Torrent Power Limited

Chairman's Statement – 13^{th} Annual General Meeting

1^{st} August, 2017

Dear Shareholders,

On behalf of the Company's Board of Directors, I extend you all a very warm welcome to this 13^{th} Annual General Meeting of our Company and I thank you for your presence here today.

The Annual Report for the year ended 31^{st} March, 2017 had been sent to all of you. I hope you had an opportunity to go through the same and reflect on the developments during the year.

Results

Your Company's revenue as well as profit declined in 2016-17 as compared to the previous year. The Company earned profit of Rs. 423 Crore during the year 2016-17 as against the profit of Rs. 895 Crore profit in the previous year.

Let me brief you on the highlights of **Indian power sector** during the year 2016-17, before I move onto the details of our Company's performance.

The Indian economy grew at a healthy rate of 7.1% during the year 2016-17. Amidst economic crisis across the globe, India has posed a beacon of hope with ambitious growth targets, supported by certain strategic initiatives. The Goods and Services Tax (GST) is one such initiative which was implemented in early 2017-18. This is expected to provide the much needed stimulant for economic growth in India by transforming the existing base of indirect taxation towards the free flow of goods and services.

The growth of power sector is interdependent upon the growth of economy and thus the long term potential of the sector apparently remains intact.

Moving forward, **on the Generation side:-**

- Our country witnessed a historic capacity addition of about 127 GW during the 12th Five Year Plan period (i.e. 2012-17) taking the total installed capacity to ~327 GW as on 31st March, 2017. Approx. 44% of such installed capacity belongs to Private sector.
- It is also interesting to note that the fuel mix in this installed capacity is changing rapidly. The share of renewables which was just 1% in the year 1999-2000 has increased to 17% by the end of the year 2016-17. Nonetheless, thermal power would continue to be the backbone of the Indian power sector particularly in terms of supplying baseload power.
- On the other hand, the power demand constraints, rapid addition in renewable capacities and in some cases fuel unavailability, played a role in reducing the Plant Load Factor of thermal plants by almost 14% over the past five years which dropped to just ~58% in the year 2016-17.
- The Government's Scheme for utilisation of gas based power generation capacities ended in 2016-17. The government is now working towards a long-term solution, particularly for import of LNG at affordable prices.
- Further, Competitive bidding led to lowest tariffs both for Solar and Wind power during the year.

Coming to Transmission and Distribution segment:

- Despite the actual Transmission capacity addition being more than the target of 12th Plan period, significant investments are still required considering ratio of transformer capacity vis-à-vis the installed generation capacity. Some key Government initiatives for Transmission include the National Smart Grid Mission, Green Energy Corridor, etc.
- Distribution segment, on the other hand, continues to face high Aggregate Technical & Commercial losses leading to heavy financial burden on discoms.
- However, the government reforms, particularly Ujwal Discom Assurance Yojana (UDAY), have led to improved operations of discoms; though the long term impact of the same is not clear.
- Rationalization of power tariff slabs across the country with 15 uniform slabs, has been proposed, which is expected to improve transparency in billing and enhance collection efficiency.
- With the ongoing initiatives, the viability of the segment is likely to improve going forward.

Going ahead, it is very important that the power sector comes out of the perennial issues such as lack of demand growth, gas affordability, uncontrolled AT&C losses, etc. in order to achieve government’s dream of “Power for all”. The Government has taken various initiatives like UDAY, Power for All, Integrated Power Distribution Scheme, amendments to mega power policy, energy efficiency schemes, Digital India, Make in India, etc. and continues to work for the above. Needless to state, the power sector situation can improve only if such reforms are implemented well.

Now, I shall talk about the Company's performance during the year 2016-17.

I. On the Generation side:-

Unlike in the year 2015-16, the DGEN & UNOSUGEN Plants were not able to recover their fixed cost in 2016-17 due to lack of demand. However, the PLF in SUGEN Plant increased during the year from 35.78% in previous year to 47.50% in 2016-17 due to the judicious usage of spot LNG.

The Storage-cum-regasification capacity at PLL's Dahej Terminal has commenced from 1st April, 2017. The Company, through an international competitive bidding process procured 7 cargoes of LNG for delivery during April, 2017 to December, 2017 at very effective commercial terms. Further the Company has also floated Invitation to Offer for procurement of another 36 cargoes of LNG over the period from January, 2018 to December, 2020 – with 12 cargoes for each of the 3 years. As the LNG availability at affordable price has improved, the Company is now awaiting demand growth in the country to run its UNOSUGEN and DGEN power plants.

