"Adani Transmission Limited Q3 FY19 Results Analyst Conference Call"

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MANAGEMENT: **MR. ANIL SARDANA – CEO AND MANAGING DIRECTOR, ADANI TRANSMISSION LIMITED**
MR. KAUSHAL SHAH – CFO, ADANI TRANSMISSION LIMITED
MR. JAY AMBANI – ANALYST, ADANI TRANSMISSION LIMITED

Moderator: Ladies and gentlemen, good day and welcome to the Adani Transmission Limited Q3 FY19 Results Analyst Call. From the management of Adani Transmission Limited we have with us today Mr. Anil Sardana – Managing Director & CEO, Mr. Kaushal Shah – CFO and Mr. Jay Ambani – Analyst. 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 the conference call, please signal an operator by pressing * then 0 on your touchtone phone. Please note that this conference is being recorded. I am now glad to hand the conference over to Mr. Anil Sardana – Managing Director & CEO of Adani Transmission Limited. Thank you and over to you sir.

Anil Sardana: Thank you Ali and welcome to all the analyst friends for this Q3 FY19 Call. You must have gone through the press release and also the presentation that has been uploaded. Let me give you a few heads-up before you ask your questions. #1 is that this was the first quarter of AEML and we are very happy in terms of the performance and the exercise of integration that started in the right earnestness.

We of course find it is a great opportunity in terms of several initiatives that we can put in there, both in terms of AT&C loss reduction and also in terms of CAPEX network improvement exercise and in order to make it into a benchmark entity integrate several technology measures that we have initiated there. The other part was the close the KEC transaction and now KEC Rajasthan, is part of ATL portfolio and we will certainly have those results integrated from the coming quarter.

During the quarter we also had very good stint in terms of commissioning some of the Rajasthan assets, three out of the four assets have been commissioned and the last asset is about to be commissioned before end of this month. Similarly the assets in Chhattisgarh and Maharashtra area which are large are on their way for completion bearing some of the issues that we had because of the PWG Naxalite Maoist issues warning that we had got from the government in terms of evacuating some of the areas when we had to demobilize, we have been again asked to mobilize and we are clear that those assets will also be completed before end of this quarter, so all and all good going. We also had Fitch rating agency moving us back to stable outlook, so that was another good development during the quarter. And of course, we have shared with you before but just to reiterate that we got listed on the Morgan Stanley Global Small Cap Index and that is indeed great in terms of the fact that the script is now listed there too.

You would have gone through the results and would have noticed that baring the one-time elimination of Rs. 872 crores, which just for the interest of many of you, the total figure actually that we got one time was actually Rs. 941 crores out of which Rs. 70 crores was part of the revenue and therefore has not been talked about. Rs. 872 crores was one time for the past period and that is why it stood as a figure which is critical and the after-tax figure for that is Rs. 686 crores. So I thought just for the 9-months period that we are talking about, it is important to share without endless trends. That Rs. 872 crores is the one-time figure and the post-tax figure, corresponding figure is Rs. 686 crores. So if you eliminate that, you would have noticed that both 9-months PAT as well as Q3 PAT has improved. If you look at on a standalone basis of course, the EBITDA has improved, and we have also added AEML to that.

So we will talk about AEML figures just in case some of you would be interested to have those. So that has been the highlight and more important part is the company won Obra-C through the competitive bidding. So now we have two concurrent jobs in the State of UP that will give us synergy advantage in terms of existing close-by to conclude these jobs on time. We had shared with you Ghatampur project that we had gotten before which is close to about Rs. 1800 crores plus and this is Rs. 700 crores plus Obra-C. So we have now several jobs in hand.

So next year looks good in terms of the opportunity to work and of course the company will continue to look at other opportunities in both T & D side. So that is what I thought were some of the opening points that I wanted to make. I look forward to having your questions. Thank you so much.

Moderator: Thank you. Ladies and gentlemen, we will now begin the question and answer session. The first question is from the line of Varun Ahuja from J P Morgan. Please go ahead.

