



**“Adani Transmission Limited Q2 and H1 FY21
Earnings Conference Call”**

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LIMITED
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**MODERATOR: MR. HARSHVARDHAN DOLE – IIFL SECURITIES
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Harshvardhan Dole: Thank you, greetings to everyone. On behalf of IIFL Securities I welcome you all to Adani Transmission Limited Q2 FY21 as well as H1 FY21 Earnings Call. To take to discuss the results in detail and share the performance outlook, we have the senior management team of Adani, we have Mr. Kaushal Shah – CFO ATL and Mr. Rakesh Tiwary – CFO of AEML. I will first request the management to give opening comments subsequent to which we can open the floor for Q&A. Over to you, sir.

Kaushal Shah: Thank you Harsh. Good morning and good afternoon and welcome to all analyst friends and the investors who have joined this call for Q2 of FY21 I am sure you must have gone through the press release and also the presentation which we have uploaded on our website. As we learn to live and come out stronger from the challenges post by the COVID, we are extremely grateful to our teams on the ground who are relentlessly pursuing the organizational goals in compliance with all the measures and safeguard in place for the safety and health and because of them we have been able to show the strong performance in this quarter as well. If you look in H1 FY21 again, ATL has ensured near to 100% live availability and similarly in the distribution also the AEML maintained the reliability of almost 100%.

The distribution losses which was as high as 13.5% in Q1 FY21 now this has gone down to 8.51% overall on account of the billing basis of actual meter reading. So, that was one of the reasons we also explained last time that why the losses were higher. The collection efficiency at the AEML and ATL both is back to the normal levels and in fact in AEML we are at more than 100% efficiency level in Q2 FY21. Similarly, for ATL also the collection has come back to the normal and we have now normal outstanding similar to pre-COVID levels.

Another important point, I would like to highlight you that Mumbai last month saw a worst ever outage plunging majority of the city into the darkness, but I feel proud that our operational excellence and robust network infrastructure has come into a play and due to activation of Islanding scheme, AEML ensured that 500-megawatt supply of critical services in Mumbai through its Dahanu Power Plant and we could restore almost 95% of the supply to the consumers in 70 minutes of disruption. We have ensured that all the essential services supplies are maintained without any interruption. So, team coordinated with the SLDC and successfully synchronized the Mumbai system with the state grid as a rapid response.

If you look at any infrastructure business the cash profit is very important and from Adani Transmission point-of-view, we have reported a cash profit of almost Rs. 1,600 crores in H1 which is 51% up year-on-year and in Q2 it is Rs. 676 crores which is up by 30%. Again, PAT of Rs. 570 crores up by 28% supported by the positive impact of Rs. 330 crores from the APTEL order for the MEGPTCL dispute which was pending. In fact, we have conservatively booked only Rs. 330 crores in the books, but actually we have filed a petition of almost Rs. 1,000 crores which is also mentioned in our notes to the accounts.

So, as a prudent accounting norm and the conservative practice we have just book that and once the claim is finalized, we will book the final amount, but we are very hopeful that this is the real claimable amount.

Again, operational EBITDA is close to ~Rs. 2,100 crores in FY21 with a margin at consolidated level of 48.5% which is close to 1,000 bps in margin which is higher. So, this is an outstanding performance both at the transmission level as well as at the AEML which is Adani Electricity Mumbai Limited. Our recently commissioned 7 new transmission projects contributed to the revenue of Rs. 161 crores in Q2 and this has operating EBITDA of Rs. 155 crores.

So, these assets are the same on which we have done the USPP last year, if you recall that 30-year paper for the first time in this sector which we have issued and again the most important thing is that we are committed to maintain sound credit profile while ensuring the growth for the value creation of the investors, and as we have promised that we will maintain the investment grade rating so both had AEML and ATL level if you look at this our net debt to EBITDA at a consolidated level is around 4. So, this is again a very strong financial performance overall which we have demonstrated.

On the growth and the strategy front, if you look at the transmission sector it offers very high level of growth opportunity and the project pipeline of almost Rs. 50,000 crores and currently we have total projects of close to Rs. 15,000 crores which is Rs. 150 billion in the transmission space. This includes the HVDC line in Mumbai. Now these projects are required to be implemented over a period of two to four years and the equity requirement is being met from the internal accruals. Similarly, in AEML also we have a strong CAPEX program and the same will be met by the internal accruals of the Adani Electricity Mumbai also.

So, another important thing I would like to highlight you is on the ESG front on which we are completely focused and ATL recently became signatory to India business biodiversity initiative for the incorporation of biodiversity management in business operations. We have provided almost 54,000 man-hours of safety training and awareness and as we continue to improve our ESG disclosure - we have also submitted the CDP climate disclosure project questionnaires.

