



“Adani Transmission Limited
Q1 FY2022 Earnings Conference Call”

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Moderator: Ladies and gentlemen, good day and welcome to the Adani Transmission's Q1 FY2022 earnings conference call hosted by IIFL Securities. As a reminder all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call please signal an operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Harsh from IIFL Securities. Thank you and over to you, sir!

Harsh: Thank you. Greetings to everyone. On behalf of IIFL Securities, I welcome you all to that Q1 FY2022 earnings conference call of Adani Transmission Limited. To discuss the performance of the quarter in detail and share that performance outlook, today we have the senior management team of the company. We have the privilege of Mr. Anil Sardana, CEO and MD, ATL, Mr. Kandarp Patel, CEO and MD, AEML, Mr. Rakesh Tiwary, CFO, AMEL, Mr. Sanjay Poddar, FC, ATL, and Mr. Vijil Jain, who looks after IR of ATL. Without much of a delay, I would request the management to give their initial remarks subsequent to which, we can open the floor for the Q&A. Over to you gentlemen!

Anil Sardana: Thank you Harsh. Let me also extend my warm greetings to all the analyst friends who are there on the call today. Welcome to the Q1 FY2022 call. Let me at the outset, wish that everyone has been doing well on health and no real concerns and people are taking good care in terms of COVID appropriate behavior and other connected stuff.

While wishing good health from here and after also, let me start by mentioning that the company continues to look at this sector moving positively. There is a large amount of or rather a large plan of renewables which is to be interconnected to the main grid and also there is a large opportunity in the retail sector where the distribution is likely to reform itself and all the analyst friends would have seen yesterday's bidding, you could have seen the interest in various bidders, which clearly shows that there is so much of opportunity for the government to invite all the bidding players and ensure timely reform across the retail electricity sector.

Similarly, in terms of quantification, the company in terms of its growth paradigm has a very healthy pipeline already and in fact the pipeline is so good that at times the rating agencies worry whether we will be able to sustain the entire requirement through the internal cash flows. A good part is that the internal cash flows continue to be good and we continue to do well and as of today everything in terms of the orders that we have got are clearly sustainable and to top it up, whatever assumptions that the rating agencies take, our colleagues, seem to be improving that and that rather putting better show compared to those assumptions and the case in point is related to the important aspect of capital management.

We saw a glimpse of that in terms of AEML raising its first tranche of US \$300 million which you know is a part of the \$2 billion program in terms of the global medium-term notes (GMTN) and it is through the sustainability linked bond and it is a ten-year program. In fact, I give the opening remarks, I will ask my colleagues, Kandarp and Rakesh to add in terms of their

experience, how they saw that being oversubscribed and how they see the things to be improving over a period of time in terms of capital management and so is the case with ATL where the capital management which we have done till now has always been better than what we had envisaged in our models for the rating and the good part is we continue to be investment grade and that is the commitment the analyst friends that we have been making all the time that we will ensure that our leverage, our entire working remains disciplined to a point that we remain investment grade.

Having talked about the growth paradigms and having talked about the healthy order book that we already have and the fact that we will continue to attempt upwards of Rs. 5,000 Crores worth of capex each year like the way it was the previous year it will be so this year too and close to about 60%, 65% of that will be under the banner of ATL and the balance will be under the banner of our Distribution business, AEML.

From the market play of tenders which are likely to continue one can continue to top up more than Rs. 15,000 Crores worth of order book that we have to ensure that we sustain at similar levels in days ahead also. I will quickly move to the operational paradigms. We have continued to do well on our availability which is our real factor for us to earn our revenue and the transmission line availability has been upwards of 99.85%, our distribution team has also maintained availability of 99.99% plus.

The collection efficiency at both the businesses continues to be 100%. In addition, the digital play which has been the focus of our distribution team now gets them almost 70% of their revenues. That has been very commendable in the way the team has been positioning itself.

