



“Adani Energy Solutions Limited
Q3 FY-24 Earnings Conference Call”
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Management: **Mr. Anil Sardana – MD – AESL**
 Mr. Kandarp Patel – CEO – AEML
 Mr. Rohit Soni – CFO – AESL
 Mr. Kunjal Mehta – CFO – AEML
 Mr. Vijil Jain – Head IR – AESL

Moderator:

Ladies and gentlemen, good day and welcome to the Adani Energy Solutions Limited Q3 FY24 Earnings Call. As a reminder, all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during this conference, please signal an operator by pressing star then zero on your touch-tone phone. Please note that this conference is being recorded.

From the management, we have with us: Mr. Anil Sardana, Managing Director, Mr. Kandarp Patel, Chief Executive Officer, Mr. Rohit Soni, Chief Financial Officer, Mr. Kunjal Mehta, Chief Financial Officer, AEML, and Mr. Vijil Jain, Head, Investor Relations.

I now hand the conference over to Mr. Anil Sardana. Thank you and over to you, sir.

Anil Sardana:

Thank you and good afternoon to all the analyst friends. Welcome to Q3 analyst call. You would have got the press details and the other details as submitted to the Stock Exchange. And let me continue from the fact that like every quarter, the company achieved good progress during the quarter with commissioning of additional transmission lines and by virtue of that, it continued to get and register robust growth.

That's visible in the way that the cash profit registered during the quarter is about INR786 crores. The revenue is up by virtue of the fact that one could register additional assets and so did the direct costs by virtue of which the Operational EBITDA numbers have shown a growth of 10% year on year.

I must quickly add that in each of these assets, one has seen the COVID times and therefore, the change in law with regard to the COVID months, which is eight months as permitted by Government of India through official circulars and the balance period as was relevant in different states has not been accounted for in respect of the added IDC or change in law.

These are all subjects for which, petitions will be bundled as we now move into the other quarters and therefore, one would see the advent of those additional approvals as they will come by from time to time from respective regulators.

Now, amongst these formidable parts was the Kharghar-Vikhroli line, a matter of great pride that for the first time, Mumbai has seen 400 KV grid getting energized by Adani Energy Solutions and this by no means was an easy line to execute because it is from those denser areas as also challenges of height restriction, besides the fact that all the other lines as you must be aware by some of the other transmission players are still languishing for quite some time. But we could achieve this, and the line is very much now energized.

The next one was the first line from Khavda. This is the 765 KV double circuit line, all the way connecting to Bhuj area and the fascinating part is that, it is today carrying electrons from the first solar fields that have started to get energized.

Now, naturally for us, the schedule for this was somewhere end of January 2024, but we could commission it ahead of schedule and we have been able to carry the electrons for the generators. In addition to that, some of the other orders that the company captured in terms of smart metering continued to take us to robust positions with regard to how we are positioning ourselves in an area which eventually dovetails well with our aspirations of private distribution or the second license or the parallel distribution networks as we would want to eventually get into. So, those are some of the highlights and to that extent, the details are there with you.

It will be nice to get your questions and by virtue of that, I am sure we will tend to answer and provide you more details. So, instead of going further, I would stop here and request that we can have the questions from your end and you will use that opportunity to deliberate more on some of the aspects that I may not have covered. Thank you.

Moderator: Thank you. The first question is from the line of Koundinya Nimmagadda from Jefferies. Please go ahead.

Koundinya Nimmagadda: Yes. Hi, sir. Thanks for the opportunity. Sir, my first question is on the under-construction pipeline for Adani Energy. So, what is the current asset base that you have, and which is expected to be commissioned in the next three-four years if you can provide some color on that target pipeline there and commissioning for FY 24, 25 and 26, please?

Kandarp Patel: Yes. So, the current pipeline which is under execution is about INR 17,000 crores, covering eight projects and we would complete all these projects by December 25.

Koundinya Nimmagadda: And how much of that would be commissioned in FY 24 and FY 25, sir, of the 170 billion?

Rohit Soni: So, there are two projects which will be completed in the next three to six months. The MP2, which is partially commissioned and KVTL, which has been connected, would be declared fully commissioned. So, these two projects will be completed in the next one and two quarters.

Koundinya Nimmagadda: Understood, sir. And sir, on the smart metering side, that's my second question. So, how does the current big pipeline look like? And you also in your presentation spoke of about 135 million of total opportunity size. So, what extent of that is covered in the big pipeline and what is it that is yet to be tapped? If you can throw some color on that, please.

