Torrent Power Limited

16th Annual General Meeting

6th August, 2020

Chairman's Address to Shareholders

I will now deliver my annual message to the shareholders; I will dwell on the year gone by and the evolving business situation under the impact of Covid-19 pandemic.

The Management's Discussion and Analysis Report gives an analytical view of the performance of our businesses during FY 19-20. Overall PBT for the year, excluding the impairment provision of Rs 1000 crs pertaining to Dgen power plant, was Rs 1,475 crs, an increase of 17%. The increase in PBT is attributed to improvement in key operational parameters across all business segments of the Company. The notable features of our performance in FY 19-20 were:

(a) Unosugen power plant started operating under a 278 MW long term PPA;

(b) We sold higher volume of merchant power at good contribution;

(c) Our Franchised Distribution business further reduced T&D losses and improved contribution;

(d) Licensed Distribution business earned superior ROE on back of efficiency gains and continuing capex programme; we also won approval for a past dispute involving a benefit of Rs 200 crs;

(e) Renewable segment operationalised 176 MW capacities during the year;

(g) On the flip side, we had to take one-off provisioning of Rs 213 crs in respect of certain wind generation projects, which the Company will not be able to execute due to circumstances beyond its control.

You may have noted the provision for impairment in the carrying amount of Dgen power plant of Rs 1000 crs. This is a one-off, non-cash accounting charge. It does not impact the future earning capacity of the plant and will result in a lower book depreciation charge in future years to that extent.

During Financial Year 19-20, the Government reduced book profit tax rate from 20.55% to 17.47%. This generated a one-time tax gain to the Company, resulting in a higher PAT of Rs 1,150 crs, an increase of 28%.

Coming to dividends, in February 2020 the Company paid an interim dividend of ₹ 11.60 per equity share – ₹ 6.60 as normal dividend as per Company's Dividend Policy, and ₹ 5.00 as one-time special dividend. Friends, you would know that dividend became taxable in the hands of shareholders with effect from 1st April, 2020. Considering this, the Board decided to pay whole of the dividend for the year as interim dividend and hence there is no final dividend for FY 2019-20. The annual dividend payout, excluding special dividend, is 33% of PAT.

You would be pleased to note that the Total Shareholders Return delivered by your Company over the past 5 years ended 30th June 2020 is about 21% pa. This is much above industry peers and has been delivered during one of the most difficult periods for the power sector. Let me assure you that we will continue to be cautious with our capital allocation decisions and will ensure that we deploy our capital in quality projects providing returns above our cost of capital, thus maximising value for the shareholders.

I will apprise you in brief the impact of pandemic on our operations and our people. The corona virus pandemic hit India in the month of March 2020. To break the chain of transmission the Government imposed drastic measures, starting with a national lockdown effective from 25th March 2020. Friends, during the lockdown, electricity was categorised as an essential service and directed to be continued without interruption. This posed before us unprecedented challenges.

Employee safety became our first priority. We shut down our corporate and other administrative offices and made overnight arrangements for employees to work productively from home. For the O&M staff, we quickly worked out the bare essential activities required to continue safe and reliable generation and distribution of electricity, and laid out detailed safety SOPs for them. I am happy to note that we successfully managed all operational challenges posed by the pandemic and managed accident free operations during the lockdown. As the process of unlocking begun, we gradually ramped up from bare essential activities towards a new normal, wherein employees work from home to the extent possible and work in a safe ecosystem when in office or in the field. Some of the non-essential but priority operations like meter reading, bill issuances, revenue protection activities, new connections, network upgradation, monsoon preparedness, etc. were restored gradually. I feel very proud of our employees, who collectively delivered the very best to ensure Torrent brand lives upto what it stands for – reliability, trust, safety and concern for all.

Coming to business impact of the pandemic, an immediate result of the lockdown and related restrictions, was drastic reduction in electricity demand

& customer payments, posing unprecedented operational and cashflow challenges, in both generation and distribution of electricity. Our team of talented managers rose to the occasion and successfully resolved all challenges.

However, despite our best efforts, FY 20-21 will suffer some adverse financial impacts, mainly in Franchised Distribution and gas-based generation businesses. Our Franchised Distribution business will be badly affected, primarily due to reduction in volume of electricity sold, restricted ability to control and reduce T&D losses and reduced collection efficiency. In Q1 of current year the electricity demand in the Franchised Distribution areas is lower by 41% compared to same period last year. While we see a gradual pickup in consumption after lifting of lockdown restrictions, we believe the revival of demand still faces significant risks.

Our gas-based generation will also be impacted because of similar reasons – overall reduction in electricity consumption has impacted our merchant power business. Overall load reduction will impact our efficiency gains as well. We had tied up the gas requirement for the year before the out break of pandemic. Sudden reduction in demand left us with surplus gas which had to be utilised in a time bound manner due to storage constraints. We were fortunate to be able to resolve this situation without any loss.

