“Adani Energy Solutions Limited

Q2 FY25 Earnings Conference Call”

October 23, 2024

Management: **Mr. Kandarp Patel – CEO – AESL**
Mr. Kunjal Mehta – CFO – AESL
Mr. Vijil Jain – Head IR – AESL

Moderator: Ladies and gentlemen, good day and welcome to the Adani Energy Solutions Ltd. Q2 FY25 Earnings Conference call. We have with us on the call today, Mr. Kandarp Patel, CEO AESL, Mr. Kunjal Mehta, CFO AESL, Mr. Anupam Misra, Head, Group Corporate Finance, and Mr. Vijil Jain, Head IR AESL.

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 call, please signal an operator by pressing star then zero on a touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Kandarp Patel. Thank you and over to you, sir.

Kandarp Patel: Hello, good morning and best wishes to all investors and analyst friends who have joined on the call. I hope all of you must have got an opportunity to go through the results that we have published and uploaded on our website. I think that this was a very strong performance that we reported in Q2 FY25 and in fact, all the three existing business, transmission, distribution, and smart meter are in a phase of massive growth. You must have seen those numbers.

Another business line that we are incubating is C&I, Power Solution business, I think from next quarter onwards, you will see contribution coming from that vertical as well.

During the quarter, AESL raised equity of Rs 8,300 crore through QIP and in fact, that's very helpful to AESL for fuelling this capex led growth in transmission and smart metering. In the current quarter, besides the project under execution, which is Rs 17,000 crore, we have secured four new transmission projects and with that our under-construction projects have reached to ~Rs 31,000 crore from Rs 17,000 crore.

Once these projects worth ~Rs 31,000 crore are completed, it will contribute to EBITDA of about ~Rs 4,200 crore. From the timeline perspective these projects worth Rs 31,000 crore capex would be commissioned in two years. You will see those assets getting commissioned in the current year, next year in FY26, and some of them in the early part of next-to-next year which is FY27.

In the current quarter, in fact, we did exceedingly well as far as capex deployment is concerned. We deployed capex of ~Rs 3,000 crore in the current quarter, which is 2.5 times of the capex that we deployed same quarter last year. The total capex of first half of the current year, which is Rs 4,400 crore, is 1.7 times of the capex that we deployed in the same period last year.

In our business, it is important to understand that whenever we deploy capex, we to that extent lock-in the profitability. So, as I said, if an asset is long gestation, it might reflect at a particular time. But as an investor, if you have those numbers, then you are secure that this kind of profitability or revenue has already been locked in.

At AESL, we closely monitor capex number on a quarter to quarter and a month-to-month basis. This capex number will also get accelerated for a simple reason that first half was also having a monsoon. Now, we will have a clear season for next six months. And we think that we will be able to close this year with a capex of about Rs 10,000 crore at least.

Now, this will surely bring the growth in EBITDA that we projected, which will be more than 15%. As far as operational efficiency is concerned, we continue to do excellent work. We have maintained the reliability of 99.7%, as a result, we earn Rs 35 crore of incentive. We added 140 circuit kilometers to our network and now we have reached to over 23,000 circuit kilometres.

In the distribution, the growth in electricity sale was to the tune of 7% and continuously with our endeavour, we have been able to reduce distribution losses to 4.85%. With all this effort on operation and project side, the financial numbers also accordingly show up the result. The operational revenue increased by 23%, reaching to Rs 4,200. EBITDA as well increased to by 31% to Rs 1,891 crore.

Similarly, PAT also increased steep growth and reached to Rs 773 crore. Cash profit has also shown very healthy growth, and it has reached to Rs 1,026 crore. While we do this capex, but we make sure that we operate this business with a financial prudence and discipline and that's how we have also maintained net debt to EBITDA at 3.1x. Now, as far as the outlook is concerned, transmission remains the major area where we will continue to focus. India has a massive opportunity as far as transmission is concerned.

Besides, we already got four projects, but still the bidding which is going to happen in next six to seven months' time to the tune of Rs 85,000 crore. We expect that we will maintain our market share. There could be opportunity to increase the market share as well, but we will make sure that we follow the prudent investment decisions. Even if we take the current market share, then we hope to get about Rs 15,000 crore to Rs 20,000 crore worth project more in next six month's time.

The RAB in the distribution business is currently Rs 8,400 and will continue to grow as we further invest in distribution network in Mumbai. In fact, one of the projects which was supposed to commission in last-to-last quarter got delayed because of a geographical surprise. But now that project is on a track, and we expect that to commission in the next quarter. That will add about Rs 1,000 crore of RAB into Mumbai asset base.

