



**“Adani Energy Solutions Limited Q1 FY-24 Earnings
Conference Call”
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MODERATOR: **MR. ABHINEET ANAND – EMKAY GLOBAL FINANCIAL SERVICES**

Moderator: Ladies and gentlemen good day and welcome to the Adani Energy Solutions Limited Q1 FY24 Earnings Conference Call hosted by Emkay Global Financial Services. 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 star then zero on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Abhineet Anand from Emkay Global Financial Services. Thank you and over to you sir.

Abhineet Anand: Thanks, Lizan and good afternoon to everybody. I'd first like to thank the management for giving us this opportunity to host the call. Today we have with us the top management represented by Mr. Anil Sardana – MD, Mr. Kandarp Patel – CEO, Distribution, Mr. Bimal Dayal – CEO, Transmission, Mr. Rohit Soni – CFO ASEL, Mr. Kunjal Mehta – CFO, AEML and Vijil Jain – Lead IR. I will hand it over to Mr. Sardana. Over to you sir.

Anil Sardana: Thank you Abhineet. Thank you so much. Dear analysts, friends and investors who are there on the call, welcome to Q1 FY24 Call. Let me start with the name change so that we can then build on that. You would have got the press notes, so therefore many of the inputs that you already have with you, we will be happy to further take different details of that during the conversation today.

We had shared some time back that Adani Transmission which started in 2015 expanded quite well between 2015 and the current times when it became the largest private sector transmission company in India. Besides that, from 2018 August we added the first distribution area to Adani Transmission and then subsequently in 2020 we added another distribution area of Mundra. So, over a period the company added the transmission and distribution business and in the recent times it saw the opportunity to grow into smart meters, into meeting some of the energy requirements of open access and captive customers. In addition to that we started to see as to how the energy requirements will pan out over a period of time. It dawned on us that there are going to be areas which will cause tremendous spurt in power demand, particularly backed by Government of India policies related to manufacturing and manufactured in India or Make in India program as it is called and in that we saw advent of some of the large brands and customers in the areas such as data centers, semiconductor, manufacturing, aircraft, component manufacturing, manufacturing in the value chain related to renewables, manufacturing in the value chain related to change in molecules from hydrocarbons to green hydrogen and different renditions. So, it was clear that now the demand for energy will not just necessarily be electron but also molecules. And, we need to be mindful of the fact that while the distribution business could grow but the state-owned enterprises are not going to let go that so easily.

So, we decided two-pronged approach – One was that we will apply for second license which we did in three areas which you are all aware. But just to fill you up, the two are the contiguous area to our existing DISCOMS which is Navi Mumbai contiguous to our Mumbai license and Saurashtra area contiguous to our license in Mundra area. And the third one is where based on different studies we added to our portfolio, the request for second license in the western UP

which is from the Ghaziabad all the way to Jewar-Bulandshehar area. So, considering the fact that distribution business had already got added in 2018 and '20 and then we started applying for second license and that we were offering energy solutions both in terms of meeting the open access and the requirements related to captive customers as also we recently added smart metering portfolio. We decided that the name does not manifest the activities that we were performing. We had outgrown the name Adani Transmission and for that reason we deliberated and based on consensus, adapted Adani Energy Solutions Limited as the name which will manifest the current as well as future business of trading and pursuing electron as well as molecules. So, friends that is what we did during the recent times. From July 27th this Company is going to be titled Adani Energy Solutions Limited and therefore we are happy to have you on the call for this Company.

Coming to the other part let me now go into the next important area that as a team we have been pursuing which is the ESG part. Amongst the ESG, of course looking at inclusively.

Anil Sardana:

Okay, so moving on the ESG front and being inclusive we focused on the safety aspects and despite a business which is across country that is something that we take pride in terms of various initiatives and various aspects of safety that we constantly prowl on and that will continue to be one of our key focus of ESG. However, moving on to the acronym the way it describes itself the environmental social and the governance aspects are key to our current operations. We have decided that as an institution, Adani Energy Solutions Limited will continue to aim to be within the top 20 global companies in its utility business with regard to its scorecard. And therefore, several aspects in each of these three heads have been taken up to benchmark levels and that is reflective on the recognition that we have got from different quarters. But it will be important for me to mention that amongst them some of the scores done by international agencies have been very heartening. In the last quarter the FTSE score has improved to 4, up from 3.3. So, that's a major movement upwards and that actually takes us to the top echelons of utility companies globally.

