and also the presentation that we had forwarded or uploaded. We would like to highlight that the last quarter like in previous quarters continued to register a very high availability of business so much so that incentive associated to such assets was availed of fully and during the year the company earned a total incentive of Rs.48 Crores.

In addition to that, Adani Electricity Mumbai Limited started now contributing its own results to ATL. We have set in motion two clear paths in AEML, one is targeted to make sure that the AT&C losses meets the benchmark level and the other parallel path is in terms of ensuring that the customer is able to reap advantage both on account of network services as also on account of soft commercial services. I must caveat it by saying there were lots of gaps as the incumbents did not carry out several capex and repair works which were identified long back by the team. We have taken up all of those in the right earnestness. Those who are familiar with Mumbai must be aware that from April to October is the stipulated period where you actually cannot do any digging works and therefore many of our schemes will actually take off from October onwards. AT&C loss last year registered was 7.85% down from 8.6% or so, besides that a number of technological initiatives has been set into motion as also a number of areas which were not catered to, in terms of electric supply to them have also been integrated based on approvals that we either, managed to get out of the courts or the municipal bodies locally. This would contribute to the loss reduction because no one goes without electricity and if we assume that those people were consuming electricity without meters, now will buy electricity legitimately.

In addition to that we have been able to add a lot of units from the large customers which have moved to Adani Electricity network and this adding of consumer continues. We have also been legally benefitted by regulatory orders where such addition of customers will continue to give us the benefit.

So friends those were some of the initial points. The fact that you are of course aware of the results of Adani Electricity are just for about seven months period, in addition the other news that we have shared with you during the past calls that all the ongoing assets that were slated to be

commissioned at ATL have been commissioned barring just one small element that is left out into some coordination work. Beyond that the capex still continues to be healthy. We have close to about Rs.3750 Crores worth of transmission orders, in hand which have to be executed within this year and the next. In addition we have a strong capex of close to about Rs.1400 Crores plus, from AEML that we have to execute during the current year.

So that was the overall picture. We will look forward to your questions and would appreciate if you could frame your questions, basis the inputs for the past results, we will be happy to answer those questions. Thank you.

Moderator: Thank you. Ladies and gentlemen we will now begin the question and answer session. The first question is from the line of Mohit Kumar from IDFC Securities. Please go ahead.

Mohit Kumar: Congratulation Sir on completing the number of projects in FY2019 and getting the incentive. Can you please confirm the incentive number for all these projects which gets completed ahead of time, is it for Rs.48 Crores?

Anil Sardana: Sorry.

Mohit Kumar: Can you confirm the incentive number?

Anil Sardana: Mohit, sorry I got your point. The incentive is not for completion of project. The incentive is for the availability of assets which were operational already, we have been operating. As far as the completion of ongoing project is considered, that incentive is by way of the fact that we have completed them on time or earlier than schedule and below cost so that is our reasonable incentive in terms of what we have been able to achieve.

Mohit Kumar: On the projects which you have completed in FY2019, what is the entire project cost put together for all these seven projects?

Anil Sardana: The details are that the project completed cost by us is close to about Rs.3100 Crores which originally we had estimated at about Rs.3600 Crores.

Mohit Kumar: Sir how is the bidding pipeline looking at this point of time? Have you seen some action? Do you think of course FY2019 of Adani Transmission bid? How do you see FY2020 panning out, FY2020, FY2021, have you seen any improvement?

Anil Sardana: Not only improvement, Mohit. It is actually rather more on the difficult aspect of institution, because too many projects have come at the same time, there are very limited survey agencies in India and for us to carry out survey of those groups, it is rather a challenge so we have requested agencies to spread some of those projects and they had obliged because they do understand because there are few request come from the other bidders too. So the pipeline is pretty healthy. In fact as we draw that total numbers upwards of Rs.30,000 Crores.

