"Adani Transmission Limited Q3 FY20 Results Announcement Conference Call"

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MANAGEMENT: **MR. ANIL SARDANA-CEO, ADANI TRANSMISSION LIMITED**
MR. KAUSHAL SHAH-CFO, ADANI TRANSMISSION LIMITED

Moderator: Ladies and Gentlemen, Good Day and welcome to Adani Transmission Limited Q3 FY20 Results Announcements Conference Call hosted by IDFC Securities. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' and then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Shirish from IDFC Securities. Thank you and over to you, sir.

Shirish Rane: Thank you. Good afternoon everybody. Welcome to Adani Transmission Limited Q3 FY20 Earnings Conference Call. Today, we have with us Mr. Anil Sardana – CEO of Adani Transmission Limited and Mr. Kaushal Shah – CFO of Adani Transmission Limited. To start the call Mr. Sardana will give us opening remarks and then we will open the floor for question and answer. Over to you, sir.

Anil Sardana: Thank you Shirish. Good afternoon all our analyst friends, welcome to Q3 FY20 Call. You have got the presentation as also the media release and would have noticed that once again ATL has posted splendid performance during Q3 and all-round improvement in terms of the operational part which is availability factor and also the fiscal performance in terms of EBITDA the PAT has really shown a remarkable increase in Q3 as also the YTD numbers compared to the YTD 9 months of the previous year perhaps have shown good amount of jump. Besides that, the pipeline continues to be robust. We are sitting on a very good pipeline. We added two renewable projects during the quarter plus we added the first project which will bring 400 KV grid systems into Mumbai and besides these you would have also seen the fact that the entire capital management program has been concluded. QIA has actually closed the transaction both from the point of view of the equity funding for 25.1% as also from their participation in the debt funding $282 million.

Besides that, the quarter saw the mobilization of refinanced funding by ATL as well as AEML. AEML in fact got concluded during the month of February and of course the two parts $500 million by ATL was done during the previous quarter and $310 million USPP funding got finished in the recent month in fact the circular was done at the end of January. So our capital program has mobilized $2.6 billion worth of US dollar funding and therefore both ATL as well as the AEML today have long term infra funding instead of corporate funding. So there is no love for the fact that we have dollar funding, the love is for the fact that we had infra funding which means that these are long gestation which also means that this amortization which is much more friendlier compared to the corporate funding concept that Indian bankers offer and care has been taken that these are the fixed interest rates and these are with long lock-in and with the objective that whatever commitments we make in our business, we are completely backed up by the financing plans.

So therefore that has been a great achievement in terms of what we have been able to achieve over the last two quarters. Well I am going to stop here and look forward to your questions and by virtue of that perhaps will be able to respond on anything that I may have left out. So over to you. Thank you.

Moderator: Thank you very much. Ladies and Gentlemen, we will now begin the question and answer session. The first question is from the line of Varun Ahuja from JPMorgan. Please go ahead.

Varun Ahuja: I have three quick questions if I may. Firstly I do see that on the electricity distribution asset AEML the distribution loss has been coming down quite well and you mentioned that the target would be around 6%, so if you could guide like is there a timeline by which you can get there, is this target more like next 12 to 24 months and they can be further after that or is this somewhere you believe that would be in line with where do you think it may start normalizing and tapering off for settling down at these levels that is the first question. Secondly, I believe there are hedges in place for the FX funding, but can you just guide what are the terms of those hedges is it throughout the life of the bond or is it for certain period over the next three, five years etc. and lastly this is more of a business related files generic question, my understanding is that there are some thoughts around the government looking to privatize more distribution or discoms in the bigger cities, if you could give some color on that I presume that would be something you would be quite interested in, so if you could give some kind of color as to if you believe that is something that would be in the pipeline in the near term in the next one or two years or still something which where visibility is slow?

Anil Sardana: Thanks Varun. thanks for your questions. Let me start by a first, first point was on the loss levels yes the loss levels are coming down and we certainly have to get them to 6 or below 6. There are two components to these losses, number one is the technical losses and the other one is of course the commercial losses. Right now the effort was in terms of reduction of the commercial losses. Going forward the effort will be on both accounts. The technical losses will get addressed by virtue of some of the CAPEX that we will incur which has been now subsequent to our submissions with regulators which has been approved and therefore, we will now get at that and the commercial losses of course based on the study that have been conducted, we have now granular information in terms of which feeders, which transformers have what kind of losses and therefore what interventions will work in order to achieve what we are trying and that is how the efforts have started. The point when what is the timeframe in which we would want to reach up to 6% the answer is that the budgetary part has two components. One what regulator prescribes and the other one which we internally pursue.

