



“Torrent Power Limited Q1 FY24 Earnings Conference Call”

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Moderator: Ladies and gentlemen, good day and welcome to the Q1 FY24 Earnings Conference Call of Torrent Power Limited.

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 ‘*’ then ‘0’ on your touchtone phone. Please note that this conference is being recorded.

We have with us today Mr. Saurabh Mashruwala – CFO, Mr. Rishi Shah – GM (Finance) and Mr. Jayprakash Khanwani – AGM (Finance). I now hand the conference over to Mr. Saurabh Mashruwala. Over to you, sir.

Saurabh Mashruwala: Good evening to all of you and thank you for joining Earnings Call of Torrent Power for Q1 FY24.

First, I will take you through the performance of the quarter, after which phone lines will be open for Q&A session. We'll explain the performance of the company at PBT level first and then take you through the tax expenses separately.

Reported PBT for the quarter stood at Rs. 711 crores as compared to Rs. 671 crores in the corresponding quarter last year, an increase of Rs. 40 crores, growth of about 6% on reported basis. To better understand the underlying performance of the company, we will take you through the nonrecurring item first within the corresponding quarter last year as there was no nonrecurring item through the course of the current quarter. Nonrecurring item in Q1 of last year includes two items first is Rs. 16 crores profit we have booked on account of sale of land parcel and second, another nonrecurring item was provision of 10 crores made towards potential liability arising out of dropping of 100 MW GUVNL solar projects. So, on net basis, nonrecurring item credit was about Rs. 6 crores in Q1 of FY23. Adjusted about this, PBT for the quarter stood at Rs. 711 crores as compared to Rs. 665 crores in corresponding quarter of last year, is higher by 46% above, growth of about 7%.

I will now take you through the key highlights of the quarter driving PBT growth of Rs. 46 crores:

The improvement in the operating profit is on account of three factors. First, the improvement in the overall contribution of thermal generation business by 60 crores, mainly on account of gain from sale of merchant power. The lower gas price coupled with a better demand of the merchant power allowed us to sell power in the merchant market by the tie up with NVVN that is about 920 MW tenders won by the company during April 23, resulting in the net gain of Rs. 60 crores after considering trading gain booked in the corresponding quarter last year. The second reason is improvement in overall contribution of distribution business which improved by Rs. 18 crores with distribution licenses as well as franchise distribution business showed improvement due to two factors. First, improvement in T&D losses, increase in the ROE on capitalization of CAPEX as well as incentive contributed about Rs. 62 crores. These was

partially offset by solar incentive of earlier years accounted in Q1 of last year and lower contribution from distribution franchise business mainly due to reduced volumes as well as bad debt provisions. The third reason is the renewable business of the company witnessed reduction in profitability by Rs. 30 crores due to lower generation of wind power project due to Biparjoy cyclones.

Moving on to the after-tax numbers, considering the profit after tax reported for the quarter is Rs. 534 crores as compared to Rs. 503 crores reported in the corresponding quarter last year, which is higher by about Rs. 31 crores, growth of about 6% in line with the increase in the PBT numbers.

Now moving to the operational performance of the company. Thermal generation witnessed an increase in PLF mainly due to the increase in demand both from the long-term offtakers as well as merchant power. PLF of renewable generation was down on account of lower wind generation mainly caused by the cyclone. Distribution business on the other hand witnessed a flat growth in demand mainly on account of reduced demand at Ahmedabad as well as Agra. Apart from these areas, overall demand of the other areas improved by 4%. This completed the overview of the quarterly financial as well as operating performance of the company.