- Mohit Kumar:** How much Sir Rs.30,000 Crores?
- Anil Sardana:** That is true.
- Mohit Kumar:** Sir on the distribution business of course in FY2019, we have done a decent job of reducing the distribution losses, how do we see FY2020 panning out which are the levers where we can sell some things from saving so that we can increase our profit form the distribution business in FY2020?
- Anil Sardana:** I have always maintained Mohit and this the generic response I am giving for the benefit of all analyst friends on the call that when it comes to distribution business we need upside in terms of the large capex pipeline that we have for the simple reason that it had had virtually got dried up in the last four to five years as the incumbent had challenges of capital formulation, so there is a big pipeline of capital outlay that we see front of us as far as distribution business is concerned. Number two we have advantage in terms of normative O&M cost versus O&M cost that we have incur that is another aspect that we clearly have with us. The third is in terms of the upside on the power costs that we are able to reduce, one of our big upsides in the last few quarters was that we are able to bring down the cost of input power by prudent views of our own training knowledge and training equipments, so that is one of the key factors in fact better performance during the last one or two quarters, so that also gives us eventual upside in terms of fact that we can therefore garner more million units by virtue of more customers shifting into our network, so those are all associated aspects that we are working on and of course the other upside is in terms of the finance that we have that is also a normative basis and compared to that we have been able to get AA + rating and we are looking at therefore options for us how we are able to manage better costs of capital on AEML business as well, so those are some of the salient aspects and of course going forward we will also look at the options in terms of seeing as to how we can look at the embedded real estate value which also scores good advantage for AEML.
- Mohit Kumar:** Last question is what is the capital outlay for the distribution for the next two years?
- Anil Sardana:** The capital outlay is more by virtue of what we can execute, not necessarily by virtue of the pipelines are exists. In fact, as I told because of the fact that capex could not be executed for various reasons and now there is in fact a pressure from regulator side as well for us to execute more capex than perhaps we can manage, therefore the outlay generally is we hope that we close to about 1250 Crores to 1500 Crores going forward for the next few years.
- Mohit Kumar:** Thank you.
- Moderator:** The next question is from the line of Dhruv Muchhal from Motilal Oswal Securities. Please go ahead.

Dhruv Muchhal: Thank you. Sir, on slide 22, the EBITDA Bridge for the distribution company, there is a drag item in show because this carrying cost on regulatory assets. Is not this pass through in your tariffs or you suffer a hit because of it?

Kaushal Shah: No, for conservative accounting policy we have not recognized the carrying cost on the income, which is going to be received by us, so the seller company used to account for the carrying in the balance sheet, but as prudent norms we have decided that we shall recognize that as and when we shall receive it.

Dhruv Muchhal: But as per policy, as per the regulations you likely to receive it, right?

Kaushal Shah: Yes, that is what we are entitled from the policy to receive the carrying cost.

Dhruv Muchhal: Current numbers are understated by that amount on a normative basis or the reported basis? I mean there is a drag of that amount?

Anil Sardana: Yes, that is true.

Dhruv Muchhal: Sir, secondly you mentioned about 30000 Crores of order in transmission, can you please throw some light on how do you that coming in FY2020 and FY2021, when do we see the bidding happening for these projects?

Anil Sardana: As I mentioned, both central that is federal projects as well as the provincial projects, which are state projects, both have suddenly started to queue up, it could have been because of the fact that the Empowered Committee on Transmission eventually has taken a call that even projects like Green corridor would be done through TBCB routes or else it could have been more clarity that was led by the regulators in the respective state that they would want to see these projects coming through TBCB route, all of that considered to be perhaps has brought this queue to become longer. Now the amount that has to be spent on the transmission assets to be built is of course very huge. What is important for us is to locate that the fact that they can all be resolutely faced by the NCT and we have therefore gone and talked to the players who sit at the National Committee on Transmission to state that appropriate so that kind of we will be able to do a decent job in terms of surveys and then participate in the bidding, otherwise it becomes very challenging if you all get clustered together because then you would rather have to do a hurried job in terms of estimating the routes, validating those aspect and then preparing the bill of quantities and also finally pitch in, so my sense is close to about 30000 Crores to 40000 Crores is fine for every year depending on the certain players that exists and because I am assuming the PowerGrid naturally is poised to take a lion's share of that because that their capability has also the fact that that is what they would like to see but there is enough and more that the project team also then look at from their share, so to me 30000 Crores to 40000 Crores per annum would be very decent number, so I would not see any problem with regards to those many projects coming through.