Very quickly coming to the quarter that we saw, you have seen the results with you. The PAT number for the quarter, this year has been up by about 22%. The PBT number was similarly up. The EBITDA numbers both at ATL and AEML continue to do well. The revenue at ATL grew by 18% during the quarter compared to the previous one, which is nearly on availability and nothing to do with COVID or nothing to do with throughput, so therefore that is a mere growth that you see between the Q1 previous year and Q1 of this year.

Now, the rest of the parameters, have been good. The order that we have got, one off order for one of the lines that we had got from APTEL has yielded the extra income that in the previous year we had taken close to about Rs. 330 Crores of that and this year again, we have built arrears close to about Rs. 300-odd Crores. So that has been the profile and in Adani Electricity also, they have registered healthy EBITDA numbers and despite the fact that the consumption has been 18% higher compared to the previous year it still largely the residential part as much, while the other parts are also growing now and therefore compared to the previous year negative PAT in the same quarter, they have almost virtually brought it down to 0%. So, it has been a good showing from their side too.

That is what I would say at this stage. Of course I would request, Kandarp or Rakesh to add, if they wish to add on the capital management program that they just concluded.

Rakesh Tiwary: As rightly said, capital management program in form of GMTN is a part of our capital management program's second and final stage, in the first phase of our capital management program, we raised a billion-dollar bond and we sold 25% of the equity and we also raised subdebt in the form of quasi-equity and there was a \$400 million of capex revolver which was tied up for asset hardening of AEML close to year and a half back.

Now, as a part of second stage, the GMTN program which has been launched is there to replace this capex revolver so as to meet the total capex requirement of AEML for the next 10 years. AEML is slated to do a capex which is close to Rs. 16,300 Crores in the next 10 years and the GMTN program which has been set up for \$2 billion whereby the company has been able to rope the investors as and when required till 2030 and to raise debt to the tune of \$2 billion for assets hardening and putting up all the capex program in place and this is nothing but an unamortized debt whereby this will again be paid 10 years after the effective issuance of the money, whenever the money is raised. So technically, the money which is usually raised in 2029 or 2030 we will have got another 10 years to reach that amount.

This is the product first time any private corporate has issued as a 10-year GMTN program. Till date only corporates like EXIM Bank or ONGC or IOC, etc., have been issuing it, but the first time a private corporate has issued it, that is number one. Number two is like we have taken the endeavor of linking it with a sustainability linked program. So, this GMTN with sustainability linked GMTN issuance whereby we have taken two KPIs, and those KPIs are helping Mumbai by including the renewable percentage to 30% by 2023 and 60% by 2027 and also by reducing the GHG intensity by 40%, 50% ultimately by 60% in the year 2025, 2027 and 2029.

This is one of the most important piece of this GMTN issuance because across the globe whenever any utility has gone, they have, most of them they have taken single KPIs, but we took the endeavor wherein a company which is more dedicated towards energy development, two KPIs for our issuance.

The issue was oversubscribed close to 10 times and we saw a bouquet of investors coming from all across the globe and first time we saw investors coming from Cyprus and we saw people coming from Denmark and Norway and Switzerland. That only shows the kind of confidence that the investors have shown to AEML which is working as under ATL and that is now since the final stage of capital management program has been put up into place, at least from the working side, from the capex hardening, we can say that this company is now on the auto mode. Thank you.

Anil Sardana: Thank you, Rakesh. Now Harsh, we can move to the questions and it will be good if there is any further addition that we have to do in terms of what we wish to convey we will use those questions to add that information.

Moderator: Thank you very much. Ladies and gentlemen we will now begin the question-and-answer session. Ladies and gentlemen, we will wait for a moment while the question queue assembles. The first question is from the line of Mohit Kumar from DAM Capital. Please go ahead.

Mohit Kumar: Good evening and congratulations on the good set of numbers. My first question is on opportunity size which is available for the transmission, we have not seen any big thing happening in the last part four months, how do you see the bidding opportunity going forward in the rest of the year?