Coming to liquidity position, again very strong balance sheet and as I mentioned that we have an investment grade rating and AA plus domestic rating and we have enough liquidity in fact the short-term maturity profile is less than 5% as we have aligned the overall date as a part of our capital management with the life of the assets and that is what we continue to do in future.

At the end, I would like to just say that we have a strategic focus to have a Pan India presence in both transmission and the distribution space and we want to continue to grow our market share while maintaining the rating.

So, with this I would like to end my opening remarks and would request for a Q&A.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Mohit Kumar from DAM Capital. Please go ahead.

Mohit Kumar: Sir, my first question is on the receivable side the receivables have gone up by Rs. 400 odd crores from March to September so of course the collection efficiency is improved in Mumbai, but overall for H1 what is the collection efficiency and how confident we are to collect the entire amount?

Rakesh Tiwary: So, the collection efficiency as we speak today stands more than 100%, but for the second half if I take the cumulative number between April to September the collection efficiency is close to 90%. The basis reason for increase in this amount is that in the month of April, May and June once the lockdown was announced in the last week of March there was a drop in the collection efficiency because people if they wanted to pay or if they were willing to pay, but they did not get an opportunity to come out of their premises and make the payment that was one of the reason why the collection efficiency in the month of April, May and June has dipped below 70% it was somewhere around 70%, 75% during these three months, but slowly when the lockdown got eased out from the month of August, September, October and as we speak in the November also the collection efficiencies have slowly picked up and currently it is in the range of 110% to 112% indicating that the past dues are getting recovered at a very faster pace. So, whatever is the increase amount which we are seeing in the receivable that is getting reduced at a very faster rate and we are quite hopeful that by end of December we will again be at the same level as we were compared to the last December prior to the pandemic. I hope this is answered.

Mohit Kumar: And sir on this demand side for October, how the demand is looking in October for the Mumbai?

Rakesh Tiwary: If you see the demand in terms of consumption in the month of October has increased on a Pan India basis for compared to October last year it is close to 14% higher means on an average consumption in the last October was close to 94 billion units as compared to that today the average consumption is 110 billion units and we are seeing a recovery in the basically in the terms of industrial and commercial sector. During the lockdown period also it was the commercial sector which got impacted much and in the sector which was consuming power between 5,000 kilowatt to 20,000 kilowatt and between 20,000 kilowatt to 50,000 kilowatt this was the factor which got impacted, but we are seeing is that as we speak in the month of October slowly from September and then the October beginning the commercial demand is slowly picking up and we are hopeful of reaching the demand at the same level of what actually were there in the pre-COVID region. Having said that, I just want to remind one small thing that this business runs on section 62 model. So, even if the demand goes down that does not impact my EBITDA in anyway because EBITDA of this company is dependent upon the regulated asset base of the company.

Mohit Kumar: We do understand, but my question was how is October demand compared to last year October for Mumbai and Discom?

- Rakesh Tiwary:** So, residential has picked up residential is more than what actually it was there up by close to 13%. In terms of industrial it is more or less it has come to the same level commercial still it is lagging behind as compared to last year the commercial sales it is down by close to 12% to 13%.
- Mohit Kumar:** For overall basis the flat now for October?
- Rakesh Tiwary:** On overall basis, it is less say as compared to last October it is less by close to 4% to 5%.
- Mohit Kumar:** Sir my second one the transmission side so we have not seen any bid happening in the H1 is of course there were some bids which were supposed to happen in June is getting postponed, how is the bidding pipeline in the sense that how much of the bid can happen in H2 for the transmission?
- Kaushal Shah:** I think you are right, in H1 because of COVID there was some slowdown which has happened, but now we are seeing that there are various bids which are coming up in the pipeline and according to our estimates close to Rs. 50,000 crores worth of bids are coming in this H2 or early next year. So, I think there will be enough opportunity and while we are talking we have enough on hand as of now, as I mentioned that we are implementing Rs. 15,000 crores worth of project that does not mean that we are not going to bid for anything, but I am just saying that both way in H2 it will and the currently we have an enough project also on hand.
- Moderator:** Thank you. The next question is from the line of Nirav Shah from GeeCee Holdings. Please go ahead.
- Nirav Shah:** Few questions what is the breakup of the gross debt between transmission distribution and Holdco and under transmission what is the debt of projects which are under construction where the interest is getting capitalized that is the first question?
- Kaushal Shah:** The transmission projects we have close to around Rs. 1,400 crores of debt for the projects which are under-construction.
- Nirav Shah:** And what is the total debt at transmission and AEML?
- Kaushal Shah:** For Distribution business - AEML we have roughly close to Rs. 8,000 Crs. and for Transmission business inclusive of under construction it is close to Rs. 12,000 Crs.
- Nirav Shah:** And for FY21 and FY22 for both segments separately what is the CAPEX plan and what is the capitalization that will happen for FY 21 and FY 22?
- Kaushal Shah:** So, as I mentioned to you that various lines for the ATL are coming up in the operation. So, I am expecting that close to Rs. 8,000 crores CAPEX capitalization should happen in next one to two years when various lines will become operational.