Kandarp Patel: So, currently, the order in hand is about 2.1 crores meters, which is roughly a capex of about INR 17,000 crores to INR 18,000 crores. And these we will complete in next 24-month time. So, in next two financial years, the current pipeline will get concluded.

There is a bidding process that is going on in various states and we expect that similar number of amounts of order will get added into the current one. We will also conclude these orders in 24 months from the date when we get that order.

- Koundinya Nimmagadda:** Understood, sir. So, essentially, okay, understood. And sir, lastly, of the 1.1 trillion transmission bid pipeline, which you spoke of in the presentation, what extent of that is in the tendering stage and what is it that is still under discussion? So, if you can provide some color, please.
- Kandarp Patel:** So, the bidding pipeline for transmission project is expected to about INR 1.1 lakh crores capex. And that we expect this bidding to happen in next six to twelve month.
- Koundinya Nimmagadda:** Sir, yes, okay. This is all in the bidding stage itself. And what extent of, I mean, incrementally, what is it that has been approved by NCT and yet to enter bidding stage, sir?
- Kandarp Patel:** So, already everything has been approved by NCT and notified for bidding. After NCT approval, the MOP issues a notification for bidding. The notification has already been issued for INR 81,000 crores project, for which bidding is likely to get complete by April or May this year.
- Koundinya Nimmagadda:** Got it, sir. Thank you very much. I'll come back in the queue for more questions.
- Moderator:** Thank you. The next question is from the line of Mohit Kumar from ICICI Securities. Please go ahead. Mohit, the line for you has been unmuted. You may proceed with your question. As there's no response from the current participant, we will move to the next participant, which is the question from the line of Abhiram Iyer from Deutsche Bank. Please go ahead.
- Abhiram Iyer:** Hi. Thank you for taking my questions. My first question was with respect to what, could you just let us know what's the current debt and cash positions at, Adani Energy Solutions Consolidated and at Adani Electricity Mumbai?
- Rohit Soni:** Abhiram, you want specific for AEML, am I right?
- Abhiram Iyer:** If you can give both, Consol and AEML, that would be useful?
- Rohit Soni:** Okay. So, we'll give the AEML first.
- Abhiram Iyer:** Yes.
- Kunjal Mehta:** So, AEML basically, as you would know, did a buyback of \$ 120 million of bond during the last quarter. With that, the total debt, which is outstanding, is US\$ 1,180 million, which is the senior debt, which is outstanding. And it had a cash of roughly around US\$ 150 million in its books. So, roughly around US\$ 1000 million or INR. 7,800 Crores of net debt AEML had in its books as of 31st December.
- Abhiram Iyer:** Got it. This includes all working capital, right? INR 7,800 crores.
- Kunjal Mehta:** Working capital was INR 650 odd crores. So, add to it the working capital debt also.
- Abhiram Iyer:** Okay. INR 650 crores is working capital. Okay.
- Kunjal Mehta:** So, in total, INR 7,600 net debt of AEML.

- Abhiram Iyer:** Got it.
- Rohit Soni:** And you asked, Abhiram, on the second part of that. I think at an AESL consolidated level, so we are sitting at a gross debt of close to around INR 30,000 crores as on quarter 3 end. And if we talk cash, we're looking at close to around INR 5,100 crores of cash in the business, in various assets and the thing.
- So, if we're looking at net debt, it's close to around INR 25,000 crores. Because of the bond buyback, INR 1,000 crores got erased. And we have not considered the sub-debt and working capital in it.
- Abhiram Iyer:** Perfect. Thank you. The other question that I had was on the reversal of the tariff buildup, basically the AEML's regulatory balance account. From what I can see is it's been declining. We saw big reversal in Q1, but then Q2 and Q3 have been smaller and smaller. So, that overall, till now, it's been around INR500 crores out of the nearly INR2,000 crores of balance that was built up by the end of FY24.
- So, if you recall our previous conversations, you had mentioned that it might take around two years to bring down this balance. Are we now expecting this to go longer? Or is this a temporary sort of slowdown, which is expected to correct again back from Q4 or even FY25 onwards?
- Kunjil Mehta:** No, no. So, there is no question of slowdown or reduction of this thing. What the regulator has said is that around INR1,500-odd crores would be recovered over a 24-month period, of which we have closely recovered INR500-odd crores by 31st December. The balance INR200-odd-crores will come between Q4. That will take care around INR700-odd-crores would be recovered by 31st March, and the balance INR800 crores would be recovered during April '24 to '25.
- So, INR500-odd-crores has been recovered, which is in line with the regulatory order. So, there is no slowdown as far as the recovery of the regulated or the power sector of the asset is concerned.
- Abhiram Iyer:** Understood, understood.
- Kandarp Patel:** Abhiram just to add to what Kunjal said, we recovered this regulatory gap through tariff that we charge to our customers. And you must have seen the increase in sales that AEML has been able to achieve. So, as we go forward, because of increased sales, the recovery will also increase accordingly.
- Abhiram Iyer:** Understood, understood. Perfect. That makes sense. Thank you very much.
- Moderator:** Thank you. We have the next question from Sumit Kishore from Axis Capital. Please go ahead.
- Sumit Kishore:** Thank you for taking my question. My first question is, could you share some colour around the fiscal year-to-date TBCB projects that have been awarded by value, and what is the discipline that you are seeing by Power Grid and other major players, including yourself? And do you see