Anil Sardana: Mohit, in the past four months, there was bidding related to Madhya Pradesh. There were two tenders that happened at the state level. There is bidding happening at the UP level right now as we talk about, in fact 12th is the bidding open. There is bidding happening at Rajasthan level and the RFP has been submitted, the RFQ is due in the next two weeks' time. At the state level there has been movement. Now your point of view, as to why we have not seen much bids from the central side, the response to that would be that yes those people are waiting for things to normalize because they say they have received a lot of representations from various enthusiastic bidders saying that people are not able to undertake surveys etc., owing to COVID in several of the states. Now the packages that they had announced for bidding was in fact where the RFPs have already been submitted, short listing has already been done and bids have to be submitted that date is getting pushed because they happen in Karnataka and Kerala and all those states have been reporting higher numbers and I guess that is perhaps some of the reasons some of the bidders maybe finding it hard to or inconvenient to send the people on the ground. So therefore yes, those could well stack up to later dates, but essentially the transmission line from the renewable project has to happen and now with act asking for RPO obligations to be met and all the other kind of announcements that are happening in terms of stricter regime for you know, more and more renewables to come in, the lines have to be built ahead of the projects, because as we all know solar projects takes at the most 10 months to a year to come up whereas a transmission line could take exactly the double and therefore it has to come ahead of the project. So, it will come, yes Mohit. You are right in saying that because of COVID there has been some bit of delays but close to about Rs. 28000 crores worth of projects have already been in place where the TBCB process has already been gone through. So, pipeline is healthy. That is what I want to say.

Mohit Kumar: Second on the distribution side, of course yesterday there was a bid opening for Chandigarh. We saw a big participation but going forward it looks like there is hardly any opportunity at least for the next foreseeable future. Have you seen any other tender coming up beside Chandigarh and Dadra and Nagar Haveli?

Anil Sardana: Mohit, your point is right that these were the two that amongst the UT were announced as the first lot which was put on the anvil. The next lot they have indicated is Andaman, Pondicherry, and the Islands which are there on the western side, so those will be now put into the second lot which is what one has to wait and see. We will certainly check with them now the dates because the Ministry has issued the statement that they will move ahead on schedule with the respective bids also. As regards the states in fact since yesterday, after the bid opening, lot of states have had the chat with their concerned secretaries and also other officials who were saying that this kind of enthusiasm and participation is very encouraging for them to also look at the option of proceeding with some of the areas that they were wanting to privatize. So that is one aspect and I had last time mentioned about some states which had already moved ahead earlier but after the

electricity act amendment came in, those people put them at the backburner thinking that in any case, the entire reform through electricity act amendment will be of a very different nature, so therefore why go through this process. Now one of the two things could happen, either the electricity amendment will go through because as we all know that it is scheduled in the current session. So either that will go through or else one would hope that the states which had already progressed as well perhaps take it up again seeing the enthusiasm from the bidders.

Mohit Kumar: Sir, last thing on the distribution loss, which came down sharply 6.88% is this AT&C loss or is it technical distribution loss that is for my clarification and is this primarily linked to the higher collection in this quarter?

Anil Sardana: Mohit, as well as our Mumbai distribution is concerned, the regulator in Mumbai has not adopted AT&C as a complete definition. It monitors T&D and it monitors collection efficiency as two distinct parameters. As you are aware the combination of two will make it AT&C. Collection efficiency for the team has been maintaining as I said 100% so if that amounts to be in the AT&C. Now do not read too much into the figure, as 5.6%. You still read the kind of target that they have from the regulator which they will better certainly and at least meet that for sure because this could be for seasonal reasons. As you saw that they had the past arrears on reading and all that stuff, so from the purpose of analysis you assume that the team is committed to maintaining achievement vis-à-vis the regulatory target.

Mohit Kumar: Understood sir. Thank you and all the best. Thank you.

Moderator: Thank you. The next question is from the line of Apurva Bahadur from Investec. Please go ahead.

Apurva Bahadur: Thank you for the opportunity. Sir, wanted to understand your views on the government's smart meter program. Are we going to participate and if yes, what sort of an opportunity do you see over here?

Anil Sardana: Let me firsthand it over to my colleague Kandarp because I think as a Discom he would certainly first express the view. Kandarp why do not you take it on?