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- Dhruv Muchhal:** Sir, just one clarification, on the committee reports, which I had referred to the committee report, the merits of the committee reports, I see excitingly we have approved projects worth about 16000 Crores to 17000 Crores, so the 30000 Crores you include the projects, which are likely to come soon, which are under the committee consideration?
- Anil Sardana:** No, you are bang on, those are National Committee for Transmission that you have looked at is for the federal projects, including some of the green corridors and I am talking about state projects included because there are today projects on UP, there are projects today from Jharkhand, there are projects from MP, there are projects from Karnataka all those projects are all lining up, so only included the NCT projects, which are federal, but I am also including the state projects.
- Dhruv Muchhal:** Got it. Just to understand market, is the bidding structure or the players very different in your central projects, which I believe are typically more larger versus the state projects?
- Anil Sardana:** Not really. In fact the projects that we have recently won, for example the Ghatampur project or Obra-C project they are as big as large as ICIL project. In fact the Ghatampur projects is 1850 Crores and Obra project is 730 Crores, so it is not sourced, it just depends what, where we think this should be executed as we are concerned, are they combining multiple lines that we need to strengthen and now UP has exactly done that, Ghatampur is in fact is doing the same thing, some of the others also may include from there and try to create bigger size.
- Dhruv Muchhal:** Sure, just last thing, the 30000, which you mentioned per annum effectively I should broadly assume 50% from central and 50% from state?
- Anil Sardana:** Yes, you can assume so of course there is no hard and fast rule.
- Dhruv Muchhal:** Broadly, looking at how the trend currently is 16000 to 17000 by the central that way?
- Anil Sardana:** That way we can assume so, out of that you are seeing in Maharashtra it has come out with a project that any active cost cancelled or one of the private sector party and that has been recently quoted, last I think 10 days back so that again 400 kV transmission projects that has been floated by Maharashtra.
- Dhruv Muchhal:** Got it Sir. Thank you.
- Moderator:** Thank you. The next question is from the line of Rahul Modi from ICICI Securities. Please go ahead.
- Rahul Modi:** Thank you for the opportunity. Sir, just a quick question on your views on competitive intensity in the bidding space currently, how you are seeing? Are you seeing lower number of players, new number players coming in or how is it? Whether it is leading to out of the bidding because what

we have seen historically that some bids were almost nearing, in some cases probably less than cost of capital so do you see that trend overall in the bidding scenario, how do you see it?

Anil Sardana: Rahul, I would say that we operate the density is same what it has been and we are still first player to work, pitching and bidding earlier still around now eventually in terms of capability to execute, we are seeing that the players who were grabbing a lion's share continue to do the same, so I do not see any change that has happened except for the fact and it seems like that some of the EPC players, which at some stage came into the development arena perhaps may not be there because they have told us they are happy doing EPC jobs so that is what is the indication, but I cannot move further that part, we will have to wait and see in the next round that is due, I can only tell you that in fact yesterday it was a big opening for one of the projects, which is an ISCS project, which is for the western region, northern region welding projects and I find there are only two bidders.

Rahul Modi: That is very helpful. Sir, secondly what we have seen in the renewable space like we have got more bids coming up through nodal agencies who take up the payment risk, now in this case how is means you got this CTO which does the collection or we may say the PowerGrid who does the collection, but the nodal agencies presence in coming in terms of payment security?