Varun Ahuja: Couple of questions. Firstly, if you can give a guideline around the CAPEX expenditure whether you firmed it up for next year as you look to commission some of the projects that are under construction. Secondly, you mentioned about Fitch so that is a very good development that it has gone to stable, congratulations on that. In terms of other rating agencies, we still have it on a negative outlook. I understand reading some of their reports that they are benchmarking, or they are closely monitoring the equity raise that Adani transition is looking to do and also the Rs. 10 bn I think that the Obligor Group had given to fund the Reliance Infra transaction, so if you can give any update on whatever is possible on that and also the cash that was taken from Obligor Group how you are looking to replenish that as well, that will be helpful.

Anil Sardana: Let me address some of the questions one by one. The first part you talked about the two other agencies and you mentioned about their, looking at the other two related subjects – one, about the equity raise. So we have been presenting ATL to several analysts and several investors in the past few weeks. We are continuing with that exercise. The idea is that since this company did not do any roadshows nor had any non-deal interaction with any of the investors, we really found the first time interaction of great to us as well as to investor community and we therefore, in the right earnestness feel that we need to keep covering more and more investors and some of the investors sort time in terms of absorbing the inputs that they got from us and sort of desired that they better engage with us in the coming week. So we are going through that exercise. So that is one important part which is important. The second important part that I wanted to touch base, you mentioned about the Obligor Group amount that some of the rating agencies are wanting to absorb, while we are talking to them but one of the aspects that we clearly are sort of looking for is the fact that we have seven key assets which we are going to conclude within this financial year. As we have been making that point out of that most of the assets are commissioned. The last leg will get commissioned with the next few weeks and once that is done we would want to refinance. And that will throw up in the way that these refinancing discussions are underway, that will throw up opportunity for cash and so that will be clear methodology to square up the part that you mentioned in terms of repayment back to the Obligor Group. So those are the aspects that I thought will very candidly sort of share with our investor friends. So that is the way the things are being worked out. I hope this answers your question.

Varun Ahuja: Yes, it definitely does. Thank you. I just want to understand, I understand that you have made a commitment on the IG ratings but just purely from a business perspective how important are the ratings because you obviously have a good following domestically as well in the domestic markets. So I just want to understand like how critical is it from a competitive standpoint, business standpoint to maintain the IG rating?

Anil Sardana: You know I would read this more as an internal discipline as much. You could say why do you need this crown, why do you need to therefore chase the rating. I completely endorse your point and it also puts a lot of shackles around us but at the same time the good part is that it also disciplines us. So my personal take and I think co-share this with many of our senior stakeholders including my CFO colleague, we feel that this is a great thing from management outside end perspective that you at least continue to control your sort of debt level, you continue to maintain discipline around various commitments that you have made to various lending communities. So in a way it is a very good sign. So we will continue to maintain that commitment. That is the view that we have at this stage.

Varun Ahuja: The cash that you expect to come back from the refinancing exercises, do you have any timeline in place for that? I think you mentioned but I missed that part.

Anil Sardana: The timeline is clearly hopefully within this financial year because the last assets that the moment that gets commissioned then we have the credentials to get to a point because it is operating assets. And while the discussions are on we will try and see that the asset gets commissioned early, so that we have the headroom to close it. Within this financial year if by any chance it spills, it will be just about couple of weeks thereafter.

Moderator: The next question is from the line of Love Sharma from Lombard Odier. Please go ahead.

Love Sharma: Just following up from Varun's question I think about the CAPEX plan for next year, can you just update on that?

Anil Sardana: My apologies, I actually should have answered Varun for that and I think as a follow-up he too forgot, I too forgot. So the CAPEX plan at this stage will be at the similar levels of about Rs. 2500 crores for the coming year too. So it will be both for ATL and AEML right now. That is the kind of plan and in all probability we may have to upscale that subject to MERC approving some of the schemes for the regulated AEML portion.

Love Sharma: And just one follow-up on the ratings as well. Based on your recent conversation with the agencies as Moody's and S&P specifically, has there been any indication in terms of the timeline which they are looking at for your equity raised as well as for the financing and you know the cash coming back to the Obligor Group?