I will not typically talk about the other rewards and awards but mention one similar aspect which is the study done by PFC on behalf of Government of India where through McKinsey they did the rating of different DISCOMS in India. And I'm happy to bring to your notice that Adani Electricity Mumbai DISCOM was rated India's number one power utility. That's the hallmark of how we are pursuing the agenda on different aspects related to environmental, social and governance criteria. And in addition to that of course to make sure that our commitment to bulk sourcing of green electron clearly again is shown in the fact that we have now exceeded beyond 30% which was our commitment. So, the commitment that we gave in the sustainability link bonds has already been met and we are happy that we will continue to take similar strides and soon cross 50% in the commitment year that we have conveyed before.

Moving on to the operational aspects very quickly, I will not take much time because you have already got the press note. But mention the fact that we continue to grow well. We continue to register and perform solid with regard to the existing assets, both in the transmission and

distribution side. We have demonstrated availability which has earned us every nickel and dime of incentives that we have to earn. And, we have now reached very close to our target numbers of 2022 which was 20,000 circuit kilometres. Already 19,778 circuit kilometre is either operational or under execution and very soon the balance part will also get added to the portfolio. We are trying that this kind of growth will continue in the transmission because there is so much of opportunity in the days ahead in terms of pipeline. We're sitting with already orderbook which is near Rs. 20,000 crores which is Rs. 200,000 million and therefore we are in a very comfortable situation to make sure that the future orders are backed with thresholds of returns being met. That will be the key criteria of how we will pursue business in days ahead though of course the growth will continue to look up.

On the financial aspects, you've got the details with regard to the fact that we have had the first dividend outgo from Adani Electricity to AESL which in fact is one of the reasons why the tax outgo of dividend tax was there and therefore that was one area that in fact in a similar basis suppressed the AESL, PAT number. Otherwise on ground the performance has been good. The cash profits from both the businesses continue to give us enough meat for us to continue our growth without increasing the debt burden and making sure that we maintain our net debt to EBITDA within the discipline that we have talked about and therefore continue to be investment grade and that is what we will continue to do even in the days ahead and make sure that we stay steadfast with regard to that promise.

On the smart meters, you would have noticed our early success. We already have orders worth 4.6 million smart meters with close to about Rs. 58 billion orders in hand. More than double of that is where we already have the pole position of being declared lowest (L1), but we are waiting for the orders. We will share with you as and when those orders get confirmed. So, smart meters will continue to be one of our key build ups. So, as you see today, we have four build ups or contracts in terms of growth. One is of course the transmission line where we have healthy orders in hand and a good growth pipeline. The second one is in retail distribution where we have the ongoing CAPEX which will continue of similar levels as we have been doing from last few years. And in addition to that we have those three licenses that we look up to. That's the second vertical. The third one will be the smart metering where all the works related to putting those smart meters making sure that we have the head end and the back end managed with our experience in our distribution area and also gradually analyze the data as we stack it together for longer period of time for us to then do the analytical work around that and with the permission of the clients then do upselling, cross selling opportunities across using that data. So, that's the third and the fourth one is the energy solutions where we will do work around the customers where we can provide them promissory estoppel much lower than the cost of the grid and take the onus of meeting 24/7 requirements including some of the green electrons in terms of meeting their RPO obligation or enhanced obligation as they would want. In addition to that, some of the guzzling areas like cooling solutions, we will provide because we have a very strong input that the country will add close to about 100 gigawatt on account of cooling solutions up till 2030 which is a huge demand and away from the cliché aircon concepts, we will be able to provide the solutions by actually the flow consumed by customer on managed service basis. So, we have

started doing that with some of the builders' community in Navi Mumbai and we are also doing some of the projects in Ahmedabad along with Adani Realty. So, these projects in terms of complete aircon solutions on a district level basis will also improve the various hazards related to fire, greenhouse gas emissions etc. and therefore will make us more benign and add to various credits under the UNFCCC CDM program.

So, those are various aspects I wanted touch base and all in all good quarter to have got our act quickly as also new name with the enhanced wingspan as you would have noticed and therefore the Company is well poised to now work to making sure that we are able to offer comprehensive energy solutions, both in bulk electron, trading or movement as well as retail electron and gradually into the overall energy paradigm. So, I'll stop here and look forward to your questions and based on that we will be able to perhaps disseminate whatever I may have missed out. Thank you and once again welcome you all. Thank you.