Moving on, will now brief you. We can provide the update of the current project which are under pipeline. 115 MW SECI-V project was successfully commissioned on July 15, increasing our operating RE capacity to about close to 1.2 GW and reinforcing our commitment towards renewables. TPLD 300 MW solar project is set to commission by end of this fiscal, within MNRE approved SCOD date of 31st March 24. PPA for 300 MW SECI-XII wind project was executed in March '23. Turnkey EPC contract for development of the project has been awarded to Suzlon. SCOD date of project is scheduled at March '25. We have been strategically focusing on the C&I segment in RE, which has relatively higher margins than competitively bid project. We have recently entered into the agreement with the subsidiary of the Shapoorji Pallonji Group for supply of 132 MW solar project for desalinization plant in Gujarat. The alliance propels our ambition of catering to the specific energy needs of C&I as a client taking over the total development capacity of 757 MW, that's all for this quarter.

That's all for the quarter, Now I would request coordinator to open the Q&A session. We wish everybody to stay safe and healthy. Thank you. Handing it over to the operators.

Moderator: Thank you very much. We will now begin the question-and-answer session. We'll take our first question from the line of Sumit Kishore from Axis Capital. Please go ahead.

Sumit Kishore: My first question is, could you spell out what is the merchant sale volume in million units in Q1 FY24 and what was the realization per kWh and if you could share what is the EBITDA contribution in Q1 due to merchant power sale?

Saurabh Mashruwala: EBITDA contribution, we have stayed on net basis, we earned about Rs. 60 crores profit after offsetting the LNG which we made in the last quarter, single comparable quarter of last year.

So, on net basis, we made about Rs. 60 crores profit from the merchant sale. So, we have a choice available to either generate the electricity and sell it, or we have choice of selling the gas. So, this quarter we choose to sell electricity rather than selling the LNG.

Sumit Kishore: So, 60 crores is the delta in profit from merchant sale after offsetting what was the difference in gains on sale of LNG, is that the right understanding?

Saurabh Mashruwala: Absolutely.

Sumit Kishore: So, I'm just trying to sort of segregate the two numbers. Can you tell us what is the LNG sale gain in Q1 FY24 and Q1 FY23 and what is the absolute delta in merchant sale volume so that you can understand the confusions on merchant sale better.

Saurabh Mashruwala: LNG gain was last year about 80 crores, Q1 of last year. Yes, so you just have to sum up, add it basically the merchant gain, Rs. 140 crores is the merchant gain for the current quarter.

Sumit Kishore: Q1 FY24 has seen hardly any LNG gain, sale in LNG?

Saurabh Mashruwala: Yes, Rs. 80 crores last year, Q1 of last year.

Rishi Shah: So, Sumit basically last year of Q1 had merchant LNG gain of Rs. 80 crores and this year Q1 has merchant gain of Rs. 140 crores. So, incrementally this quarter, it is Rs. 60 crores higher.

Sumit Kishore: Your BSE filing says that your LNG sales contribution in Q1 FY24 is Rs. 721 million?

Saurabh Mashruwala: Yes, we will look at that. That is turnover I would say.

Sumit Kishore: The turnover, Yes. So, there is some turnover, so that has not resulted in any gain you're saying in Q1 FY24?

Saurabh Mashruwala: Rs. 140 crores merchant includes the sale on LNG also about 10 crores but it's miniscule amount, 10 crore gain is there. So, merchant, you can assume about 130 crores from merchant, 10 crores from the LNG for the current quarter and about 80 crores last year LNG gain. So, the delta will be about 60 crores.

Sumit Kishore: Got it. My question is answered. It is good to see the additional C&I customer in RE capacity Shapoorji Pallonji that you mentioned. What are the IRR metrics and tariffs that you are getting from such C&I customers and what is the scope of growing this portfolio over the next 1 to 2 years?

Saurabh Mashruwala: Midyear kind of things we are targeting for this C&I customer.

Sumit Kishore: And my last question is that in the distribution business, you mentioned that the net delta is 18 crores, but the delta for license distribution is 62 crores. Is this entirely driven by contribution from additional capitalization or is there something else also, because we generally see that in

the license distribution business, the volume growth has just been about 0.76% year-on-year for all the regulated distribution circles combined. So, is this purely driven by additional ROE on increase in regulated equity base?

