

Torrent Power Limited
15th Annual General Meeting



5th August, 2019

Chairman's Address

A very good morning to all of you. I thank you for your presence today at the 15th Annual General Meeting.

The Annual Report for 18-19 was circulated to all shareholders and it extensively covers the performance and developments during the year.

Let me take you through some of the key developments.

On a reported basis, you may have noticed a decline in the Profit Before Tax by 12% : Rs. 1,254 crs in current year compared with Rs. 1421 crs in previous year.

It is important for you to know that for the year, all the operating drivers in our key Business Segments of Licensed and Franchised Distribution, Thermal and Renewable Generation showed positive trends. Despite this, the lower reported Profit Before Tax is due to a change in accounting policy effected during the year, because of adoption of a new accounting standard IndAS 115 related to "Revenue from contracts with customers". If IndAS 115 is applied to previous year numbers in the same manner, then proforma reported Profit Before Tax for 2017-18 would be Rs. 969 crs. Which means that Profit Before Tax for current year has actually increased by Rs. 285 crs or about 29%, when compared to Profit Before Tax of the previous year computed on same basis; and this is because of the positive trends in operating drivers I was talking about.

In line with the stated dividend policy of the Company to distribute 30% of consolidated Profit After Tax, the Board has recommended a dividend of Rs. 5 per share.

I will now brief you on how each of our business segments had improved performance as compared to previous year, reflecting our spirit to work intensively at strengthening our position with each passing year.

In Licensed Distribution Business, we were able to further bring down the already low level of T&D losses to 5.2% as compared to 5.72% in previous year. Tariff Orders for Ahmedabad and Surat license areas determining tariffs for 19-20 were issued at the start of the year. For the third year in succession, the Regulator has kept the tariff at same level. This does not affect our profits negatively as our returns in licensed distribution business are determined on the basis of 14% ROE as prescribed in the regulations.

The aggregate amount of revenue gap of past periods approved and expected to be approved by GERC as on 31st March, 2019 is Rs. 932 crs and the same is appropriately accrued in the financial statements. We are working with the Regulator for a smooth & timely recovery of the same. In addition, revenue gap of Rs. 670 crs is under dispute, primarily comprising of claims on account of carrying costs. This disputed gap is not accrued in the financial statements and the same will be accrued in the financial statements of the period in which such disputes are determined by the appropriate statutory authorities. It may be worthwhile to note that the level of our unrecovered and disputed revenue gaps are lowest in the industry and is certainly reflective of efficient management of regulatory processes.

During the year, the Company was granted distribution license for Dholera Special Investment Region for 25 years. Dholera license area is about 920 sq. km. in central Gujarat and is a part of ambitious Delhi Mumbai Industrial Corridor. The Company has started initial development of the distribution

network and views this area as a long term growth driver for our licensed distribution business.

Coming to Distribution Franchise Business, we were able to significantly reduce AT&C losses by about 3% - AT&C loss for the year was about 15% compared with 18% for the previous year. As one of the most successful power distribution franchisees in the country, we are committed to further bring down these losses in the coming years.

During the year, the Company won the distribution franchise bid for Shil, Mumbra & Kalwa area covering approx. 65 sq kms in Thane urban circle for a period of 20 years. This area being adjacent to our Bhiwandi operations will benefit from operational synergies. The takeover of operations from MSEDCL is in progress and expected to happen any time soon.

In **Thermal Generation Business**, we benefited from improved efficiencies in fuel and O&M costs, and improved profitability in the merchant power segment.

I feel happy informing you, after about 6 years of commissioning, our UNOSUGEN plant recently received approval for its PPA for 278 MW. This will allow us to operate the plant at healthy PLF and significantly curtail losses incurred in past due to non-operation of this plant.

DGEN plant, on the other hand, did not operate during the current year for want of demand. The Govt. in its budget has expressed intentions to accept the recommendations of High Level Expert Committee for revival of stranded gas plants. We are hopeful that Dgen plant should operate at a PLF of about 35% in the medium term on the support of any such Govt. scheme and be able to reduce its losses meaningfully. In the long term, Govt.'s target to increase the share of gas in primary energy basket to 15%, increased availability of

domestic gas, emphasis on improving air quality and need to balance the intermittency of wind power should enable DGEN plant to operate at reasonable PLF and further reduce its losses.