Moderator: Thank you. Ladies and gentlemen, we will now begin with the question-and-answer session. The first question is from the line of Abhineet Anand from Emkay Global.

Abhineet Anand: Thanks a lot for the detailed stock that you gave. I just wanted to understand the transmission side, over the next 1-1.5 years if you take, what type of bids are going to be there and slightly then longest term apart from these 1.5 years what's your view on a slightly next 5-7 years? What could be the CAPEX on an all-India basis I'm talking about?

Bimal Dayal: Hi and good afternoon, everybody. I just want to take a step back before answering your question here. Maybe add a little more color to what Mr. Sardana said regarding the quarter. Just a quick high-level input that we clocked 99.77 in our operational performance which added an incentive income of around 26 crores this quarter. It's a great news that not only we are growing we are maintaining our assets not only for the period but keeping a horizon of almost 50 years and nothing short. In terms of network addition, we added 550 km circuit kilometers during the quarter and reached a mark of 19,778 circuit kilometers. I think if you look at one of the things which is important to bring up is that we are continuing to grow faster than the market. I think our internal estimate is that in the first quarter the overall market grew by 1% and we grew by 4% in Quarter 1 as well. I think this is one thing which we keep on monitoring and that is something to do with a little bit of the past. The current situation is that we have a healthy pipeline and in the upcoming quarters we would be commissioning some five important lines including KVTL which is Kharghar-Vikhroli, the WKTL and MP 2 Package and Khavda and Karur which will add another 3,000 kilometers. So, the business looks robust. Now to answer your question, I think these are very interesting times for the sector itself. On one side we have the reforms kicking in and a lot of excitement in distribution including smart meters. There is the consumption kicker which is taking place as well as our economy grows and also an interesting global story of energy substitution as well. Now linking both these two is transmission and if you look at the 2030 requirement, we would probably be evacuating 500 gigawatts of only green power as well. I think I'm talking about the paper which came out in November last year itself. In the short term we are looking at a bidding pipeline of 45,000 crores.

This year maybe in 18 months' time we would be peeping into 70,000-75,000 crores of only the central bidding which will take place. I think there are various estimations going around let's say 2030 horizon, anywhere between 2,50,000 crores only at the central level would be needed to be invested in transmission and I'm not talking about the state level estimation which would be needed to strengthen the grid. So, all in all, a very busy schedule from all quarters within the sector as well and we are excited about it. Hope this answers your question.

Abhineet Anand:

So, one of the things that I wanted to understand is incrementally we are adding more RE. So, does that as an investment per megawatt or gigawatt what it could be for a transmission guy because PLS are low in REs does that increases the opportunity for transmission which we are not seeing, this INR 2.4 trillion that you talked about has been by the central agencies. But do you think that it's slightly understated because the amount of capacity that will add per gigawatt per circuit kilometer should be slightly more?

Bimal Dayal:

Yes.

Anil Sardana:

It is not that straight that you could calculate the impact because from the RE plant you actually get into a pooling station and typically at the pooling station you are able to utilize the capacities in such a way that the trunk routes are able to get the power supply from either RE or from other sources. So, with the result the utilization of SX is from the pool station onwards which is what costs more is much better. So, eventually the way the planners are working is that at the key pooling stations they are trying to interject different formats of power and not just restricted to RE but yes from the RE station to the pooling station. In any case the lines have to be built by now under the new concept has to be built by the RE developers themselves. And therefore, they will have to make that as a part of the delivered electrons to the pooling station. While the transmission line under GNA, the new concept that the government has evolved. The transmission lines are going to get added because GNA means that any consumer can have the access and a choice to source electrons from anywhere they want and that is the promissory estoppel and therefore a lot more lines will have to be added into the system. But we are still quite some time away from those times. At the current stage it will suffice to say yes, the transmission line cost could get bit impacted but not to the extent that the concept will suggest that the RE is going to keep the transmission line begging for 50% to 60% of the time. No that is not the way the transmission system is designed.

Abhineet Anand:

Just last one from me, we have been hearing some issues around the supply side say transformers etc. because there hasn't been much capacity manufacturing capacity on the transformer side and there is a good number of lines etc. to be added. So, if you can comment something on that.