Saurabh Mashruwala: So, it's a combination, basically, additional ROE from the CAPEX as well as the improvement in T&D losses. Two factors I would say.

Moderator: Thank you. We have a next question from the line of Nikhil Abhyankar from ICICI Securities. Please go ahead.

Nikhil Abhyankar: So, any update on the parallel licensing applications that we had given?

Saurabh Mashruwala: In terms of parallel licensing, what we have applied in the Maharashtra, we have responded all queries of the regulators. Now we are awaiting the date of hearing, so there is no further update beyond what I have given right now, but there are some queries will be raised which we have answered them and so we are awaiting the next date of hearing for the parallel licensing.

Nikhil Abhyankar: So, what exactly would be the timelines? I think earlier we had mentioned somewhere around the end of this year we would be getting some licenses.

Saurabh Mashruwala: We can't give any specific timeline at this moment, but we are awaiting to hear from the regulator after responding to all their queries and all the information they required.

Nikhil Abhyankar: Sir, can you also give us what will be the CAPEX cost of C&I segment for setting up of 135 MW and the tariff?

Saurabh Mashruwala: Apart from this, we have about 160 MW of C&I tie up right now. So, CAPEX would be in the range of about Rs. 700 crores, I would say. And as we mentioned, the IRR will be the midteen IRR kind of things we are expecting.

Nikhil Abhyankar: You won't be able to disclose the tariffs sir?

Saurabh Mashruwala: No.

Nikhil Abhyankar: And sir, also, can you give us EBITDA breakup?

Saurabh Mashruwala: So, EBITDA break up, in fact we have started reporting segment reporting in our consolidated accounts. So, I think segment-wise EBITDA is available from the consolidated account, but I can give you the number. We have started reporting this segment reporting this for Q1 onwards. So, EBITDA we have reported generation, we have reported Rs. 358 crores EBITDA, for transition distribution about Rs. 691 crores, renewable is about Rs. 254 crores and total EBITDA is we have reported is about Rs. 1,275 crores.

Nikhil Abhyankar: And so earlier in your opening remarks you mentioned increase in contribution from distribution business. So, I did not get the exact quantum of it. So, can you just give it again?

Saurabh Mashruwala: Net contribution about 18 crores and our license distribution has quantify about 62 crores. It is offsetted by the lower volumes as well as from the franchise as well as reduced volume as well as bad-debt provision and last year similar quarter, we also got some solar incentive which was not available this year. Similar incentive is not available. So, three impacts I would say. So, lower solar incentive, lower volumes, contribution for franchise distribution business as well as small bad-debt provisions.

Moderator: Thank you. We have a question from the line of Dhruv Muchhal from HDFC Mutual Fund. Please go ahead.

Dhruv Muchhal: So, sir, can you speak something about the C&I opportunity that you're targeting probably in the next 2-3 years? How can you capture something if on that side, please?

Saurabh Mashruwala: We cannot give any specific numbers, but we are actively exploring the C&I opportunity because we started with the one about more than 150 MW we have tied up, and if you look at the overall scenario as a country as a whole, total demand of the country, about 49% is pertaining to this segment, C&I segment. And as of now about 5%, I would say is tied up. So, there is huge potential we can see under this segment, I would say.

Dhruv Muchhal: But there's no specific number or any target that you are looking at?

Saurabh Mashruwala: No, we can't have any specific target, but we are working on the second very actively right now.

Moderator: Thank you. We have a question from the line of Anuj Upadhyay from Investec. Please go ahead.

Anuj Upadhyay: Sir, could you highlight the EBITDA from Dadra and Nagar Haveli for the quarter?

Saurabh Mashruwala: We have given the consolidated EBITDA for distribution and transmission segment. We have started reported segment wise reporting. We had about 691 crores as total EBITDA which we had reported for entire transmission business. We will not able to share the breakup of this. It's covering all distribution centers, license, everything.