During the year, CERC issued a new set of tariff regulations for the control period 2019-24, primarily tightening some of the operating norms. As a result, our Sugan plant is expected to experience a decline in profits in coming years.

Our **Renewable Business** benefitted from new capacities of 162 MW operationalised during the year as well as better wind speeds. However some of our wind projects currently under execution are facing significant headwinds on account of unexpected developments affecting land acquisition, evacuation and financial stability of EPC contractors. We are taking steps to protect our interests so that the Company is not exposed to any significant losses.

Going forward, the Company will continue to invest in its distribution businesses by upgrading & strengthening the network and acquisition of licenses / franchise rights for newer areas. We will continue bidding for good projects at decent returns in Transmission and Renewable segments. In the Thermal Generation, given the level of stranded capacities, we do not intend to make any greenfield investments but may selectively evaluate acquisition of some of the stranded assets. Being one of the very few private utilities in power sector with a strong balance sheet and operational performance, we will be best placed to evaluate and pursue growth opportunities through organic and inorganic options in the coming period. Overall, we remain

committed to make all capital allocation decisions rationally and value accretive to our shareholders.

Turning to industry scenario, 18-19 was a sombre year - the overall investment sentiment in power sector remained subdued. There were no signs of revival of investment cycle in thermal generation; with some pick up in power demand, if new investments are not forthcoming soon, the country faces a situation of power deficit few years down the road. Even in renewables segment, given the low level of tariffs there was a dissipation of interest among players to bid for new projects. However, in transmission segment projects worth Rs. 16,000 crs were announced for bidding during the year. Government continued to focus on the systemic issues prevailing in the sector with some measure of success. Schemes like UDAY and SAUBHAGYA are likely to help in revival of the sector by addressing sectoral inefficiencies. Overall, with re-election of Government, it is expected that the focus on resolving the structural issues and reforming the sector will gain momentum and lead to revival of investment cycle.

One of the core values established by our Founder and my father, late Shri U N Mehta is concern for society and environment. In substance, this core value means to us that profit motive is strictly subject to business being conducted in a socially and environmentally responsible manner and it should further make positive and lasting contribution to the society. I feel very satisfied with the progress of our flagship CSR programme “REACH” which is an acronym for “Reach Each Child”. The programme covers free of cost primary, secondary & tertiary healthcare to children & adolescents and promotion of sanitation & hygiene. The programme is carried out at the 4 prime industrial locations of the Group, with fully functional Paediatric Primary Health Centres and mobile

OPD vans to reach far flung areas. Initiated in the year 2016, the programme has until date screened 58,000+ children for primary health parameters through medical check-up camps and provided appropriate treatment; 2,00,000+ children have been treated at our 4 Paediatric Health Centres and through Mobile OPDs. Children in about 800 villages, which did not have access to basic medical facilities have benefitted from the programme. During the year, work begun on setting up a state-of-the-art children hospital with 150 beds. A key element of this programme is participation of employees in activities of the programme. I am confident that over time, REACH will help in ensuring a healthy childhood for under privileged children, thus providing them an opportunity to break the vicious cycle of poverty.

In addition to flagship REACH programme, under the Pratiti programme, community parks are developed under a PPP model. In Ahmedabad, 6 parks have been developed and opened for public use and development work is ongoing in another 6 parks. Similarly, the Shiksha Setu programme, is designed to improve the teaching skills and learning outcomes in municipal schools. It is indeed a matter of satisfaction that at Torrent we have been balancing the profit objective of business with due regards to social and environmental outcomes of our activities.

I now conclude by putting on record, our appreciation for the advice, support & co-operation received by the Company from Govt. Agencies, Regulatory Authorities, bankers, Customers and last but not the least the talented & committed employees of the Company.

I would like to wrap up by reiterating our commitment to work for creating long-term value for our shareholders alongside delightful customer service and responsible business conduct.

Thank you for the patient hearing.