Nirav Shah: And for AEML and individually if you can give for the year as well I mean yearly breakup that would be really helpful?

Kaushal Shah: I do not have that number on-hand currently as these are ballpark figures. We can share with you the actual CAPEX what we are going to do and how capitalization will happen.

Moderator: Thank you. The next question is from the line of Harshvardhan Dole from IIFL Securities Limited. Please go ahead.

Harshvardhan Dole: So, we keep on hearing and reading from various sources that the government is actively looking to privatize and perhaps UP will be one of the leading states who might privatize some of these assets, your broader thoughts and movements are you sensing on the macro landscape and by when do you think that some tangible results can be seen on these regards?

Rakesh Tiwary: So, let us first segregate the issue of privatization and before that I will just give you some background because government wanted to streamline the distribution business with various schemes if you know UDAY was brought, IDPS and then there was Deen Dayal Upadhyaya scheme which was there which was nothing, but the extension of earlier Rajiv Gandhi Grameen Vidyutikaran Yojana scheme and when the electricity act came in 2003 if you see there was improvement in terms of generation and transmission whereby close to 43% to 44% of the current generation is under privatization while a lot of transmission units got privatized, but the distribution was the weakest link which was left aside and it was creating a lot of problems in the whole chain of the power industry. So, government has already come out with different measures to reduce the AT&C losses and to increase the collection efficiencies because these are the two main problems in the DISCOM area which is being currently faced by all the public sector undertakings, all the government-based distribution companies. In order to do that, in order to improve it all the earlier measures which include UDAY, IDPS and DDUGJY, etc. They did not come up to the expectation, the government has now planned a broader dimension of privatizing this thing. So, to the best of our understanding government will start with union territories first because they are under their control directly into their control. Although they compute very less number of consumers as compared to the other state DISCOMs, but even then, that will be a very good start whereby the Union territories will get privatized first and then government will simultaneously take the shape of privatizing the state DISCOMs. UP as you correctly mentioned will be the first on the block basically the eastern UP, the Varanasi area the three DISCOMs which accounts for more than 35% to 40% of the losses where discussion is already going on. So, as a prudent business practitioner we see a lot of opportunity and we have definitely set internal benchmarks and the guidelines based on which the bidding will happen. We would definitely like to participate in both PPP and the franchise model, but we will definitely pursue the model which will fit into our returns and profitability criteria. We will continue to evaluate all the available opportunities which will be there in the sector. Currently, this is a broad idea which we can share with you at this stage.

Moderator: Thank you. The next question is from the line of Mohit Kumar from DAM Capital. Please go ahead.

Mohit Kumar: On the bid for the distribution franchise or on the PPP side are any bids open at this point of time and secondly are we participating in Orissa PPP and do we have any preference over franchise versus PPP?

Rakesh Tiwary: Currently there are no other bids opened which requires any participation. So, far preference over PPP and franchise is concerned. So, the plane answer is likely do not have any preference it depends upon the internal benchmarking. We will like to go both for PPP and the franchise model which will depends upon our internal assessment and the basic criteria is that whatever model will come up for bidding it has to meet our internal criteria before we go into that kind of bidding. The main reason being even if you see the current draft of electricity act which the government has propagated, they have given lot of freedom in terms of franchise. So, franchise is no longer a franchise in turn it used to be in the earlier electricity act of 2003. The franchise owners are given a lot of flexibility like they can arrange for their own power, they can go for their own CAPEX, they can determine their own ABR, they can go for their own rate assessment etc. which makes the franchise a bit more lucrative the way it was earlier. Hence, we are open for both PPP model and the franchise model, but the only thing is that it has to fit into our own criteria of judging the project the way it is judged internally.

Mohit Kumar: Sir, one clarification on the Mumbai HVDC assets, how this asset been you know completely in the sense the regulatory has given us the go ahead on the project and when we expect to start the construction?

Rakesh Tiwary: So, it is in very advanced stage of discussion with various regulatory authority. You will appreciate that a project of this size requires lot of discussion and deliberation. We have already started the groundwork and the preparation for the same and we are hopeful of completely this project well within the time as it will get discussed and finalized with the various regulatory bodies in time.

Moderator: Thank you. The next question is from the line of Rohit Kothari from GeeCee Holdings. Please go ahead.