IRRs for projects? When so far this year have, they improved versus last fiscal? So, that's my first question.

Rohit Soni: Sorry, Can you repeat the question. The line was bit unclear.

Sumit Kishore: I asked whether fiscal year-to-date, if you could speak about the TBCB project by value, what has been awarded so far, this fiscal? And what is the big discipline that you're seeing in this pick up in TBCB project awards? And do you see IRRs for project wins that have happened so far, this fiscal, whether they have improved versus last year? So, basically, I wanted an overview on the competitive dynamics in the space and some colour on the projects that have been awarded so far this year.

Kandarp Patel: Yes, so, Sumit, the INR 61,000-odd-crores bid has been done in the last one year. And there we saw intense competition. The reason probably was that prior to this last one year, the bidding that happened in previous years, the quantum was relatively smaller. But as we go forward, the kind of projects that are coming up for bidding, as we discussed, about INR 1.1 lakh crores bid that is going to happen in next six-twelve months.

So, we expect that the expectation or the competition will not be that intense, because every player has a significant work already in their kitty. Another important thing that you should note here is that now the project which is coming under bidding are quite a big size project and also that bidding is going to happen very quickly, almost simultaneously for most of the projects. Therefore, we expect that there will not be a pressure on IRR for the project that we bid.

Sumit Kishore: Okay. So, out of the INR 61,000 crores projects which have been awarded right in the last one year, how much has Adani Transmission won? Adani Energy Solutions I mean?

Kandarp Patel: Out of 61,000, we have won about 10,000.

Sumit Kishore: Okay. And in your assessment, Power Grid would be more than INR25,000 crores?

Kandarp Patel: Yes. Power Grid is around 50-55% share of this 61,000.

Sumit Kishore: Okay. But that 61,000 would include that Leh Ladakh, which was given on nomination basis, or that is outside? That is only TBCB...

Kandarp Patel: That is outside.

Sumit Kishore: That is outside. Okay. Okay. So, given the intense, so Power Grid is offering is competing quite aggressively. Do you get a sense that, power grid is ready to take a bit of compromise on IRRs at this point? Because their works in hand had been going slower earlier, when the number of opportunities available were lower. So, are you getting a sense that power grid is competing quite aggressively?

Kandarp Patel: So, Kishore, I can't comment what probably power grid would do. But the kind of advantage that we have is that since we are into transmission, distribution, as well as smart metering, we have ability to fund the investment in the sector which is giving us a good IRR. And looking at current market situation, we don't see any reason why any player, including power grid, will become super aggressive in getting the projects.

Sumit Kishore: Got it. My second question is in relation to your smart meter, capex plans are quite intense. So, can you share some color on your smart meter procurement for the capex that you have lined up? Have you made any tie ups or partnered with any prominent players to procure your smart meter requirement?

Kandarp Patel: Kishore, in smart metering, there are essentially three, in fact, four important segments of a capex that you do. One is obviously a meter, second is communication, third one is the software, which is HES and MDM and fourth is your cloud services. Now, you must have noted from our various communications that we have a strategic alliance or tie up or a JV for communications, software, as well as cloud services.

Now, as far as meter supply is concerned, the total capacity of meter manufacturing in India is in excess of 12 crores per annum. Now, even after this kind of spurt in demand, we feel that there is a sufficient meter manufacturing capacity. And we are essentially having a kind of understanding or agreement with the Tier 1 meter manufacturer.

So, namely those are Schneider, Genus and HBL, where we are sourcing meter from them. And the rate that we have been able to get are competitive looking to the market conditions.

Sumit Kishore: Okay. That's very good to know. Thank you so much for answering my questions.

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

Mohit Kumar: Good afternoon, sir. My first question is on the, what is the timeline for the smart metering rollout? Is it fair to say that entire 21,000 or 2.1 crores smart meter will get installed over the next three to four years? Is that a fair understanding? And the related question is, how do you intend to fund this outlay? Is it you'll fund all the projects SPV by SPV depending on the discom?