As far as smart meter is concerned, now we have started progressing very well. In fact, in last quarter, we deployed about 4 lakh meters at the rate of 4,200 meter per day. In October, we are deploying about 7,000 meters per day. Now we expect to significantly step up the implementation plan because now we will have that clear season without any monsoon. We expect to add about 30 to 35 lakh meters in next six months. So, we will close year with the installation of about 40 to 42 lakh meters. These are the basic details, and I will hand over the call to give further details through the question and answer.

Moderator: Thank you very much. We will now begin the question-and-answer session. First question is from Mohit Kumar from ICICI Securities. Please go ahead.

Mohit Kumar: Hi, good morning, sir. My first question is on the transmission. Can you help us with the transmission capex, which you will do for next three years based on the current pipeline? Is it possible to talk about the expected EBITDA of the locked-in portfolio?

Kandarp Patel: Mohit, as I said, the under-construction project of ~Rs 31,000 crore, which is already secured. The timeline of all these projects is about two years, so 24 months. We also expect to add another Rs 15,000 crore at least to this kitty, so it will reach to about Rs 45,000 crore of project under implementation.

With that, we will have EBITDA more than Rs 5,500 crore. With this Rs 32,000 crore project under construction, it will contribute about Rs 4,200 crore. Another Rs 15,000 projects will contribute about Rs 1,600 crore to Rs 1,700 crore of EBITDA. This will take place over 24 months and the new project that we will get will be in 30 months from now, so that is the outer limits.

Mohit Kumar: Understood, sir. And given the fact that there is a huge bidding opportunity, I think the first half has been great and I think you have won your fair share, but also, the second half is likely to be again a very massive opportunity. Can you just explain us the transmission bidding opportunity and the pipeline that you are looking for the next 18 to 24 months?

Kandarp Patel: So, Mohit, we have a clarity as far as the next six months is concerned. So, those projects are already identified for bidding, approved for bidding, and the process has reached to a certain level. So, in the next six months, Mohit, we expect to witness a bidding of about Rs 85,000 crore capex of transmission project.

In fact, this also includes two HVDC projects which were supposed to get bidded in last quarter, but it has spilled over and now it will go under the bidding. On a longer-term horizon, one to one and a half years period, there will be another at least Rs 1 lakh crore of capex that will come under the bidding.

Mohit Kumar: Understood. There were two HVDC bids, right? The first one I think already happened. The second one, can it happen in the second half, or do you think maybe it will spill over to FY26?

Kandarp Patel: Yes, so certainly it will happen in the second half and another Rajasthan HVDC, which got rebidded, is likely to happen very soon.

Mohit Kumar: You are expecting apart from one Khavda, which already happened, expecting another two HVDC bids, right? Am I correct?

Kandarp Patel: Correct. One of Rajasthan and one of Khavda.

Mohit Kumar: Understood, sir. On the second, on this smart meter, of course, you spoke about 30 lakhs-35 lakhs in the next six months. You are trying to reach 42 lakhs by end of FY25. How do you think about FY26 and FY27, given the progress on all these areas? Is there some number which you think you can guide us?

Kandarp Patel: Mohit, come again, sorry. Number for the next year?

Mohit Kumar: For the next year, FY26 numbers and FY27 numbers, given your portfolio.

Kandarp Patel: So, Mohit, what we have got right now is about 2.3 crore meters. We will complete about 45 lakh meters in the current year. But now all those issues that we had, in fact, when you start implementation, there are a lot of integration issues and there are a lot of coordination which is required to be done with a distribution, because you are getting into their operations.

So, their processes also need to be aligned, and your processes are also needed to align with the distribution company's processes. Every distribution company has a different process for billing and meter installation and recollection. So, we have gone through that entire phase, entire integration is done.

Everything is working stable and now we only have to go and deploy meter on the ground. In the current month, we had seen it ramping up to 10,000 meters a day also from 4,000 meters per day, which was there in the last quarter. With that kind of work that we have done on the ground, at least we will be able to add about 1 crore meter next year and balance one in the subsequent year. And meanwhile, we will also add further meters as and when opportunity comes in. So about 10 crore bidding opportunities yet to come for the bidding.

Mohit Kumar: A couple of bids are out there, right? Tamil Nadu is one large one, which I think is supposed to get bid out last year. It is still to be closed. Am I right in that?

Kandarp Patel: Yes. So, Tamil Nadu, we expect that it should get closed in a couple of months' time.

Mohit Kumar: Understood. So, my last question is on the C&I. Of course, you did touch on the topic, but we are trying to figure out what your target is, what is the business model, what is the revenues model? Can you just please help us with basic?