Our flagship Licensed Distribution business has a regulatory moat protecting it. Here also we will experience a reduction in consumption - in Q1 of current year electricity demand in the licensed areas was lower by 36% as compared to same period of the previous year. But the tariff regulatory framework will ensure that our ROE on investments will be earned. Similarly our Renewable Generation business is also well protected by long term power purchase contracts.

Coming to Liquidity management, there was a sharp decline in customer collections during April and May 2020 in view of relaxation offered by the Govt to customers by way of extended due dates for bill payments. Our strong balance sheet allowed us to tide over the resultant cash crunch without any business disruption. Today, we have not only foregone the loan moratorium permitted by RBI, we have actually prepaid some debt ahead of due date. The sharp fall in interest rates until date will also help us substantially reduce our interest costs in FY 20-21.

The power sector remained dull in FY 19-20, with power demand growing at just about 1%. On one hand, there are large stranded thermal capacities and on the other hand there are State discoms which are unwilling to sign long term PPAs, because of their endemic issues. Only segments that are witnessing some investments are Renewables and Transmission. With a view to provide impetus to the economy, the Govt. announced a pandemic package for the power sector, mainly aimed at reforming the State-owned discoms and privatising some of them to improve the inefficiencies. Amidst the general gloom, this is an area of opportunity we are keenly awaiting, as your Company is considered a gold standard in distribution of electricity. We also believe that reforming the distribution segment can lead to revival of investment cycle in the power sector.

Employees are our prized assets. The pandemic has economically hit all and sundry. While our profits this year are likely to be lower than FY 19-20, we have chosen not to have our employees bear any cost on account of the pandemic. Despite the significant challenges, we have so far neither reduced our work force by downsizing nor cut salaries, but in fact have decided to consider a reasonable increment this year for all the employees. The pandemic is a natural calamity and will go away in due course. A dedicated workforce with a sense of belonging will remain as our key lever for tapping future growth opportunities.

I now turn to my favourite subject – Corporate Social Responsibility. In line with our late Founder and my father's philosophy, Torrent Group believes in sharing its prosperity with the Society. While the Govt. of India has taken various steps to contain the social and economic fallouts of the pandemic, Torrent Group has committed Rs 100 crs for pandemic relief work. This includes direct contributions to PM Cares Fund, States' Relief Funds, frontline NGOs and indirect contribution by providing relief materials like PPEs, ventilators, groceries etc. to various govt agencies engaged in relief works.

This is over and above the Group's commitment to its ongoing CSR programmes. For FY 20-21 Torrent Group's listed entities have committed 2.5% of profits for CSR activities, against the statutory requirement of 2%.

A significant milestone during the year was establishment of a state-of-art paediatric hospital. Under the umbrella of our flagship REACH Program, "Rangtarang" an integrated medical complex was built adjacent to SUGEN Power Plant at an aggregate capital cost of ₹ 135 crores. "Rangtarang" houses

"Balsangam", a new 150 bed paediatric hospital and "Sumangal", a multispeciality day care clinic for all. Everyday more than 400 beneficiaries, otherwise deprived of access to good medical facilities, from around 500+ surrounding villages avail benefit of free-of-cost medical facilities.

In addition to REACH programme, the other notable CSR programmes of the Group are:

(a) "Shardashish" which involves refurbishing and upgrading primary & secondary schools;

(b) "Shiksha Setu" which is aimed at enhancing teaching and learning outcomes in municipal / government schools;

(c) "Pratiti" is about building and maintaining public gardens in Ahmedabad; and

(d) "Abhivyakti" is for promoting arts and culture amongst the citizenry.

Every year while talking about the CSR initiatives of the Group, I feel proud to see the lasting impact our programmes are making on the lives of the downtrodden, helping them break the vicious cycle of poverty and ill-health.

For Torrent, CSR is an all encompassing concept – it goes beyond charity for poor and forces us to behave as a responsible corporate citizen carrying out business in a socially responsible manner. Our framework of CSR includes, treating employees with utmost dignity and fairness, promoting diversity within the Group, having a safe working environment, treating suppliers as partners, delight of customers as a divine objective, a steadfast adherence to our core values, minimising and mitigating the environmental impact of our activities and last but not the least transparent and accountable governance practices. We believe such a definition of CSR will ensure sustainability, as we aim to forge a symbiotic relationship with the Society.

Before concluding my address, I once again acknowledge the phenomenal contribution of our employees in such testing times to ensure that Torrent name emerges bright and with greater respect, from the ravages of the pandemic.

I also place on record my appreciation and gratitude for the support & co-operation received from Govt. Agencies, Regulatory Authorities, Bankers and Customers. Lastly, I would like to re-iterate that we are determined to build on our success and be better with each passing year.

Thank you. Jaihind.

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