Kandarp Patel: So, Mohit, contractually, we have to implement the entire metering solution within 27 months from the date of the agreement. Now, but the internal plan of us is to implement within 24 months. And we have lined up our entire implementation plan, including procurement and sourcing in such a way that we are in a position to achieve that kind of a timeline.

Mohit Kumar: And my question is, are the discom ready? And how do you intend to fund this outlay?

Management: So, yes, the important thing to make sure that we implement this at a very good pace is to involve and execute this discom right from the beginning. So, that is the kind of practice that we have been doing that the moment we get that concession, we actually start interacting with the discom

and also let them know as to on which part they will have to take a decision. Because it is essentially integration of two systems. Eventually, I will have to integrate my entire solution in that billing system. There, I require support from their side. And it is important that discom is geared up and we are making sure that they are given all the input to take the right decision.

Mohit Kumar: Okay. How do you intend to fund the outlay, sir?

Kunjal Mehta: Sure. So, the most important part on smart metering thing is that the revenue to cap excise service is significantly lower. So, what I mean is that we do not have to wait for the entire 27 months or 30 months to get completed to fund the entire project for 27 months and then the revenue starts accruing.

The way it is that once a particular size of smart meters, say 5% of the smart meters have been installed, we start earning revenues also into it. So, the funding becomes self-funded assets or self-funded to that extent. And then with a smaller debt tie-up, I can fund the entire 21 million smart meters which we have planned currently.

So, here we are not talking of to first raise debt of say 70-75% and then do 30% of equity. That is not what our goal. Essentially, what we are looking at is 30% equity, say 30-35% of self-funded assets and 20-25% of the debt to tie-up.

And then we will be able to do it on a self-funded asset. So, that is how we are looking at financing this entire smart meter financing.

Mohit Kumar: Understood. My second question is on the bidding pipeline. So, there is a strong bidding pipeline and I think we were not bidding actively in most of these. Can we expect us to be more active compared to our recent past experience? And the stated question is, given the huge pipeline, are you seeing the constraint emerging in power equipment space? The fact that there is no transformer available, reactor not available, HVDC industries are full with orders. Please comment on that.

Kandarp Patel: Yes. So, Mohit, you will see us active in the bidding, but not because that, but not at the cost of compromised ROE. We believe that we will be able to get a good amount of share without compromising IRR. As far as your second question is concerned, yes, obviously, there is a constraint looking to the kind of capex that is expected in the country. But the good thing that we have already done is that we have a strategic tie-up with a major equipment supplier. And we work closely with them not only in our transmission business, but also other businesses where we buy a lot of equipment, electrical equipment. So, we are fairly in a better place as compared to other players in terms of relationship with the suppliers.

Mohit Kumar: My last question is, what are the capex in nine-month FY24 and across the businesses?

Rohit Soni: So, Mohit, I mean, if you take the capex spend, what we have, being more or less in the guidance, what we have said. So, if you take for the nine months, we have spent close to around INR 3,500

crores on the capex side, which is a guidance of INR5,000 to INR6,000 crores of the capex what we do on a yearly basis. So, we are on track for that.

Mohit Kumar: Understood, sir. Thank you. Best of luck. Thank you.

Moderator: Thank you. The next question is from the line of Abhiram Iyer from Deutsche Bank. Please go ahead.

Abhiram Iyer: Hi, thank you for taking a follow-up. Could you let me know what's the status of the equity raise that was approved last year? I mean, the last time we discussed it, you mentioned waiting for an opportune time, and I agree that internal accruals are enough for new projects, but is this still on track or has this been shelf off for the moment?

Rohit Soni: Abhiram, I think last time when we had done, the resolution we had done is that we are enabling clause to support the growth of AESL. So, the including discussions are still going on. I wouldn't say it has been put off the shelf, but the current capex pipeline and the bid pipeline, what we have, that is equally supported by the cash flows, what we have from the business.

Equity rates and discussions are still ongoing. We don't have anything concrete to tell you yet, which has been concluded, but discussions are going on at a larger level.

Abhiram Iyer: Understood. So, no specific timeline. It's still the company deciding on when it is best for them to do it.

Rohit Soni: Correct. So, we are just working on what is the timing, what would be the value side. So, all those discussions are going on.

Abhiram Iyer: Thank you.

Moderator: Thank you. Ladies and gentlemen, if you wish to ask a question, you may please press star and one. The next question is from the line of Dhruv Muchhal from HDFC Asset Management. Please go ahead.