Kandarp Patel: Apurva, the Government of India has announced that entire consumer metering needs to be converted to smart meter this year but we started our smart metering program last year itself. We have now got the DPR approved by the commission and we will be rolling out those smart meters' implementation in the next quarter of this year. We already have all the contracts in place and we are eventually going to cover all the 30 lakh customers in the first phase we are covering 7 lakh customers and interestingly what we are doing here putting a smart meter first in the slum area and we will then gradually be putting up the smart meters for other customers essentially for the reason that as Mr. Sardana said we do not have much issue as far as collection efficiency is concerned. But whatever our efforts and whatever objectives that we wanted to achieve through smart metering program versus bringing efficiency and to bring those additional services to

customers. So, we are implementing smart meters across our entire distribution area for all customers and we wanted to complete that in the next three-year time.

Apurva Bahadur: Sir, what type of capex do we envisage over here? What is the model of implementation? Will we be spending the entire capex or will it be on our book or will it be sort of an opex led model where the consultants will be doing for us or third party?

Kandarp Patel: We are going to implement this smart metering program through our capex. We will invest that entire money and we will also undertake operations of those margin infrastructure. Other states are looking at the solution which is totex or opex model because essentially for two reasons; a) are short of capital for investment and they also do not have much of expertise as far as smart metering is concerned and what we have done with all our efforts in the last one and a half years is that we have developed that ability within our organization and therefore we will be undertaking this entire project within AEML and with AEML capital.

Apurva Bahadur: Very helpful. Just one more question on this for the entire 3-million-meter rollout what type of capital outlay do you foresee? Will this be under regulatory purview?

Kandarp Patel: It will be regulatory asset that we will be adding to our existing regulatory asset base and the total capex would be around Rs. 1000 Crores.

Apurva Bahadur: Sir, one more question and related to on the distribution business, so we are seeing more and more opportunities are opening up and more will come in the distribution areas so what exactly the criteria for or what type of projects we will focus on, is it more like urban centres or more where you will have large losses which can be improved upon. So, what is our model over here?

Anil Sardana: Apurva, basically first and foremost, I guess, we will go in for all. That is the first part of the answer. The second part of the answer is that I am sure that if the governments of the day which were moving ahead were trying to first put such of the areas which they find very difficult to manage themselves, in terms of management of losses, in terms of cheering that the point that Kandarp mentioned that where the capex program requires a lot of money to be spent on expanding the network, either the colonizers are building colonies or industrialization is gathering pace there, so for some of those reasons, the state governments are realizing the fact that with so much money having been spent on COVID and the kind of a tension that they had to give to address various associated issues, and which of course they will need that kind of money even going forward that is perhaps one of the provocations for them to look at such areas, which will have either a large capex demand or it is very difficult in terms of the revenue leakages that are happening, so you would see all those kinds of factors that will influence the state governments to go in for reforms in areas with those kind of factors.

Apurva Bahadur: Thank you for the clarity. All the best.

Moderator: Thank you. The next question is from the line of Harsh from IIFL. Please go ahead.

Harsh: Thanks. I had a couple of macro questions; one is generally, what is your read through into the proposed amendments to the electricity act? What are the pros? What are the cons? What according to you are the implementation challenges? That is basically the part one. I will come down to the second part once you explain us this part.