Rohit Kothari: Just an idea about you know it is a very broader question that you have Rs. 15,000 crores of CAPEX lined up and over the next three years you have sufficient cash flows to fund the equity portion of this entire gamut which is divided between many transmission assets and the HVDC line, at the end of this entire CAPEX program which we have already identified and is under some level of execution from the current EBITDA run rate of close to 4,300 crores, 4,400 crores which you are currently at where would the total EBITDA reach at the end of 2.5 years, 3 years and what would be the net debt at that point that will kind of help us determine the cash flows at the end of three years on a completion of this current CAPEX plan?

Kaushal Shah: Rohit it is a very good question. So, currently at a consolidated level we have an EBITDA of Rs. 4,500 crores which is Rs. 45 billion now as we say that when all of these 15,000 crores projects become operational this EBITDA will reach to close to Rs. 7,300 crores in next two and half years, so that is what which we are going to achieve according to me and overall debt will be

moving to close to around Rs. 28,000 crores from where we are today at Rs. 22,000 crores at a consolidated level.

Rohit Kothari: That is interesting because the same thing if currently you have seen the listing of several REITs from rental assets and these are even more secured, more predictable with probably highest level of precision some of your transmission assets and if the yields are going between 6.5 to 7 the current listed REIT, would you be open to listing in REITs of some of these assets or you would like to keep that within the Adani Transmission fold?

Kaushal Shah: It is a question of you know debate while we have not closed the idea of doing the InvIT, but currently we are looking for strategic partners investing into these assets and while the valuation which we are getting it at the current level we see it is more beneficial compared to the InvIT in which structure which we are doing it, but we are open for both the things.

Rohit Kothari: And the last question Kaushal you did a commendable job in that last bond the long term bond which you raised at probably the most competitive rate for a infrastructure asset in the country by the private sector, what do you see or when do you see the next large fund raise in terms of both debt of such size bonds and such long tenure bonds that is number one and do you see any requirement for any equity at the holding company level or at the SPV level over the next one year?

Kaushal Shah: Again, it is a good question so Rohit yes, the bond which we did I would like to take you all through the contours of this, I will take five minutes for the benefit all of you. See this is the beauty of what we have done as a capital management program and return on the equity has gone as to more than 50%. Now, I will explain you how and the same thing we are planning to replica. So, we have 7 assets when the original bided in 2016 and at that point of time we had the project cost of Rs. 36 billion which is Rs. 3,600 crores and normally we bid at around 16%, 17% equity IRR. So, when we did the development excellence, we could complete this project from Rs. 3,600 Crs to Rs 3,100 Crs there is an already upsize because of the saving in the Capex.

Now, typically what is happening if you go with the Indian lenders then this is being funded by 70-30 while what we did was that so that means that there was a debt of Rs. 2,100 crores and then the equity of almost Rs. 1,000 crores to fund that 7 assets. Last year when we did the USPP we have done issued almost 30-year paper and you all are aware that the license period is 35 years. So, the repayment profile is tail-ended and the maximum cash is available at the initial period that is number one. Number two we have derived a concept of PLCR ratio and in that you know we could upsize the debt without compromising any quality of the credit and which is appreciated by all the international bond investors. So, from Rs. 2,100 crores which was the debt we could upsize the debt to Rs. 2,800 crores. So, what has happened is that in that process ATL could get back Rs. 700 crores from the Rs. 1,000 crores invested. So, typically now the equity investment of ATL is only Rs. 300 crores and you know the PAT if you look at the PAT is Rs. 250 crores for the 7 assets just imagine that how much is the return on these assets and this is PAT if you consider the cash if you add the depreciation then you know the cash return is very high. So, we have almost recovered all the money that is number one. Number two even if you

consider that I am investing let us say my current investment is Rs. 300 crores this asset will be throwing a surplus cash of close to Rs. 150 crores every year. So, in the first two year only I will be able to recover the another 300 crores equity which is there. So, typically Rohit in first two years of COD the entire equity is back zero equity investment of ATL and this entire the return to the equity holders will be available.

Now this same model we are going to replicate. Next you asked on size, we are looking at normally at US\$ 500 million dollars so we are expecting that you know the next set of bonds which we are planning in somewhere in the month of May, June whereby we will have another round of this USPP assets and the same methodology will be followed. So, it is a very value accretive growth and model and which we would like to follow in future as well.

Moderator: Thank you. As there are no further questions from the participants I now hand the conference over to the management for closing comments.

Kaushal Shah: Thank you friends for joining this call. I wish you a Happy Diwali and Happy New Year in advance and wish that you all and family members be safe in this pandemic. We hope that we overcome this situation in the near future. Thank you so much for your time.