The regulator prescribes close to about 0.25% reduction at the loss levels at which we are on an annualized basis and internally we perceive close to about double of that. So, therefore if we are today at say 7.89% you cannot expect us to go sub 7% in less than 18 months from now. I think that is the minimum period that will be needed to go sub of 7% and once we achieve sub of 7% then largely it will be not commercial losses, but largely it will be technical losses and they will improve as we commission the new cables, new transformers, we commissioned parallel networks which will reduce the technical losses that would mean that the pace of loss reduction will not even be 0.5 in year it could virtually be 0.35 to 0.4 a year that is the way that things will reduce.

The second point was on the hedging. So from the hedging perspective right now we are able to mop up based on the liquidity that exist 5 years cross-currency swaps that is what we are able to mobilize and we will have to continuously keep revolving them as and when that period ends and that is the way the hedging has been covered and of course while the requirement is 95% we are clearly pursuing for 100% entity.

The third part that you mentioned was with regard to the privatizations. Yes, indeed the government is serious about the fact that there should be reforms and perhaps privatization seems to be a good answer because I guess all the attempts that they have done, they have categorized that in two parts. Such of the discoms which have losses or such a behavior which have losses above 18% and the others which are below 18%. Those which are upwards of 18% they want to target those first. From my perspective I guess it should be seen more holistically not just the losses, but the quality of softer services, the holistic aspect related to how customer is getting what it deserves, but anyway that is for some other time for us to dwell. Right now yes the government is pursuing an agenda for privatization and we welcome that, and we are very much part of the thought leadership and advocacy on that subject. So, we certainly will be very keen to pursue that agenda in the times ahead. Is there any follow through question Varun?

Varun Ahuja: Just on hedging we mentioned that you are able to do 5 year swaps is that for only coupon or do you also hedge the entire principle amount?

Kaushal Shah: No, we hedge principle amount fully and then coupon depending on that we may hedge for one year or a couple of years.

Varun Ahuja: Principle is for full 5 years; coupon is dependent; it can be a bit more flexible on that right?

Anil Sardana: Yes.

Moderator: Thank you. The next question is from the line of Prapti Gupta from BlackRock. Please go ahead.

Prapti Gupta: I had two questions sir the net debt number I see of 191 billion so there has been a slight increase vis-à-vis FY19 which was I think approximately 170, 175 million I mean what is driving that increase and secondly I read in the presentation on ATL looking at cost optimizations on USD bond issuances, so I just wanted to understand I mean what are we looking at and what can we expect over the coming quarters on that front?

Kaushal Shah: We have certain Greenfield projects also under execution. So, as and when the we draw you know in a quarter that amount then there is a slight increase in the debt, but you will appreciate that net debt to EBITDA is still in the range of 4.4 so we are very mindful and conscious about the same.

Anil Sardana: In fact, it improved comparatively similar period last time or the 31st March 2019 figures if you look at net debt to EBITDA was about 4.7 now we are slightly below 4.4.

Prapti Gupta: Sir, I read in the presentation on you all are looking at cost optimization to USD issuances?

Kaushal Shah: See what we are trying to do over here is that we are creating the value creation model so say we have this 7 project which we completed so originally if you look at that the original cost of that project was Rs. 36 billion we completed in Rs. 31 billion and then we have now financed it through the US private placement whereby we will have an upside of the debt which is available and then the equity portion will be very minimal. So what we are saying is that with this model and the longer amortization of the period back-ended amortization we have a more surplus of cash available in the initial period. Typically, in the Indian scenario you want to repay almost 60%, 70% in first 10 years. Here you know this will happen only in the last 10 years, but earlier years we will be saving on the cash flow and that surplus which will be available to be used for the equity investment for the growth purposes. So, that is a value accretive model which we are doing it and because of this upsize of the debt and still within the parameters the return on the equity is going very high which is good as high as 50%. So, that is what in our energy day presentation which is on the website you can see that how the entire structure we have developed.

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

Mohit Kumar: Sir, one clarification this asset in the media we read that we have raised $1 billion so I presume this 500 plus and $310 million this is a final figure for USD bond which you have raised during the last couple of months am I right?

Anil Sardana: Yes, that is all we know about yes in fact at that part is that we get to realize a lot of things from such media in news because I find very baffling in terms the fact that right now we just got done with $500 million, then $310 million of USPP, plus $1 billion at AEML and that completes our entire refinancing. So I completely sort of get surprise as to how somebody gets an idea that we would want to do a billion dollar again.

Kaushal Shah: See it is refinancing what we have done is that our liquidity risk for the short term paper has completely reduced. Now we have almost our (+90%) of more than 5 years' maturity and then the remaining is only a short-term which we are also repaying that PPAs all that we have repaid so only working capital will be remaining over there as a short term, but other than that you know it is completely the change of debt profile which we have done.