Kandarp Patel: Yes. So, Mohit, this is a very exciting thing, especially personally for me, because I started my career with a power trading job. That's my first love, in fact, this is what C&I business will be. See, what we have done and what we have realized is that now with a growing economic activity in the country, there are many customers who have a distinct requirement, which conventional distribution companies are not able to meet.

Like, if you take a case of data centres, they will want a certain level of reliability. At the same time, they would want a certain percentage of green penetration. Further, they would also want a power supply to commence and infrastructure to get ready in a particular timeframe, because then they will also have a similar back-to-back contract with other players.

Now, this offers a huge opportunity because we have a presence in generation, renewable generation, transmission, as well as distribution. As a distribution or retail arm, we will be able to leverage our renewable capacity that we are creating in the group. To fit this concept, we started in-house.

So, last year, we commenced this kind of activity for cement business, port business and Willmar business. In fact, today, we are managing power supply for about 100 establishments of these three businesses across the country. And having tested us, now we have started getting into contracts with the third party.

In fact, currently, we already have a contract about 20 megawatts. We are into active discussion for contracts of about 250 megawatts. By the year-end, we will be able to close, or we'll have a volume of about 5,000 million units. And that will contribute on an annualized basis of about Rs 150 crore of EBITDA.

Going forward, and this I'm talking without any major contract with the data center player. We are actively in discussion with Googles and Microsofts of the world. We hope that we'll be able to finalize contracts with them very, very soon.

This is going to be a very exciting business; you will see a lot of action happening in this side in next and next quarter. And largely, you will see a lot of activity in next financial year.

Moderator: The next question is from Brett Knoblauch from Cantor Fitzgerald. Please go ahead.

Brett Knoblauch: First on the smart metering deployment, how difficult is it to ramp up from 4,000 meters a day now, approaching 10,000 meters a day. What is the biggest bottleneck, why you're not doing more on a daily basis? Is it labor? Is it inventory of the meters itself? Maybe just help explain that a bit.

Kandarp Patel: See, today, so far, we were constrained by two, three factors. Obviously, one, we have multiple geographies. So, we have a contract with Assam, Andhra, Bihar, Maharashtra and Uttarakhand, and BEST, a distribution company in Mumbai. When you start deploying meters in any geography, first, you have to get those integration done with a distribution company. That takes some time.

What we did, we started with one-by-one distribution company. We first started with Assam, followed by Bihar, Maharashtra, Andhra Pradesh, and Uttarakhand, so as we were starting geography one by one, the total rate of deployment was less. There were also the issues around getting a good labour.

Now, having integrated with all the distribution companies and having arranged all those contractors and skilled labour. We have undertaken a massive training program, and we trained about 10,000 people as far as metering is concerned, and that is helping us now. So, with this kind of preparation, we feel that we will be able to significantly ramp up the rate. We have already reached upto 10,000 meters per day from 4,000 meters per day and expect to take it up to 16,000 meters per day to 20,000 meters per day. So, we will operate between 16,000 to 20,000 meters a day from next quarter onwards.

Brett Knoblauch: Thank you, that is super helpful. And then on the capex guidance, I think you said somewhere around Rs 10,000 crore for the year, which implies, I guess, just over Rs 6,500 for the rest of the year. Can you just maybe break down how much of that is going to be between the three business segments of transmission, distribution, and smart metering? And should we expect relative to the first half, smart metering, to have a significant growth?

Kandarp Patel: Out of this Rs 10,000 crore, the distribution would be around Rs 1,600 crore to Rs 1,700 crore, smart metering around Rs 3,000 crore, and the rest will be from the transmission side. The biggest advantage as AESL is that eventually AESL's profitability is largely defined by the capex. Now, since we operate in three segments, even if there is some slippage in capex in other business vertical, we have an option and opportunity of pushing the capex in another vertical of the business. In fact, which makes AESL distinct from all other players in the market.

Brett Knoblauch: I agree. And then maybe just one more. You guys talked about how EBITDA has grown at CAGR of 9% over the last four years. It was 15% on a trail twelve-month basis as of the end of the second quarter. Can you just maybe big picture, talk about where you expect EBITDA growth to go from here? Should we expect to call it that 15% rate to accelerate or maybe just provide some framework for us?

Kandarp Patel: Certainly, it will be over 15%. Now, if you see the project under execution, including the smart meter, will get concluded in the next couple of years. So, that itself is Rs 50,000 crore of capex. Therefore, the growth is going to correspond to that kind of capex, which it will be in excess of 20%.

Brett Knoblauch: Perfect. Thank you very much. Very efficient time.

Moderator: Thank you. The next question is from Dhruv Muchhal from HDFC Asset Management. Please go ahead.