Anil Sardana: Rahul to understand the sector very well that this nodal agency issue is an issue, which certainly it is helpful, but as any steer ever defaulted in transmission.

Rahul Modi: No, not really, but just your views that typically they do not default in generation also, but?

Anil Sardana: No, they do, and in fact wherever defined that the variable cost is not passed in merit order and they would not really therefore want that generic session to really have claimed from them, they would merrily delay the payment because the generator means the Discoms, the Discoms does not need the generator whereas it is quietly reversed as per our transmission system is concerned because no state would ever take risk in delaying the payment or not making the payment for transmission because one breaker opening would mean a big problem for the state, so I have never seen even states with sort of poorer reputation ever denying payment to these transmission companies, so my sense is while the pool arrangement will continue whether PowerGrid becomes the nodal agency for special projects and alternate arrangement is involved by the regulator that is for the policymakers to decide, but as of now that continues, so as per as the special projects are concerned PowerGrid will be the infliction partners and the whole arrangement of course is similar when it comes to ISCS projects or federal projects or state projects and pooled system is pretty effective. That is not going to change.

Rahul Modi: Great Sir, and just lastly on the way forward for the distribution company what do you see the opportunity size like both in terms of the license circle areas and distribution franchise and how you see Adani Transmission place through segment going forward?



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Anil Sardana: Thanks Rahul for that question. Let me start by saying that the reason why Adani Transmission jabbed the Mumbai opportunity was for the fact that is very keen to expand into the distribution business, so that goes without saying that all future opportunities will start to see our response. Coming to your first part of the question, which is how do I see opportunities panning out in future for the distribution business, my limited answer is that whichever column, I read, whichever paper you show us, pursue now you will find that one of the key agendas for the new government is going to be reforms at the distribution level and I therefore personally feel that quite like transmission where you normally see a slew of projects in sooner time you might see slew of opportunities in the distribution as well. More important part whether it should be will be through PPP route or franchisee route as long as the franchise has the qualification requirements where serious players are invited to participate and yet, we will see we has the competition and be very useful to get in into those. I do not see much difference between the current franchise model especially what one saw in Rajasthan in the last months where of course at that time, we were not in this business but I was in the other company and from where we did get one of the franchise areas it has almost similar to our PPP except that it is active franchise perhaps for it to be politically correct, so one will have to wait and see, but I certainly would not summarize by the saying I personally see that distribution reforms will be a big ticket item in the new government's agenda.

Rahul Modi: Thank you and all the best.

Moderator: Thank you. The next question is from the line of Varun Ahuja from JP Morgan. Please go ahead.

Varun Ahuja: Good evening. Sorry earlier my line got disconnected. I am not sure if you answered this, so apologies if I am repeating the question, but I will limit it two. Firstly on capex plans did I hear it right last time that you are guiding for Rs.1250 Crores to Rs.1500 Crores for the capex and I presume this is more of organic and not really including any opportunistic M&A targets?

Anil Sardana: We probably lost you. So I will just reiterate what, you are talking about our procedures that I set for Adani Electricity in Mumbai that is the figure that I said is there organic capex there was. As far as the capex for Adani Transmission is concerned that is actually much higher than that. You are aware of the fact that we have a continued resource of generation, which can sustain the total capex of close to about Rs.4500 Crores to Rs.5000 Crores every year after taking care of our debt obligation as well as our obligation with regard to the interest payment, so therefore I think that is the kind of capex that we will execute every year as we move ahead.

Varun Ahuja: The second part is I guess you have resolved the ratings from S&P's perspective at least so congratulations on that. I think you have very clearly walked the talk as you have been committed, so just on Moody's, I guess that is the only one, which is left on negative outlook? If you can give any update on your conversations with them? I presume the equity raise that the QIP that you have been trying for different reasons obviously it could not happen, but that would

be clearly one of the triggers, so if you guide where you are on that as well given that you seem to have quite a number of growth opportunities, which obviously equity investors would like?