Mohit Kumar: And sir related to this, all this bonds have been raised in which entity and how much?

Anil Sardana: Sorry which entity.

Mohit Kumar: Both the papers have a range at AEML level, or it is at some part at the other transmission companies?

Kaushal Shah: So $1 billion is raised at the AEML level which has no recourse to ATL so it is ring-fenced at the AEML level only. Then ATL, we have a now total $1000 million bond original $500 million and the another 500 million we did is in November to refinance the NCD local and the $310 million which we have done USPP which will be at the SPV level so there is a cluster of SPV 7 SPV which has become operational at that level you know there is a $310 million debt, but there is no recourse to the ATL. So it is all ring-fenced structure which we are creating like project finance structure and link it to the PLCR and which is very well accepted by the global investors.

Mohit Kumar: Sir, what will be the CAPEX requirement for the FY21 and FY22 and can you just give a breakup between the distribution and transmission separately?

Kaushal Shah: So, as a thumb rule you can consider that we have on a distribution side we have around Rs. 1,500 crores as a CAPEX requirement and on the transmission side we will be doing around Rs. 3,000 crores as a CAPEX so 30% of which will be funded from the internal accrual over a period of 2.5 years because these projects are typically for 2.5 years and currently we have almost Rs.8,000 crores of worth of crores on hand.

Mohit Kumar: So I understand that out of 32 billion, 12 billion has been return back to the promoter and assume that our promoter debt will be in the range of around 22 billion at the Holdco is it right number?

Kaushal Shah: At the ATL level out of we have a total Rs. 3,800 crore debt principle perpetual debt from which we have reduced 12 billion roughly 12 million, 13 million whatever is the amount we received. So that is the scenario, outstanding amount will be in the range of around Rs. 26 billion.

Mohit Kumar: And last question sir how is the bidding pipeline looking at this point of time how much worth of tenders are opened where we are participating?

Kaushal Shah: There are huge opportunities which is coming up in RE and we expect the good sizable amount of bidding worth around Rs. 10,000 to 12,000 crores coming up over a period of 6 months. So we have a good pipeline available, but as we have in the past we have a minimum hurdle rate of 16% when we are bidding. So, we are not aiming for each and every bid to bid, basically we are looking at the quality aspects as well.

Mohit Kumar: And lastly sir there is one particular line, I think HVDC line which you are pursuing, is there any progress or regulatory approval or will it take time to finalize it?

Kaushal Shah: I think DPR approval is going on with the regulator we have got the LOI from the regulator. So I think it should happen in due course of time.

Moderator: Thank you. The next question is from the line of Dhruv Muchhal from HDFC Mutual Fund. Please go ahead.

Dhruv Muchhal: You have about 9 projects in transmission which are under construction from the presentation, I see the total project cost is about Rs. 8,300 crores, so please also help what will be the revenue from overall total revenue from these projects if individually it is even helpful or otherwise at least the total?

Anil Sardana: I think close to about Rs. 1,000 crores.

Dhruv Muchhal: Rs. 1,000 crores overall from all the projects from these 8 projects including Kharghar Vikhroli.

Anil Sardana: Yes.

Dhruv Muchhal: Sir, secondly was on the 30-year paper that we have done so the rate is around 5.2%, so I have seen your 20 year paper and the other paper the rates are lower there; so any reason that we have gone through this 30 year probably that is the reason the rate is higher, any specific reason going for this higher rate and higher maturity?

Anil Sardana: The 30 year is almost like an equity instrument. What is 5.2% imagine when the amortization is such that you have to return bulk of this money in between 20 to 30 years. So imagine having equity money at 5.2% so it is a classic infrastructure instrument and it is very attractive. So, in fact, if you say if I have my way I would say every possible bond should be 30 years.Of course, you would not get that kind of money every time with 30 years.

Kaushal Shah: Normally you pay around 60-70 bps higher to the regular this kind of a paper of 15 years, 16 years so it is in that range and this is the first in time in the country you can see that you will appreciate that only Reliance in the past has done, that was also many years back and had a lot of an issue. This has now open a door in the country for other infrastructure player as well as for us also and just imagine that if we as we have demonstrated in the past the credit quality if we continue to maintain the same. We have opened a huge door for our upcoming project which will become operational. This was backed by funds like Cigna, Barings, Metlife etc. So,I think this is a great achievement for the country as well as for the group.

Dhruv Muchhal: Sir, you mentioned large part of the repayment is after 20 years so if you can give a broad breakup how much is 1 to 5, 5 to 10?

Kaushal Shah: That we will share we do not have OC in hand; we will share with you separately.