Anuj Upadhyay: Do we remain firm on our CAPEX guidance for current and next year?

Saurabh Mashruwala: Yes, we have reported about Rs. 2,000 crores CAPEX, about Rs. 1,750 crores for license distribution, about Rs. 250 crores franchise, that guidance is continuing at least for current year as well as next year also.

Moderator: Thank you. We have our next question from the line of Subhadip Mitra from Nuvama. Please go ahead.

Subhadip Mitra: I joined the call a little bit late, so apologies if this is like a repeat question, but just wanted to get your sense of how do you see the overall bidding scenario panning out on the renewable

space? Are you seeing a pickup in the bidding that's happening over there, how do you see your own market share panning out over there?

Saurabh Mashruwala: So, in terms of renewable bidding scenario, what our view is that the plain vanilla solar and wind have intense competition. So, we all started looking into the hybrid kind of a model where we can supply the solar and wind as a package, I would say. So, that is what we are looking at right now and we are actively looking considering the C&I segment also.

Subhadip Mitra: Just wanted to check that on the hybrid opportunity, how are you seeing kind of combining that with the Pumped Hydro related MoUs, etc., that you've signed and over what period of time do you see that panning out?

Saurabh Mashruwala: Pumped Hydro is a separate thing. We have MoU with the Maharashtra government about development of three pumped hydro projects. So, we have notified 3 sites. So, we have started working for the MoEF approvals, so it's a bit long run process because first we have to get the approval of MoEF and we will start work on this. This is basically 3 to 5 years project.

Moderator: Thank you. We have our next question from the line of Bharani Vijay Kumar from Spark Capital. Please go ahead.

Bharani Vijay Kumar: I see that we have obtained the board approval to transfer few renewable assets to a company called Torrent Green Energy Private Limited. So, can you highlight the future plans with this wholly owned subsidiary, rationale behind this move?

Saurabh Mashruwala: So, as you know, the green energy business is growing business. So, we want to create this platform for green energy and we want to create this holding company, Green Energy Holding Company. So, we are taking the first step of consolidating all the renewal project under this vehicle, I would say and some of the units we are transferring by slump sale into this company.

Bharani Vijay Kumar: Right now only about 316 MW looks like seem to have been transferred, so the remaining assets would also be transferred within this Holdco?

Saurabh Mashruwala: Gradually, yes. All investment are also going to be transferred to this Holdco.

Bharani Vijay Kumar: I'm talking about the existing assets, which is under one of the subsidiaries?

Saurabh Mashruwala: Currently, about 316 MW, we are going to transfer and very small piece of unit megawatt will be remained with the Torrent Power.

Bharani Vijay Kumar: So, remaining ones would also be transferred to this Holdco?

Rishi Shah: They are already in SPVs of Torrent Power. Right now, what we are doing is we are transferring renewable projects which are there in standalone balance sheet of Torrent Power is getting

transferred to a new Holdco, so that is one part of it. All other remaining projects are already in SPVs.

Bharani Vijay Kumar: Correct. So, these SPVs will also come under this Holdco, that's the question?

Saurabh Mashruwala: So, not right now, but at some point of time. Once this exercise is over, our slump sale exercise is over after NCLT approval. So, we'll see at that point of time. Not at part of this scheme.

Bharani Vijay Kumar: And future project development would all come under this entity now?

Saurabh Mashruwala: Yes.

Bharani Vijay Kumar: And what would be our expectation of portfolio size like we have about 5 GW of portfolio size expectation by....

Saurabh Mashruwala: So, that is what our target is. We are working for two 5 GW of capacity in next 3 to 5 years. So, that is what our target is. We are aiming to be reached up to 5 GW.

Bharani Vijay Kumar: Final question on the Pumped Storage Hydro MoU that we had signed recently. So, is this going to be sold through a PPA to the state discom or are we planning to use this to bundle with the upcoming renewal projects under our company to sell power as an RTC power?