Anil Sardana: Thanks Harsh. So, the answer to that point is that the current amendment is in fact, well debated thought through and discussed with the industry. So we welcome these and we will really look forward to these getting through from the Parliament. Now why? For the simple reason that it is at least trying to address 5-6 key issues that today confront the sector. One is of course the **Distribution** where it is trying to say that if the state governments are not willing to reform then there is an alternate method being created for distribution companies to go and start working in the select areas so that is first reason that we believe that the act is important. The second part which is very clear is in terms of the **RPO (Renewable Purchase Obligation)**. We clearly find that the Discoms with lot of money and quite a lot of physical indiscipline at their end ultimately are not adhering to the renewable power obligation. With the result, a lot of plan that is done or a lot of compliant that has to be thought through just way laid, so there is that degree of deterrent that is built in the amendment, which we believe will ultimately push the Discoms to ensure that renewable power obligations are met. The third which is there, is in terms of the compliance aspects related to **export of power**, which according to us again is again a very welcome sign, because our neighbouring countries are all using oil, are still using very expensive formats of electricity and Indian power system has seen some degree of capacities, which are available for them to gainfully deployed. For the country it will do well and for the neighbours it will do well, so it is a win-win proposition in terms of the export of power. So that is the third reason why we welcome that. The fourth reason is they are formulizing the existing guideline related to the fact that the **Discoms will have to ensure payment security mechanism ahead of procurement of bulk power** and for enhanced to the load dispatch to enforce that. Right now as I said it is more by guidelines now they are trying to put it in the act, so that it gets the necessary spine that it deserves. The fifth reason that I believe are more seasonal. They are providing **tremendous depth to the commissions** in the state, central commission and the APTEL system, which is part of the entire institutional framework where they have added the strength of the state commissions, they have added the strength of the central commission, they have made sure that there is going to be a common construct of a panel, which is going to get the members on board, they have added compulsory need to have a legal member in all these state commissions and central commission, so the discipline part is welcome. Similarly, in APTEL instead of one plus three members, now they have said one plus seven members, which will mean that the number of benches will increase, in fact will more than double and therefore again that is a welcome sign, because the sector gets benefitted with a specialised appellate body which is equivalent to the High Courts, so we get faster dispensation. So that is another welcome sign. Last, but not the least to provide the power to APTEL where they will have provisions for content, to be enforced, which was not the case till today, because a lot of the SERCs would not even implement what APTEL gives as an order, which is again a very, very welcome aspect and of course in all the commissions the fact that non-adherence to various aspects of the tax could mean fines up to Rs.1 Crores. That again is a very welcome part. So all in all, this is what if I jog my memory the

various provisions, Harsh are. So, we really welcome the acts and we hope that it gets passed soon.

Harsh: Thank you very much for a very elaborate explanation and sharing your views Sir. We will get back to the Q&A. I think I see two questions in the queue. Moderator please.

Moderator: Thank you. The next question is from the line of Lavina from Jefferies. Please go ahead.

Lavina Quadros: Sir just a couple of questions firstly can you just elaborate a little bit on your I understand you want to focus on distribution in the long run but any progress on that strategy and how are you looking at it today that is one and the second question is on transmission I mean what is the bid pipeline looking like right now and when do you expect to the TBCB pipeline to pick up again.? Thank you.

Anil Sardana: Thanks Lavina. On the second part, let me cover that first which is the pipeline related to the transmission. There is a pipeline of about Rs. 53,000 Crores out of which Rs. 28,000 Crores worth of transmission project has gone through the TBCB process. So the pipeline is healthy. We are now waiting for things to start getting to the next step and this pipeline is only going to build more and more as we execute more renewable projects. So that is the second question that you had. The first question that you had is in terms of distribution and I will reiterate what I said before our strategy is to participate in all distribution ventures as they unfold before us. We clearly are looking at number one act to get the passage of the act from the Parliament because that will mean that one can register themselves as distribution company and then one can participate in various areas that we could choose to participate for the purpose of art expansion but assuming till such time that we add this in parts we will look at the opportunities as will come from various states as also from UTs and we are working with several states and various stakeholders to promote so. That is what I would say right now from strategy point of view.

Lavina Quadros: Thank you so much Sir.

Moderator: Thank you.

Anil Sardana: Harsh, you have follow-through question?

Harsh: That is right. I actually wanted to ask while you were also one of the bidders in yesterday's tender which got opened up or bid got finalized any perspective thoughts on the winners the way he has quoted it will be great to hear your perspective on that part?

Anil Sardana: I am very happy for the fact that an experience party would be handling perhaps that company's name starts with "C" and the territory also starts with "C" so they had the love for "C" and perhaps that is the reason why they made sure that nobody else gets in there and it will be great for the people of that union territory that they will see an experienced party to get in there so I am very happy in terms of the fact that it is going to a good party.