Dhruv Muchhal: Yes, thank you so much. So, the first question is on the C&I business. So, under this business, can you target only the ISTS-connected customers, or you can even approach the DISCOM-connected customers? I mean, just trying to understand what's the landscape that you can address.

Kandarp Patel: Dhruv, we can target both ISTS as well as interstate consumers. You must have noticed that open access regulation, which has come for this green energy, the earlier restriction of allowing open access for a consumer up to one megawatt has also been diluted for green energy. In fact, all the customers in the country can become a target for you.

Dhruv Muchhal: All right. And what is the economic model here? You do a back-to-back with a generator, say, for example, any green developer, you have an allotted group and a similar contract with the customer, and you earn the spread on it. So, how does the economic model work?

Kandarp Patel: What we do is we assume a responsibility end-to-end and up to the delivery of power as well as maintaining those connected assets so that the reliability is ensured. So, even last mile connectivity if we need to invest, we invest and maintain that part. From a sourcing side, we will have a bunch of assets that we will secure.

One of the biggest advantages that you can create is also from the diversity and aggregation of demand and supply. Now, if you have a one side number of assets supplying power to you and on the other side, you have a number of customers, then you will also be able to create a lot of advantage because of diversity in demand and also in generation and also from an aggregation side.

Dhruv Muchhal: All right. Perfect. That is helpful, sir. And so, the second question is on the transmission, the outlook and bidding. So, if one looks at the overall landscape, it seems one of the larger players in the system has got a very reasonable order book now because he has got a larger share in the bids in the past. So, one of the concerns with transmission sector earlier was that the IRR because of lack of bidding and number of players. But given the changing landscape, do you think IRR would be better in future bids than some of the recent bids or still the intensity is very high?

Kandarp Patel: You must have seen the IRRs have increased in the recent bids. The level of aggression certainly has reduced. We expect that if not, it will further allow us to increase IRR, but at least we do not see any condition where there will be a lot of aggressive bidding forcing you to reduce your IRR. I do not see that is happening because already Rs 85,000 crore notified for bidding and another Rs 1 lakh crore will come in next year. So, there is a huge pipeline available for all the players.

Dhruv Muchhal: And sir lastly is that when we look at the execution time period which the system is allowing is about 24 months. I think now it is about 24 months which still seems a bit tight given the overall execution cycle that we have seen historically. So, when you bid for projects, do you consider that there could be a delay of 6-9 months. As we have seen some of your projects and peers also, that typically execution happens in 2.5 years or 3 years. So, do you consider that when you're looking for bids or when you're bidding for these IRRs or how is the framework that you think, or 24 months is you think is executable?

Kandarp Patel: We make a detailed analysis before we take a call. Whenever we are sure both in terms of supply and execution that we'll be able to complete in the time then only we load it. If there is a possibility of any delay, we certainly factor those kinds of costs in our model, and that is how we feel that we don't usually get into those kinds of a situation because we do a lot of preparative work before we bid and even before we go on the ground for execution.

Dhruv Muchhal: Great sir. Thank you so much. This was helpful and all the best.

Moderator: Thank you. The next question is from Bharat Shah from ASK Investment Managers. Please go ahead.

Bharat Shah: Yes, I lost out on the call in between plus I couldn't fully comprehend your answer to the previous question, but on Smart Meter, I wanted to understand what are the constraints on the rollout because 4,000 smart meters or 10,000 smart meters still sounds very modest and very inconsequential kind of a rollout of smart meters?

Kandarp Patel: Bharat, what I was replying to the earlier question is that we had about six different geographies. We started to implement in different geography one by one. And when you start deploying meter in particular geography, you have to integrate with the distribution system, and you also have to integrate and demonstrate your entire smart meter architect and platform to the distribution company.

Once they approve, then you start deploying on the ground with full resources. Now, as we were starting geography one by one, therefore the implementation rate was lower and there were also issues around manpower availability. So, both the issues now we have sorted. We have started implementing and integrated with all the six distribution companies. And now having sought out that contractor and manpower issues as well from 4,000 to 10,000, we have reached in a one-month period. And we hope to take it to 15,000 plus and we will continue to operate at that level.

Bharat Shah: But if you roll out 15,000 also a day that will take you at max to about 5 million for the next year. That would sound a very small number to my mind unless I miss something. I thought you earlier mentioned that you expect to roll out about 1 crore meter next year. If I heard it correctly, that's what I understood.

Kandarp Patel: So, Bharat, I am talking about the current geography. If I add geography, then those numbers will get added.

Bharat Shah: Okay. So, how many smart meters did we roll out last quarter? How much do we expect in the...