Dhruv Muchhal: Yes, sir. Thank you so much. So, in your earlier call, you had mentioned that the capex target for the transmission business is about INR4000- INR4500 crores. So, do you stick to the guidance, or do you see any upward division to it for the next year, I think?

Rohit Soni: I think, Dhruv, the guidance, what we gave is the basis, the construction activity which is undergoing. So, we stick to the guidance. So, those numbers still hold good, what we said. A nine-month data also talked about the same thing and the 12-month data would also speak to the same numbers. What we see is the bidding pipeline is getting bigger and base is that what would be our plan to get to the more capex, what needs to be done, that is the area where we are working. But for the next one to two years, the capex numbers, what we have said, would hold to the numbers.

Dhruv Muchhal: Okay. Sure, sir. And one bookkeeping kind of question is on your slide 46, you know, you have given the Kharghar-Vikhroli asset base, it is about INR13 billion. And if I look at the same number in the previous quarter's presentation, it was about INR. 18-19 billion.

So, just wondering, is it changed because the assets got constructed and now you have the actual number or the earlier number was an estimate?

Rohit Soni: So, I would say the number is still provisional, but we might see certain capex reduction on the Kharghar-Vikhroli. So, just got commissioned five to ten days before the quarter close. So, the final numbers will be true up once they are done, say three to six months for the claims and the counterclaims and the pensions will be closed.

So, we will true up the number as we come closer to it. So, we say it would be in that range.

Dhruv Muchhal: So, the 13 is currently provisional, I should say...

Management: Correct. Correct

Dhruv Muchhal: Okay, sir. Thank you so much and all the best. Thanks.

Moderator: Thank you. The next question is from the line of Megha from Stone Harbour. Please go ahead.

Megha: Hi, thanks for taking my question. My question was on your international rating. So, S&P has changed the outlook from negative to stable. Can you throw some light on your discussions with Moody's and is there any sense on what action are they taking on the ratings? What has been the progress in terms of your dialogue with Moody's? Thanks.

Kunjal Mehta: So, the company continues to engage with all its stakeholders including the rating agencies and with respect to the continuous engagements and with respect to all the positive outcomes which we are seeing, S&P has now restored back the rating outlook which it had done last year. So, and we continue to engage with Moody's and the other agencies and at the right time, I think all the agencies would also upgrade their ratings.

Megha: Thank you.

Moderator: Thank you. Participants, if you wish to ask questions, you may please press star and one. To ask a question, ladies and gentlemen, you may please press star and one. We have the next question from the line of Nikhil from Bernstein. Please go ahead.

Nikhil: Hi. Thank you for the opportunity. I just had one question on the distribution business side. Any opportunities ongoing or in the pipeline that you could update us on would be helpful.

Kandarp Patel: So, you must have noted from the presentation and the other material that you had, we have already applied for a second license in respect of three geographies. One for Mundra Taluka which is adjacent to our existing distribution company in Mundra SEZ, that is about 1,000 square

kilometres. Another one is Navi Mumbai where we have applied for a second license that is also about 1,100 square kilometres.

And the third one that we have applied is in Uttar Pradesh where we have applied for a Ghaziabad operation along with that District of Jewar where new Airport and other development is happening so, these are the three areas where we have applied for a license. In Mundra, Gujarat Electricity Regulatory Commission has intrinsically approved.

Now, the next step, they will have to issue a fresh public notice and conduct a public hearing. We expect that public hearing to get notified shortly. And once that is done, then they will issue us a license. In MERC and UPERC, the process is a bit slow. But we expect that once Gujarat order is out, probably that will also pick up a pace.

Nikhil: All right. Understood. Thank you. And one follow-up question on that. In these areas of the second licensee, the company would be building the parallel infrastructure completely and not using the existing setup. Am I correct to understand that, especially in places like Navi Mumbai, etc.?

Kandarp Patel: Yes, your understanding is correct. In fact, that's a legal obligation as per the current statute.

Nikhil: Got it. Understood. Thank you. Those were my questions.

Moderator: Thank you. We have no further questions, ladies and gentlemen. I would now like to hand the conference over to Mr. Rohit Soni for closing comments. Over to you, sir.

Rohit Soni: Yes. Good evening to all of you. I think I'm very thankful to all of you for joining this call and hearing us out for 45 minutes. So, it's been a very good quarter from the business side. We keep updating you as the business progresses. It's a big pipeline which is coming up on all the four sections in which we operate – transmission, distribution, smart meters, and district cooling solution.

We thank you for your support and wishing you a very happy New Year as the year has started. Thanks a lot.

Moderator: Thank you. On behalf of Adani Energy Solutions Limited, that concludes this conference call. Thank you all for joining us. You may now disconnect your lines.