Dhruv Muchhal: Because this give us a decent buffer to release equity upfront?

Kaushal Shah: It is and that is what I am saying so in our Energy Day Presentation you just see there is a case study of USPP you just see that how we have an equity return of 50% plus because of this.

Dhruv Muchhal: Sir, in the presentation you also mentioned a rolling CAPEX of 400 million if you can explain what does that mean?

Anil Sardana: Rolling CAPEX of 400 million basically means is that there is a line of credit that has been established and as and when you give a call you have the CAPEX approved you are able to award and you need the money you call for that money. So it has been established for long tenure and therefore you can keep drawing it at will of course one has to give a bit of plan, but it has been like a line of credit.

Kaushal Shah: So this is also the first time in the country this has happened that along with the bond issuer this is the stapled 400 million line also available for the Greenfield CAPEX. These has never happened in the past so now the AEML will focus on the CAPEX portion and O&M activity only. We do not have to worry for the financial closure for the CAPEX program which they will be running, and we will be taking out every three years through the bond.

Dhruv Muchhal: Sir, if you can help us explain how is it different than a normal financing which you do I mean just to get a sense of what changes?

Kaushal Shah: No, the alignment of the conditions of the bond. See typical Indian funding happens with the FATR, CACR here the entire funding is aligned with the bond terms and condition which is linked to the PLCR the graded DAPR all of that tough so that gives lot of flexibility in terms of and what we have committed to them that this is a rolling facility so every three years when we reach a milestone of 400 million we will replace it through the bonds and that line will be freed out again.

Dhruv Muchhal: Sir, lastly from my accounting purpose the QIA loan that we have got for about Rs. 2,000 crores now; is this also similar structure like the perpetual and will the interest be taken through the P&L and if you can also share the interest rate if it is available?

Kaushal Shah: So, if you look our presentation and you know first of all under the waterfall mechanism these comes after all senior secured and all the payment. So this will be done from distributable, surplus available, the payment of interest to all this subordinate loan will be done otherwise it will be accumulated.

Dhruv Muchhal: So it is almost similar to the existing the promoter debt which we had the structure is almost exactly?

Kaushal Shah: In our perpetual what we have done was that it can be repaid only out of equity or equity type of instruments in ATL while here you can repay out of distributable surplus.

Dhruv Muchhal: And the rate would be?

Kaushal Shah: LIBOR plus I think 4% or something.

Dhruv Muchhal: Last one quick one the project cost numbers that you have given in the presentation these are the not the estimated project cost by CRC these are your project cost right or the numbers would be significantly lower than this?

Kaushal Shah: Yes.

Dhruv Muchhal: These are your project estimates?

Kaushal Shah: Yes.

Moderator: Thank you. We have the follow up question from the line of Mohit Kumar from IDFC Securities. Please go ahead.

Mohit Kumar: Sir, last one question in the terms of AT&C losses, we are already at 7.89% and I believe the benchmark for the Mumbai distribution was 8.3%, so what kind of tariff that we have submitted in our tariff proposal, what kind of tariff benchmark we foresee for the next tariff period for Mumbai distribution?

Anil Sardana: No, we are saying what kind of loss level will the regulator use to build the tariff is that your question.

Mohit Kumar: Your general comment what kind of possibility is there to reduce the AT&C losses given the 7.89% is quite low?

Anil Sardana: Mohit I mentioned that at this juncture when you reach these kinds of level from 7.89 to any level below 7 then the maximum at the rate of 0.5 per year and that is what we will target that is the maximum that we will target and of course the regulatory requirement would be anything like 0.25 or so, but we will obviously try and target double reduction of the losses. So you can now extrapolate once it goes below 7 then it will reduce anywhere in the range of 0.25 to 0.35 per year.

Mohit Kumar: Sir, secondly for the CAPEX plan for the Mumbai distribution do we maintain our Rs. 80, 90 billion investments for the next 4 to 5 years and of course this requires regulatory approval and I believe this is the last year for the tariff period this year FY20?

Anil Sardana: Yes, in fact the proposal that has been submitted already includes this plan.

Moderator: Thank you. Ladies and Gentlemen that will be the last question for today. I now hand the conference over to Mr. Anil Sardana for closing comments. Thank you and over to you, sir.

Anil Sardana: Thank you to all the analyst friends appreciate you are joining us for the Q3 FY20 and we look forward to your questions just in case you have any additional, follow through question do send it to Vijil or Jay and we will be happy to respond to you and of course you can also sent it by Shirish. Thank you Shirish for your coordination too.

Moderator: Thank you very much. Ladies and Gentlemen on behalf of IDFC Securities that concludes today's call. Thank you all for joining us and you may now disconnect your lines.