Kandarp Patel: So, last quarter, Bharat we rolled out 3.6 lakh meters. We have reached a total of 6.73 lakh meters and in the current year the balance six months we plan to add another 30 to 35 lakh meters.

Bharat Shah: So, that means we will reach about 40 lakh meters by the end of the second half?

Kandarp Patel: Yes 40 to 45 lakh meters. Bharat, why we are confident is because now that season is good. So, in fact, we also face quite a good amount of constraint because of extended monsoon, but now that season is over, so we expect that our deployment rate will continue, and it will improve significantly.

Bharat Shah: So, out of the awarded contract so far, how much do we expect to roll out next year?

Kandarp Patel: Next year, it would be around 70 lakh meters out of our awarded contract.

Bharat Shah: And you expect to add another 30 lakhs from the new contracts that you may hope to win?

Kandarp Patel: Correct. And this, again, I am giving a conservative number, Bharat. We will certainly try and push those numbers at a higher level as well.

Bharat Shah: And are we facing any on-ground resistance of any kind, either from customers or others, in terms of these rollout?

Kandarp Patel: There is resistance, not mainly from a customer, but all those motivated factors on the ground, but that's a part of business. We have to deal with that and find your way in implementing it.

Bharat Shah: So, that's not the key reason there is a delay?

Kandarp Patel: No. It affected us to a certain extent to begin with, but now I don't see that's the reason which is going to stop us.

Bharat Shah: The economics of the smart meter that we had originally understood, roughly about Rs 12,000 odd revenue. About Rs 1,000 comes from the government as an upfront subsidy. So, balance about Rs 10,000 to Rs 11,000 is what you earn over a period of 7.5 years rollout per meter is revenue, about 85% of which is the operating profit in the business. So, that economics remains?

Kandarp Patel: It remains unchanged Bharat just one caveat, the subsidy that comes from government is not Rs 1,000, it is Rs 900.

Bharat Shah: Okay. No, I said ballpark numbers. I was just rounding off and making broad numbers. Also, there were tax reversal in the current quarter. I could not fully figure that out. So, net-net, there has been actually tax credit in the first half of the year. In the second half of the year, what is the expected tax liability we need to provide, or we should count?

Kunjal Mehta: So, this quarter itself we had just one-time reversal of the MAT credit which AEML distribution business was accounted. Other than that, there is not any expected reversals in the future years. We are expecting an effective tax of around 20 percentage which will continue as a third half.

Bharat Shah: So, for the second half of the current year, we should count 20% as the effective tax rate, right?

Kunjal Mehta: Correct.

Bharat Shah: Separately for second half, I'm not talking of mixing with the first half. For the second half, it will be 20%.

Kunjal Mehta: Correct.

Bharat Shah: And that is expected to stay the course going ahead?

Kunjal Mehta: Yes.

Bharat Shah: Okay. One last question on Microsoft and Google transactions. I thought one of the transactions already happened and is in the bag. Something to that effect, I read the announcements in the papers. Maybe I'm mistaken, if you can highlight on that.

Kandarp Patel: You are right, Bharat. There was an announcement that was for Google contract where they had a long-term power purchase contract with Adani Green for their part requirement of existing data center or the data center which is under construction at Noida. What I am talking is beyond that, that is only a power supply PPA between AGEL and Google.

Now, although and that is only meeting a part requirement. These data centre companies wanted someone to manage their entire power supply management because they don't have that kind of knowledge or expertise of managing this complex regulatory system as well as managing supply on the round the clock basis.

So, that is where we see an opportunity. We are discussing with Google, Microsoft, and other players where they wanted us to design an energy solution for them which will define the extent of green energy that we will supply the kind of reliability and timeline. So, these two are very distinct ones.

Bharat Shah: And broadly, as I understood for stitching together the entire solution, which is arranging power mix, ensuring safe, reliable supply arrangement remaining by stitching together that solution with the various sources, you can hope to make about Rs 1 to 1.5 of fees per unit?

Kandarp Patel: It will not only be a stitching, but sometimes you might also have to invest like last mile connectivity with one of the players that wanted a power solution. We are also investing for them in last mile connectivity and a small transmission line is to be created. It will mostly a stitching, but you might also require investing somewhere to make sure that whatever agreed deliverable that you have signed off, that is delivered.

As far as margins are concerned, obviously it would depend on a lot many factors, including terms and condition and risk profile of that particular contract. And that could range right from Rs 1 to depending on the risk profile of the contract, if the only solutioning or services to be provided like we do for our group companies where they carry all the risk, those margins are around Rs 10 paisa.

Bharat Shah: I see. And these arrangements potentially can run into not hundreds of crores of units, but actually thousands of crore of units to be supplied in a year potentially, isn't it?