Anil Sardana: Again, we do not actually have to receive any compliments for what we ought to have done so we just restore what we were supposed to do. As far as Moody's is concerned, if their requirements is in terms of the equity issuance, which again we are committed except for the fact that all of you are aware of the events that happened one after the other in country so now that that elections are over, the new government formation is on record, it may be moving ahead and setting up our efforts for the purpose that we went about doing few things in the month of January, so yes we are committed and I am sure Moody appreciates the aspect and the moment the equity issuance part is done everything else will then streamline back to what really we want to see.

Varun Ahuja: Just one last thing if I may squeeze in, in terms of I see that you have I think around a few bonds domestic INR bonds, which are maturing in the next couple of months, so if you could give a color how do you see the local market liquidity in order to refinance that or whether you are looking to do it through the bank loan market?

Anil Sardana: It is a guidance, I do not want to talk about specifics in terms of the issues, which were likely, but yes we have sized up those issues and we have all those options which are linked up as far as our actions on that are concerned, so we will certainly share with you and I have already mentioned to you that we have a healthy free cash flow with us especially now that we have those ongoing projects having been completed because even their billing now this year is going to be entirely seeing further improvement in the cash flows, so one does not have to really worry about that, but to take full stride.

Varun Ahuja: That is all from me. Thank you.

Moderator: Thank you. Ladies and gentlemen, please note that today's presentation is uploaded on our website that is Adani Transmission Limited. Please refer to the website for the presentation. We will move on to the next question that is from the line of Mohit Kumar from IDFC Securities. Please go ahead.

Mohit Kumar: Thanks for the opportunity once again Sir. Sir, are you open to acquiring operational distribution franchisee assets? Have you looked at it?

Anil Sardana: Mohit, yes.

Kaushal Shah: First we want to add that whatever the capex for organic or inorganic we want to ensure that whatever is within the parameters of free cash flow available either through the fresh equity issuance, we will ensure that we will maintain the investment everything, so that is first



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commitment, which we have and we are assured to the bondholder so within that parameters either organic or inorganic both options are open for us.

Mohit Kumar: Across transmission and distribution franchisee, I guess some of the distribution franchisee assets are available in the market that is the reason I asked?

Kaushal Shah: That is what we have shared, you know when some opportunity comes, but as of now we do not comment on speculation.

Mohit Kumar: Sure. Sir what are the accounting changes you have made, which have led to restatement of profit for Q3 FY2019? Can you list out?

Kaushal Shah: It is a good question. Actually what had happened is that we in Adani Electricity, Mumbai if you recollect that we have a 25-year PPA with Vidarbha Power so as far as the accounting standard here we have been told that since this is a specific PPA with Adani Electricity, Mumbai we have to account it as a lease so we have accounted in the initial two quarters as lease obligation, but then we have taken some opinions and based on that opinion because we were firmly believing that because we related party between the Reliance Infra and Vidarbha , but we as an independent entity do not have an obligation and there are some technical things, which were supporting us that not to account it as a lease so that is why regrouping has happened so in the earlier two quarters you might have seen that we have accounted as a lease obligation for this Vidarbha and in March when the final view of the auditor has been taken by Deloitte we have upgraded that no treatment of lease is required.

Mohit Kumar: Is there anything else Sir on the asset and carrying cost?

Kaushal Shah: No, nothing.

Mohit Kumar: Thank you Sir.

Moderator: Thank you. As there are no further questions, I now hand the conference over to Mr. Anil Sardana for his closing comments.

Anil Sardana: Thank you friends. Thank you to all the analysts' friends for joining the Q4 conference call. This is not the end of our engagement. If you have any questions, feel free to send it to Ashwin or Jay and we will be happy to respond to your queries. We now look forward for all of you to join us for Q1 FY2020 call till then good bye. Thank you.

Moderator: Thank you. Ladies and gentlemen, on behalf of Adani Transmission Limited that concludes this conference. Thank you for joining us and you may now disconnect your lines. Thank you.