Saurabh Mashruwala: It is very initial stage at this moment, so we're not able to give any firm answer on this, but we will work on this project going forward.

Moderator: Thank you. We have our next question from the line of Anuj Upadhyay from Investec. Please go ahead.

Anuj Upadhyay: Sir, we saw Q1, the PLF across gas-based station hovering on an average of around 30,000-odd could you give some kind of an outlook how the balance part of the year looks like in terms of the utilization of the gas-based station? And secondly, are we looking out for a tie up for the balance requirement of the taking out of cargos? I remember in last call you mentioned that we have a long-term contract with Reliance and IOCL 25% and for another 20% we have made an arrangement, so any call on any for the tie up sir for the balance requirement and largely can you just elaborate on how things are panning out across your SMK region in terms of loss?

Saurabh Mashruwala: So, in terms of gas tie up, yes, if you look at the current prices are coming to the reasonable level, I would say about is hovering about \$10 to \$12. We expect further softening in the price and after that, we will try to contact more cargos also. So, it depends on the gas tie up. At what level future PLF will be operated is depending on the further tie up of the gas. So, about 50% we have tied up, but again, it will depend on the price of the gas which is going to be available. In terms of SMK, T&D losses, which is a bit lower than as compared with the Q1 of last year, last year it was about 58% T&D losses, which is about 32.5% at this moment for the Q1 FY24.

- Anuj Upadhyay:** In terms of future trajectory, so how much loss percent do we target in the current fiscal or next year?
- Saurabh Mashruwala:** Last year, we reduced about 7% for a full year, I would say. So, 6.5% to 7% reduction we have bring in. So, we aim to at least a 5%-6% reduction going forward at least for couple of years I would say.
- Moderator:** Thank you. We have our next question from the line of Mohit Kumar from ICICI Securities. Please go ahead.
- Mohit Kumar:** Sir, I have two questions. First is on I think we had tied up some capacity under bilateral market where the government was paying us a fixed amount and it's supposed to sell on the merchant. Did you sell under this mechanism anything in the quarter and do you think that mechanism will repeat in next summer?
- Saurabh Mashruwala:** So, yes, that is what we sold merchant power in Q1 and made profit about Rs. 130 crores, I would say. And so we have used this window and supply the power in merchant market. It is a summer demand I would say. To meet the summer demand, the merchant power was sold and going forward it depends on the summer demand and we expect further tender from the government in somewhere around September, October kind of things.
- Mohit Kumar:** Did you sell the entire thing on the IEX? Is that the right understanding that assessment?
- Saurabh Mashruwala:** No, it is not under IEX, so it it's on a bilateral basis we sold.
- Mohit Kumar:** And my second question is on the ancillary market. The ancillary market has been operating now for a couple of months. Are you seeing any signs of traction? Are you able to schedule something in that market and is that market liquidity is increasing or do you think it is very low right now....
- Saurabh Mashruwala:** Which market you're referring to?
- Mohit Kumar:** Ancillary market. So, was there any offtake during the quarter, did you sell something? Is it pretty low right now?
- Saurabh Mashruwala:** No, we are not there in that market as of now.
- Moderator:** Thank you. We have our next question from the line of Amit Bhide from Morgan Stanley. Please go ahead.
- Amit Bhide:** Most of my questions have got answered. Just one thing if you can tell us about how much was the EBITDA for the franchise business? Usually you wish to give that split right now the clubbed T&D as one segment, so if you can tell us about it?

Saurabh Mashruwala: So, we have started giving segment wise reporting. We will provide the consolidated data of transmission distribution business. It's about Rs. 691 crores. Sorry, we will not be able to provide the breakup.

Amit Bhide: And on your Pumped Hydro Storage as one of the participants was also asking earlier, what is your outlook, would it be a PPS signed or how are you looking at it one and second, how quickly do you think this would come up? You mentioned that 3 to 5 years but then the demand in the industry seems to be high. So, do you think it can be fast paced? And what would be the cost that you are looking at? I mean, you have mentioned indicative cost in the press release, but any deviations on that do you think that can be the case?