Kandarp Patel: Yes, correct. So, what we are targeting is about 7,000 million to 10,000 million units in a couple of years.

Bharat Shah: 700 to 1000 crore units in a couple of years?

Kandarp Patel: Yes, 700 to 1,000 crore units.

Bharat Shah: Okay perfect. Thank you so much.

Kandarp Patel: Thank you, Bharat.

Moderator: Thank you. Next question is from Ajay Sharma from Maybank. Please go ahead.

Ajay Sharma: Hi, I just want to check, what is the IRR you are getting on the new transmission projects you just won?

Kandarp Patel: Around 15%.

Ajay Sharma: Okay. And what is the increase in the regulated base for the distribution business which you are targeting every year?

Kandarp Patel: We do capex of about Rs 1,700 crore to Rs 1,800 crore and minus depreciation Rs 600 to Rs 700. So, around Rs 800 to Rs 1,000 crore addition of RAB every year.

Ajay Sharma: And what is the current regulated base?

Kandarp Patel: It is Rs 8,405 crore.

Ajay Sharma: Okay. So, about 12% to 13%% kind of growth every year, is it?

Kandarp Patel: Correct. See and why we have been able to add capex in Mumbai distribution company because there you not only add capex in distribution, but you also add capex in transmission. And we see a lot of capex coming from transmission side within Mumbai because as demand is increasing in Mumbai, there is an urgent need to augment transmission capacity within Mumbai. In fact, one of the projects that I mentioned in the call earlier, which got delayed because of one geological surprise that project itself is about Rs 1,000 crore.

Ajay Sharma: All right. Okay. And lastly, just a small housekeeping question. If I look at your balance sheet, if I look at the plant and equipment and right of use assets and capital work in progress, I mean the difference between the September numbers and the March number is more like Rs 1,500 crore. So, I mean, where is your capex you said is more like Rs 4,000 crore. I mean, why is there a difference? Did you get rid of some equipment or what?

Anupam Misra: The capex is of Dahanu power plant.

Kunjal Mehta: Correct. So, one is on account of 2300 on account of Dahanu power plant plus there is certain recognition of the capex is also done under service concession accounting for the smart meter part. So, combination of that, if you add that you will get to Rs 4,400 odd crore of capex incurred during the year, but most important reason is Rs 2,300 of the asset which was carved out for the Dahanu power plant.

Anupam Misra: Let me just outline that. The Dahanu power plant is a 500-megawatt coal-based thermal power plant which is housed under the Adani Electricity Mumbai Limited. For ESG considerations, we've decided that the board of AEML decided and AESL, in fact, ran a process and based on that it has been carved out. So, based on that AEML or AESL today does not own any coal-based generating power plant. So, and it's a book entry of Rs 2,300 crore of book asset here.

Ajay Sharma: And the service concession for the smart meter, is that part of another non-current asset? Where does that sit in?

Kunjal Mehta: Other financial assets.

Ajay Sharma: Other financial assets. Okay. Thank you.

Kunjal Mehta: So, if you look at the cash flow, the cash flow will show a capex of Rs 3,900 odd crore and the balance forms part of the service concession accounting on other financial assets.

Ajay Sharma: Yes, got it. Thank you very much.

Moderator: Thank you. The next question is from Pavitra Sudhindran from Apollo. Please go ahead.

Pavitra Sudhindran: Thanks for the call. Can you give us some information on this SEBI show-cause notice that you got this quarter? What is the percentage shareholding that is alleged not to be public and what are the next steps here and possible outcomes?

Anupam Misra: So, Pavitra, that is a show cause notice that has been sent by SEBI to the shareholders as well as to AESL and AESL has made a disclosure to that effect. In due course, we will be responding to that. There is nothing additional to that, that we want to disclose at this stage. At this stage, I also have to clarify that it has nothing to do with the company per se. It is because it is the company which is listed and hence the show-cause notice has been sent to it, but it is more pertaining to the shareholders rather than the company.

Pavitra Sudhindran: Got it. Thanks.

Moderator: Thank you. The next question is from Bhavik Bhavsar from Investec. Please go ahead.

Bhavik Bhavsar: Yes, I just wanted to confirm the current regulated equity for transaction and distribution business and how is it expected to grow?

Anupam Misra: See the transmission business has two parts to it. One is Section 62 assets and second is Section 63 assets. The Section 62 assets are the ones which have a regulated equity. The Section 63 assets are where we bid out the tariff number and once, we have completed the project, we receive the tariff on a monthly basis based on the bid-out schedule.

So, we would not have a regulated equity number for the transmission business overall. Whatever we do on the Section 62 side, that number is there and that I think the team can separately provide to you.