Anil Sardana: Well the discussions always entail those aspects, because obviously if there is an expectation that we set right some of these covenants it has to be within the timeframe. Our reading is that the timeframe typically would be sort of coincident with the financial year.

Love Sharma: That is helpful. And just one last thing on the ratings again, of course you know the company has been trying for the QIP issuance and like mentioned you have been on a roll meeting investor and continue to do so. But apart from this is there any other plan to, in case there is a delay because I think this is time-bound as well, in case there is a delay, is there any plan B to off-send it?

Anil Sardana: This is not really time bound, honestly not this part. The other part that you mentioned, that Varun mentioned in terms of Obligor Group is certainly sort of coincident with the financial year, but this is not time-bound. This is more from the point of view of the fact that, our opportunity to make sure that we are able to pursue more investment, more projects, we will need more equity in any case because we do not want to sort of go beyond a particular level of debt-equity ratio or in terms of debt to EBITDA ratios. So this is not really driven from that angle but at the same time your underlying question if I read is in terms of understanding that are there other evenues? The answer is yes, the company continues to explore various other options. And we certainly continue to talk to different other investors in terms of the possible opportunities that may exist.

Moderator: The next question is from the line of Bharat Setinagar from SCB. Please go ahead.

Bharat S: Couple of things, dwelling a bit more on what you have said already. Firstly if you see on the ratings, S&P approach has been to rate based on the Obligor Group only and not look at consolidate metrics, and given all that has happened will they continue to do that or do you think there is a chance that they changed their rating approach? That is #1. And second is based on your discussion with the equity investors do you think an equity raising is possible by March 2019 or are we looking at more extended timeframe?

Anil Sardana: Bharat the second part that I answered I think I clarified the fact that there is no race against time in terms of getting the equity raise done. One has to do it, do it properly and it has to be done for us to really pursue our growth objectives. So at this stage whatever we have is possible that we all manage through the internal funding. So there is no race against time. We certainly would want to have more expertise so that we have more flexibility in times ahead to grow. So that is my answer to the second part of your question. The first part of the question you talked about the S&P's point of view. Today the mandate adapted by S&P is for rating on behalf of the Obligor Group. I mean the Obligor Group clearly wants them to analyze their rating from their perspective. So I think that is what they are continuing to do. If tomorrow either us or anybody else suggest to them that we want them to look at any other format they certainly would be open.

They are an agency which rates businesses for particular context and if the context is changed they will be more open to do that. But right not S&P has that as a context.

Bharat S: One other question, now with respect to the subordinate debt that you raised from the promoters, just want to understand has the interest on that being paid? Because there was some option of differing the interest on that debt.

Anil Sardana: That we have been very clear throughout that we are accruing the interest but we have not paid and we are under no obligation to pay. So in any case we have not paid any dividend right now. So there is no question of paying interest because even first right in any case is of the shareholder. So if at all I have to have any appropriation done it will be the dividend first and we therefore have not paid any interest on that amount.

Moderator: The next question is from the line of Shirish Rane from IDFC. Please go ahead.

Shirish Rane: One question on this – you had bid for this distribution franchises and unfortunately we did not get any of them.

Anil Sardana: We did not bid for any distribution franchisees. We took over this business after that there is no distribution franchise which was really floated. The ones which were floated by Maharashtra were the last ones and at that time the venture was still with the previous organization and they did not opt to participate, nor opt to bid. So we have not participated in any of the franchisee and let me be very clear that whatever is the next opportunity we will certainly evaluate it and we will be one of the clear participants in those.

Shirish Rane: So we will be looking at participating in the future?

Anil Sardana: Absolutely.

Moderator: The next question is from the line of Varun Ahuja from J P Morgan. Please go ahead.