Anil Sardana:

Well in any growing economy there'll be times when there could be gap between demand and planning to get those supplies into the system. So, yes, you will in a short-term basis and particularly because there are various kind of embargoes on import from outside due to Make in India programs etc. So, you would see some phases in between when you will have pressure on the fact that the demands are not forthcoming or are not available at a competitive price. But

that's always a welcome situation for the simple reason that eventually if those who are making in the country today will get confidence and trust that their products will have offtake and therefore, they will expand capacities that's the most welcome situation that one is looking forward to. I guess it's only a temporary phase. We have seen such phases come in the past also, but they soon get corrected, so that's a good part. So, we will see more capacities getting added in India.

- Moderator:** The next question is from the line of Shabab Thadani from Arkkan Capital.
- Shabab Thadani:** Just one quick question on the dividend from the electricity business, what was the quantum of that and is that intended to get paid annually just based on the excess available with the distribution account?
- Anil Sardana:** The dividend amount was 245 crores.
- Bimal Dayal:** Total is 350 Cr.
- Anil Sardana:** You are asking total?
- Shabab Thadani:** 350 was the total of which you get 74%, is that right?
- Anil Sardana:** That's correct. 74.9%, 25.1% is of QIA.
- Shabab Thadani:** And the intention is to keep paying out excess available amounts from the distribution account on an annual basis or it will be more frequently done?
- Anil Sardana:** One can always assume that the intention will be to have dividends from our subsidiaries regularly.
- Moderator:** The next question is from the line of Nikhil from Bernstein.
- Nikhil:** My first question is on regulated returns which have been in debate for some time as the CERC approach paper has come. Just wanted to hear the views if any further updates or views the management has on that.
- Kandarp Patel:** So, the CERC has come out with the terms and condition for tariff for next control period and there they have suggested various options as far as return on capital and return on equity is concerned. But Nikhil you would appreciate that these debates continues to happen even if you see last two controlled periods draft regulation, the same was the approach and eventually as long as investment is required into power sector, they would not like to tweak much about rate of return on the investment.
- Nikhil:** My second question is then on new opportunities and distribution. Apologies if I missed it earlier. So, there are some places whereas I understand Adani Energy is looking to approach a

parallel licensing model. Just wanted to understand if any new opportunities are coming as a franchisee or a licensee model in this area.

Kandarp Patel:

So, Nikhil you might be aware that as Mr. Sardana mentioned in the opening remarks, we have already applied for three geographies, one in Navi Mumbai which is adjacent to our existing license area in Mumbai, the second is Mundra Taluka which is adjacent to our existing license at Mundra and third we have applied for Gautam Budh Nagar district along with the Ghaziabad Municipal Corporation and all the three applications are at various stage of approval. So, this is the update as far as the second license is concerned. We have also evaluated many other areas in the country, but we would take steps one by one. So, we would first like to get the license and start operation here in this license area and meanwhile we will think of expanding into other areas as well. As far as opportunities in distribution are concerned, currently there is nothing on the horizon as far as privatization is concerned. So, Government of India and MoP wanted to privatize few union territories. They have done bidding for Dadra Nagar Haveli and that has been handed over Torrent. But subsequently the Pondicherry has not progressed further and therefore we are relying more on a second license route rather than a privatization route.

Nikhil:

My last question then is on the funding part, if there has been any update on that side, either on the QIP or any plans to issue dollar bond etc. would be great if you could share that.

Rohit Soni:

The QIP is still work in progress. So, we are still working on the documents kind of thing. So, we will update once we have clarity from the investment community. On the fundraising, I think we had closures of major of project CAPEXs which we had done, last year the construction facility worth \$1.1 billion against that we are drawing. The new projects which we have won in the last 5 to 6 months, they are under various stages of closure. I would say mostly all would be done at the SPV level. We are not looking at any major raises on the debt side at the parent level.

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 so much for your participation and appreciate your joining us for the Q1 call. Have a safe time and we look forward to seeing you for Q2 FY24 call. Take care. Thank you so much.

Moderator:

Thank you members of the management team. Ladies and gentlemen on behalf of Emkay Global Financial Services, that concludes this conference call. We thank you for joining us and you may now disconnect your lines. Thank you.