Kandarp Patel: Anupam, just to add what you said in AESL where we have transmission business, there are a few initial projects which was on a cost-plus basis where there is a regulated equity. So, because we do not add any regulated RTM project. So, there could be a few RTM projects like currently whatever is the regulated equity in transmission which is about Rs 3,400 crore and when we commission that HVDC transmission in Mumbai about Rs 2,000 crore of regulated equity will get added.

As far as AEML is concerned, the regulated equity is about Rs 5,000 crore and as we do a capex of about, Rs 1,700 to Rs 1,800 crore every year, we will continue to add about Rs 500 crore of regulated equity into it.

Bhavik Bhavsar: Perfect. Thank you.

Moderator: Thank you. Next question is from Sagar Parekh from One Up Financial Consultants. Please go ahead.

Sagar Parekh: Yes. Hi. Thanks for taking my question. On this smart meter project, you mentioned about 35 lakhs meters installation in second half. So, assuming Rs 900 you get, so does that mean like in terms of revenue, you will be about Rs 350 crore, Rs 400 crore revenue for H2 from smart meters or the revenue accrues much later? How do we account for smart metering revenues?

Kandarp Patel: That Rs 900 will accrue with a time lag of about 2 months to 2.5 months. So, once we deploy then we have to go and demonstrate to distribution company that deployed meters are working. Once that is done, then billing starts and then that amount is paid. There is a lag of 2 months to 2.5 months.

Sagar Parekh: So, next financial year is when we can see the entire like 40 to 45 lakh meters?

Kandarp Patel: Correct. But a part of it certainly will come into the current year as well.

Sagar Parekh: And the remaining Rs 9,000 or Rs 10,000, I mean, does it mean that from FY26 onwards only this Rs 1,000 every year will come through?

Kandarp Patel: No. So, the first year, one-tenth we will receive plus Rs 900.

Sagar Parekh: Okay. And how would the margin shape up in this business?

Kunjal Mehta: The smart meters have a margin of around 80% to 85%. In the initial years because of the initial ramp up, the margins may come down to around 75%, but overall, the project would have an 85% margin.

Sagar Parekh: Got it. And on your C&I business did I hear it correctly, you said that your margins would range from Rs 10 paise to Rs 1 something like that.

Kandarp Patel: Correct. So, depending on the nature of the contract, if it's only a service contract then would be in a simple back-to-back contract then it could be around Rs 10 paise, but if it is a complex contract, a lot of stitching to be done and position is to be taken, then obviously those margins will be in a higher range.

Sagar Parekh: And you mentioned some 500 crore units you are expecting by year-end with Rs 150 crore EBITDA. So, like 500 crore units would translate into broadly about Rs 200 crore to Rs 250 crore kind of revenue number, because I'm assuming about 50 paise as the overall.

Kandarp Patel: Currently the majority of contract is only a service contract. Now, we have started getting into the contract where we do stitch, a lot of stitching, end-to-end solution and taking a position in the contract.

Sagar Parekh: So, if it's a service contract, then it would be broadly Rs 10 paisa. So, for 500 crore units that we were looking to close, then it will be about Rs 50 crore revenue.

Kandarp Patel: So, there are a mix of it. So, a few contracts are those contracts as well where we are taking a position.

Sagar Parekh: And the entire revenue would be EBITDA level? Is there some cost involved over here?

Kandarp Patel: Very miniscule. So, roughly the EBITDA would be 98%.

Sagar Parekh: And how much are we looking to invest? You said that we would be investing in last mile connectivity also here, in case if it's like a complex contract.

Kandarp Patel: I do not have that readymade number. It will depend on contract to contract and where the consumer's facilities are located, how far it is and how complex that facility will be to connect. So, depending on that location.

Sagar Parekh: Cash profile or return metrics that we look at when we bid for these projects. So, let's say if we are investing Rs 100 crore, we get something back. So, from that perspective, any sort of number?

Kandarp Patel: We will look for more than 15% whenever we do capex.

Sagar Parekh: 15%. Okay. That's it from my side. Thank you.

Moderator: Thank you. Next question is from Shreyans Daga from Barclays. Please go ahead.

Shreyans Daga: Yes, hi. Thank you for the opportunity. I have one question. So, on the Mumbai HVDC line, can you give us any update as to the timelines and expected capex remaining on that?

Kandarp Patel: Expected capex is about Rs 7000 cores. And the project is progressing very well. And we will be able to commission within timeline, which is August 25.

Shreyans Daga: Okay, thanks. And I have just one question on AEML. So, you mentioned I think last September you will be able to liquidate about Rs 15 billion of regulatory receivables. So, is that going in line, or you expect to continue that beyond FY25 or FY26?