Varun Ahuja: I had a couple of follow-up. Actually I think Bharat asked on S&P looking at Obligor or consolidated, I think I guess the point to me, the way I think about it is a bit important also because right now they have been looking at just the Obligor Group and rating it accordingly based on the documents ringfenced asset and so on and so forth, but I think the concern or where S&P has highlighted some concern is that there are still ways to take cash out. As the Reliance Infra, transaction showed which makes them kind of do a rethink. So I do not if you have had those kind of conversations with the rating agencies especially S&P and you know if you have any comments on that. And secondly on the dividend, my understanding I think probably is based on last year's conversation but my understanding was that the interest to be paid, the amount that the shareholder has given on the subordinated instrument, even the interest part would eventually be refinanced by equity and you are not going to pay any cash interest on that. So if you could correct me or confirm me on that as well. Thank you.

Anil Sardana: Your understanding on the second part is completely bang on. All of that, the way we are treating is going to be funded once the equity part is clear so it will be against the equity instrument that w will mop up. So that part is clear. On the first part, I mean we have certainly had discussion with S&P, S&P clearly has mentioned that the Obligor Group amount should have been preserved as a closed loop and the covenant should have been adhered. And we mentioned to them the circumstances in which we had to do that. And they have had that understanding and they have given us a timeframe in which we are supposed to make good that amount and we are committed to doing that. So beyond that in terms of the fact whether they will look at the consolidated figure, that discussion did not take place and we are not privy to any of such thinking from their side.

Moderator: The next question is from the line of Prashant from Goldman Sachs. Please go ahead.

Prashant: Just a quick question on the refinancing that you mentioned, are you going to be looking to do this in the local markets or are you looking at international markets to tap see financing?

Anil Sardana: We are looking at both the options at this stage, in fact we are talking on both sides of the fence and evaluating as to which is holistically better from ATL's perspective, long-term perspective. So yes, we are pursuing both and fortunately that is why we are maintaining both ratings concurrently. And we have also talked to the rating agencies to look at both models. So we have had rating agency to look at the India options. We have had the rating agency to look at international options. So we are looking at both and we will eventually go for the one which will give us the long term advantage in terms of sustaining those.

Moderator: The next question is from the line of Pavitra from Nomura. Please go ahead.

Pavitra: I was saying that you talked a lot about how you plan to resolve the S&P rating outlook, but I just wanted to check on your plans on resolving the Moody's outlook because that is more dependent on you replacing the promoter's debt with equity and since you have said that there is no race against time to do the equity issuance, so just wanted to understand how your discussions with Moody's is going?

Anil Sardana: The subject that I mentioned was in terms of a particular way to garner equity, but that does not mean that that is the only way to garner equity. The company is looking at all options and from that perspective we do not want to be under any pressure in terms of a particular time or a date that we need to close this. So we want to therefore pursue options with what is right for shareholders, what is right for the company. And not that we will take the luxury of taking a long time, we are cognizant of the fact that the opportunities are there for us to take advantage of and therefore we need to get the equity into our fold and therefore the work is on. But at the same time, I only mentioned that that is no coincident with the year end. That is the limited point. But that does not mean that we will take longer time. We will obviously want to address this issue in sooner times.

Pavitra: And is Moody's okay with this plan, the revised plan because I think earlier at least the guidance was to complete the equity issuance by March so just wondering if you have had the discussion with Moody's already?

Anil Sardana: So when we have had discussions with Moody's perhaps at that time this timeframe could have been, some of those aspects that could have been discussed but from our side we have not said that that is the deadline. So we will continue to engage with them and see as to what exactly is their thought process.

Moderator: Next question is from the line of Shirish Rane from IDFC. Please go ahead.

Mohit: I see that the finance cost from Butibori has invoked in this cost. What is the corresponding income that is invoked in the other operating income and other income? Can you please give me the breakup?

Anil Sardana: There is other income where we have got some interest from Reliance, the advance is given to the Reliance because the transaction was supposed to be closed in June and then that transaction got extended and closed on almost at the end of August. So major of the income and we were entitled to get the interest income on the money which we have given to Reliance. So that is where the other income is constituents of.

Mohit: No sir my question is that you are booking a VIP Butibori power plant as financial lease, am I right?