Harsh: Great. Stanford we have a question in the Q&A can you please take that?

- Moderator:** Sure. We take that question from the line of Mohit from DAM Capital. Please go ahead.
- Mohit Kumar:** Thank you for the opportunity again. Sir the related question is that how do you decide in the numbers you arrive at while bidding - is it capacity the key number or the fact that you can reduce the AT&C loss target much, much be lower than what the regulator has envisaged and then the AT&C loss target is shared with you for next five years or is it best on the what the regulatory decide especially for Chandigarh and Dadar & Nagar Haveli?
- Anil Sardana:** Mohit, you said it so beautifully. The AT&C loss in case of Dadar & Nagar Haveli was in the range of 3% to 4% so for what more improvement can you do over and above that so that was not the criteria at all and the by the way the AT&C loss in Chandigarh also is not that bad so it is just about declared loss is about 12% or so. Considering though the aspect that these are Union Territories, these are small geographies very well run reasonably disciplined, one has to see as to what growth paradigms you could see in future and I do not have to talk refrigeration to Eskimos, you guys are all so well versed in terms of how the value is to be derive there you do it day and day out for your clients you know it very clearly that you will ultimately look at the free cash flows, you could look at the EBITDA numbers as to how they would grow and therefore one has to look at the growth paradigms, one has to look at the way that growth could come either because of the AT&C loss reduction or could come because of the inherent growth that you will be able to facilitate because there will be pent-up demand that may not be getting addressed today. Incidentally, in these Union Territories there is not much scope and just as a matter of statistics if you are interested Chandigarh has been growing at the rate of 1% in million unit terms every year and it is a geography which is well-planned and therefore the growth will be in the said town planned mode so that can give you some kind of answers and the free cash flows from a venture where out of 1800 million units that today are being sold 1200 million units are sourced from Bhakra Beas Management Board. So you can imagine that is all at a very, very low cost so there is not much scope to really improve and therefore these are well run UTs. So now you can understand the valuation is more maybe kind of factored. Tomorrow if there was a UT starting with "A" perhaps Adani would say I will take that because I also start with "A" perhaps that is also maybe said that if Chandigarh starts with "C", let me take that.
- Mohit Kumar:** Does this mean that the smaller the other Indian territories which will come up for the comfort of bidding is not exciting opportunity for you and you may not be showing client to take it up and you would rather spend your time in the states where there is a larger opportunities available to you?
- Anil Sardana:** Nothing like that, I think we made serious bids in both Dadar & Nagar Haveli and Chandigarh. The Dadar & Nagar Haveli we had our second-best price so we were very keen and we will continue to be keen we will be a serious bidder all the time so I do not see so that will ever be a consideration in terms of size.
- Mohit Kumar:** Last one the South East transmission Company, I think where we are bidding the stressed asset has there been anything there or any update or is this still stalled at this point?

Anil Sardana: No, bids have been submitted. By the way Mohit bids have got submitted now it is for the CoC and the RP to take the next steps.

Mohit Kumar: Thank you Sir.

Harsh: I think moderator we have completely run out of time. In case, there are any questions, I would request participants to directly email it to me or to Vijil and we will make sure that these questions are addressed by the senior management. I would like to thank the management of Adani Transmission for giving us an opportunity to host this call. It was really nice of you to give your insights onto the operations as well as the macro questions that were asked. Thank you very much. Any final comments if you would like to make over to you sir.

Anil Sardana: I just want to thank Harsh for organizing this and thanks to all the analyst friends who have joined us for the Q1 FY2022 call and as you rightly said this is not just the only platform for them to ask questions, they can certainly send their questions to our Investor Relationship team or to you as you said and we will be very happy to respond to them and we look forward to catching up with them in the subsequent calls. Thank you so much and good day to all of you and stay safe. Thank you, Harsh. Thanks to the team.

Moderator: Thank you Sir. Ladies and gentlemen, on behalf of IIFL Securities that concludes this conference. We thank you all for joining us. You may now disconnect your lines.