Kandarp Patel: No, it is going online. In fact, we are liquidating more than what we have committed.

Shreyans Daga: Okay. And just a small question. So, for the annual capex guidance of AEML.

Kandarp Patel: Yes. The annual capex of AEML would be around Rs 1,700 to Rs 1,800 crore.

Shreyans Daga: And can you give a breakdown of on what projects that would go in and all that?

Kandarp Patel: It will be in a mix of transmission and distribution and within distribution there could be n number of projects, starting from your network augmentation, creating new substation, putting up a smart meter, putting up a storage facility. Usually, the process is that wherever we wanted to do a capex, we have to go to MERC with a DPR. We go to MERC, justify why we are doing it, what is the advantage of that capex. Once they approve, then we do that capex.

Shreyans Daga: Okay, perfect. That's it for me. Thanks.

Moderator: Thank you. Next question is from Angel from Prudence. Please go ahead.

Angel: Okay. I wanted to ask firstly on the show cause notice again, I think it was asked, but I understand there's two things. There was a peer review certificate that also I believe was in the first quarter earnings as well, as well as this new one regarding shareholding. So, is there any other color that you can provide on this, especially also for the peer review certificate one like what steps have you taken or what steps would you do together with the new show cause notice moving forward to resolve it at any timeline that you can give to provide for this to be resolved? What typically are the steps that you need to take to resolve a typical show-cause notice?

Kunjal Mehta: The show cause notice was with respect to the peer review certificate which the statutory auditors in 2015-16 had to provide, which they have subsequently provided and now there is a complete peer review available for our existing auditors. That matter, which was there regarding peer review of the show cost notice stands resolved.

Angel: Okay. So, that's resolved. Then for the new one of the shareholdings, so is there any rough timeline that you guide for that to when would that be resolved and what steps do you have to take to actually resolve that?

Kunjal Mehta: So, that I think Anupam mentioned is that we are in the process of filing the new response to SEBI and we'll come up with the necessary disclosures in due course of time.

Angel: Okay. I understand. My next question is relating to again your transmission growth plans are quite large. And then the question is, what kind of funding options do you have to actually fund this next leg of growth over the next, the near to medium term, so over the next couple of years? How do you weigh your various options across like onshore, offshore banks, dollar bonds, US EPAs, etc?

Kunjal Mehta: Post this equity raise we are currently fully funded and for our debt financing, we continue to have various options which as you mentioned it could be bank financing, it could be dollar bonds and it could be domestic bonds, which can be evaluated at that point in time. Currently, because of the QIP that we raised and the projects which are currently under construction, both are fully tied up as far as the debt funding is concerned.

Angel: Okay, so the QIP raise wouldn't change your assumptions of like that equity mix funding for a new project like you wouldn't therefore put in more equity now that we have more equity?

Kunjal Mehta: That would be funded through a project of, I mean, project debt of around 70% to 30%, that would continue as it is.

Angel: Okay understand. And last thing is on, the existing bond coming in August 2026, I understand it's still quite some time away, but is there any early thoughts on how to deal with that? And internally or like externally rating agencies, is there any requirement by a certain timeline, is it 6 months ahead or one year ahead that you have to kind of form a plan for that refinancing?

Kunjal Mehta: The maturity is still some time away. And at the right time, we will approach the market to refinance that debt.

Angel: Okay. And lastly for AEML I do not see your second quarter financials out yet. So, can you remind me or let me know what is the regulatory deferral account asset as of September 2024?

Kunjal Mehta: So, the regulatory deferral account which was there of Rs 1,600 crore is in the course of complete liquidation. Currently, we have the out of the Rs 1,600 crore only around Rs 900 crore which is left by the end of September. And by the end of March, as per the MERC order that amount would get fully liquidated through the tariff itself.

Angel: I understand. So, about Rs 700 crore was done over the last 6 months. So that is cash received?

Kunjal Mehta: Correct.

Angel: Additional cash flow. And what will the use of this cash be for?

Kunjal Mehta: That will be used under the normal business use as per the waterfall of that facility.

Moderator: Thank you very much. Due to paucity of time, we'll have to take that as the last question. I would now like to hand the conference back to Mr. Kunjal Mehta for closing comments.

Kunjal Mehta: We thank all the investors for the active participation during the call and we look forward to any other questions that you may have. You can reach out to us or to Vijil for any other clarifications. Thanks for coming up and taking this call.

Moderator: Thank you very much. On behalf of Adani Energy Solutions Limited, that concludes the conference. Thank you for joining us, ladies and gentlemen. You may now disconnect your lines.