Rishi Shah: So, basically for getting those clearances in all, there is a process which is involved and it typically takes 2 to 3 years for that to be to be finished off or to be taken care of. So, we don't foresee that these projects will come up before that. As far as model is concerned, I think right now there are two models in the industry which have been worked upon. One is simply leasing out of the storage capacity and the second one is supplying RTC power by a backend renewable capacity being put up. So, as of now, we have not taken a decision on what sort of model we want to operate these facilities which we are developing. Once we are in further stage of developing it, then we'll take a decision on which way we want to go.

Amit Bhide: Right, but surely this would not be like 16.5% regulated return on this one?

Saurabh Mashruwala: So, I think these are all bid projects. Even if you look at leasing out of your storage capacity, it's the bidding which is being done. And even if you want to supply RTC power again, it would be bid, which you'll have to win. It's not kind of a regulated kind of projects, but basically if you have a right side, it will have a competitive advantage at the time of the bid is there.

Amit Bhide: Right. And roughly what kind of tariff do you expect on this one?

Rishi Shah: Again, it will be bid to bid, but the cost, broad overview of the cost for developing these sites, I'm not including any renewable project, if you want to sell RTC which will have to put up, it would be around Rs. 27,000 crores approximately for all the three sites, 5700 MW put together. Now for the kind of tariff, we will have to be decided when the bid comes in. It's too early to talk about the tariff at this moment.

Moderator: Thank you. We have a question from the line of Girish from Ms. Please go ahead.

Girish: I just wanted to understand the smart metering and are you interested in doing it beyond your circles, and are you participating in projects? And if at all you take it up, what will be the model you will follow? In terms of EPC, you'll do it yourself, etc.? And also on renewable, you said 3 to 5 GW and you've also spoken on C&I, but how much opportunity exist from a discom perspective that you have already, how much more can you do on renewables yourselves? How much bids can come through from your circles? Just wanted to understand the overall opportunity from this part. Thanks.

- Rishi Shah:** So, as far as smart meters are concerned, Girish, we are not looking at having that as a business model per se. So, we may not want to sell smart meters per se. As far as our own discoms are concerned, smart meters I think we are doing a small pilot project, but as of now, we have not decided whether we want to roll out for all the discoms which we have under our license under the company. So, we'll decide going forward, but basically if I look at my T&D losses in all my discoms, they are anyways at a lower level. So, we are trying to figure out whether putting a smart meter will help economically or not. We'll have to be figured out before rolling it out on a pan license basis. So, as far as the discom capacity or our own discom capacity is concerned, again, I think all the projects will have to be bidded out. So, it is as good a bidding for let's say, for our own discom. So, just wanted to understand the rationale behind your question in terms of..
- Girish:** We understood that obviously it will be a proper bid, but wanted to understand that from a net zero perspective, do we have any specific targets that even in our licenses that we will have certain amount of renewables, what is the current renewable procurement that the discoms are doing? Is it like 20%, 30%? And can that number be scaled up significantly in the next 5 years?
- Saurabh Mashruwala:** So, as of now, we are meeting our RP obligations as far as our license distributions are concerned, except due in Dadra Nagar Haveli because it's recent acquisition which we have done. As far as net zero is concerned, as of now, we have not taken any targets per se for net zero. Going forward, we may look at increasing the share even beyond RP obligation. As of now, it will be difficult to tell you any targets per se on that.
- Moderator:** Thank you. As there are no further questions, I hand over the call to Mr. Saurabh Mashruwala for closing comments. Over to you.
- Saurabh Mashruwala:** Thank you so much for joining Torrent Power's earnings call. We wish everybody to stay safe and healthy. Thank you so much.
- Moderator:** Thank you, sir. On behalf of Torrent Power Limited, that concludes this conference. Thank you for joining us and you may now disconnect your lines.