Anil Sardana: Yes, so there again we have as per the Indian Accounting Standards – IndAS which is the revised guideline, what they are paying is that if you are procuring the power from only one of the customer, so basically for them we are the only one customer and they are supplying the power. So as per these things the interpretation which is being taken as of now is that this is a leased asset which is being hold. We are still working with the auditors to say that because there are not only – see the earlier is that these assets were used by R-Infra and also the Butibori plant was owned by R-Power. So they had a control. Here we do not have any control on that particular power plant, so we have taken up with the auditors that this should not be – because there are 2-3 criterias on which this is classified as a lease. So having said that we have taken up with the auditors but as of now the view is that that this is lease transaction. So we have classified it as a lease transaction but for the purpose of our covenants with the banks and other stuff, this will be excluded from the covenant testing kind of things because we were knowing that this is a thin line interpretation issues, we are visiting with the top-4 agencies also to see that it does not reflect. So more picture will be clearer by March.

Mohit: Which are the assets which I know are lined up for commissioning in Q4 FY19 and FY20 and what are the timelines we are looking at?

Anil Sardana: So right now we have 5-6 assets that are with us for execution. Two of them fall at the – their time schedule is after March 2020. So those we will explore to bring back in the current year but at the same time from schedule date for the new assets are all falling beyond March 2020. Of course we are not talking about the inorganic possibilities that we are looking at. That I am not sort of mentioning at this stage for non-disclosure reasons.

Mohit: How do we see the TVC pipeline? Any comments?

Anil Sardana: In fact, a quarter back when we would be talking about a lot of people had this skepticism and since we were talking to the authorities, we were confident internally. Now you see the amount of pipeline, there are already projects more than 25,000 crores which have been bid out. So the pipeline is very healthy. In fact one has to now see and talk to the advertisers or the agencies to see how they can chew it little more logically and because it takes time for us to do surveys, it takes time for us to prepare bids and therefore we have started talking to those agencies and very surprisingly they smile at our suggestion because they say first you were saying, there are not enough pipeline, now that you have the pipeline you are saying please sequential it. But we will have to – coming back to your point, the pipeline is very healthy.

Mohit: When you say bid out you mean that all the bids are in RFP state, am I right?

Anil Sardana: RFP also.

Mohit: What is the CAPEX in Mumbai this time you are looking at and how much you can expect it to be upsized?

Anil Sardana: Two aspects. One is the CAPEX that we have right now planned, is in line with what schemes have been approved and it is close to about Rs. 700 crores plus, but the schemes that are being presented or have been presented to MERC since they have not yet got approved, we have not added an upscale the CAPEX in Mumbai. Once that gets approved, we will have more clarity towards that, and that number can be certainly larger.

Mohit: Sir what is your strategy of given the fact that you have got a significant gap in the power purchase in Mumbai and you are managing the short term, is there any plan to tie up a long-term, medium-term PPA going forward?

Anil Sardana: You must have seen there is a press advertisement we took out for 350 MW solar plus green shoe option of another 350 MW. The pre-bid discussions are due I guess in another 2-3 days time and the tenders are expected to be received by end of the month. So we are already going ahead with this option of 350+350 on solar. We are also looking at the option of pursuing some of the recent announcements by the Government of India where discoms can apply under the linkage option for allocation of coal. And we are also looking at making up for the gap. We would look at the option of looking at bringing down the cost of input power and that is why all these efforts are being done.

Moderator: As there are no further questions, I now hand the conference over to Mr. Anil Sardana for closing comments.

Anil Sardana: Thank you Ali and thank you to all the analyst friends, I appreciate your questioning as I have always maintained this is not just a platform or the only platform for you to ask your sort of inputs or you could always give us suggestions. You are most welcome to give your outside end perspective and we would therefore love to have your inputs. Please forward your mails to Jay Ambani and we will make sure that we get you the responses. Look forward to catching up after the next quarter results, so Q4 FY19. Till then good bye for this platform but you are most welcome to engage with us anytime. Thank you once again.

Moderator: Thank you. Ladies and gentlemen, on behalf of Adani Transmission Limited that concludes this conference call for today. Thank you for joining us and you may now disconnect your lines.