Further, operations of AMGEN Plant may get affected due to the new significantly stringent emission norms issued by Ministry of Environment, Forests and Climate Change. As the timeline to comply with new norms is December 2017, the Company is evaluating various options to ensure that the plant can be run without incurring major CAPEX while complying with the prescribed environmental regulations.

Coming to renewables, I am happy to inform that while we started with a 50 MW wind power plant in 2012, we have today crossed the mark of 500 MW in renewable power generation capacity considering the operational and under-construction projects. Approx. 221 MW renewable power capacities were successfully commissioned during the year. The ongoing projects viz. 60.8 MW Wind Project at Rajkot and 50.4 MW Wind Project at Bhavnagar; are expected to be commissioned in the year 2017-18. The other operational renewable plants namely Lalpur, Charanka and GENSU performed fairly well during the year. Significant capacity additions in the renewable segment of the Company are envisaged, in a phased manner, in the coming years. It remains to be seen what tariff makes market sense considering the fact that the market has become bid oriented where the tariffs quoted are very aggressive.

Moving onto the Distribution Segment, Torrent continues to invest into innovative customer oriented initiatives for improved customer satisfaction. After the successful launch of the online service platform i.e. 'Torrent Power Connect' as well as a mobile application, the Company has upgraded the infrastructure and service quality at the new model Service Centre named as 'PLUGPOINT'. This new Service Centre provides a complete digital service experience to the customers at large. The upgradation has presently been made in Ahmedabad area, on a pilot basis. Additional 10 service centres at Ahmedabad and Surat are planned to be converted to this new model in a phased manner.

The Transmission & Distribution losses at **Ahmedabad and Surat** marginally reduced from 6.33% in Previous Year to 6.15% and are one of the lowest in the country. Open access negatively impacted the sales to an extent of 422 MUs in 2016-17. Despite such negative impact, Sales at 10,039 MUs in 2016-17 were marginally higher than 9,978 MUs sales in previous year. The profitability of Ahmedabad and Surat Distribution was comparatively lower during the year as compared to the year 2015-16, owing to the recovery of FPPPA arrears for 2014-15 in 2015-16 along with under-recovery of FPPPA in 2016-17. However, this was partially offset by recovery from Regulatory Charge. The Revenue was additionally impacted by the reduction in FPPPA income in Regulated Distribution business, due to decrease in power purchase cost during the year 2016-17.

The Company had filed an appeal before Hon'ble Appellate Tribunal for Electricity (APTEL) challenging Hon'ble GERC's order dated 1st July 2016 revising the Regulatory Charge to 18/17ps from 45 ps allowed earlier. Hon'ble APTEL, in March, 2017, without expressing any opinion on the merits of the case, set aside the said GERC order and remanded the matter back to Hon'ble GERC directing that matter should be heard afresh. However, GERC passed the Review Order dated 8th June, 2017, wherein it effectively maintained the position it had taken earlier in its order dated 1st July 2016.

In respect of 2017-18, GERC vide Tariff Order dated 9th June, 2017 has continued the prevailing tariff for 2016-17 and further directed to discontinue the recovery of Regulatory Charge.

On the Distribution Franchise operations, I am glad to say that the Distribution Franchisee Agreement with MSEDCL for distribution of power in Bhiwandi circle has been renewed for a further period of 10 years w.e.f. January 26, 2017. The sales at Bhiwandi reduced due to recessionary trend in Powerloom Industry for most part of the year and few HT consumers opting for captive consumption. However, on the other hand, we were able to bring down the AT&C losses to 22.22% in 2016-17 from 25.02% in previous year. This was achieved on account of sustained efforts of the Company in reducing theft and improving collection efficiency.

Further, Agra operations witnessed considerable improvement particularly in terms of reduced AT&C losses at 26.78% as compared to 30.83% loss in previous year on account of various loss reduction drives. This together with increase in consumer base led to improvement in the total sales at Agra.

Overall, as you are aware, the Company's performance in terms of profits and revenue has not been as good as previous year due to reasons explained so far. Lack of power demand, under recovery of FPPPA in 2016-17 and reversal of earlier years provisions under long term supply and service agreement in the year 2015-16 were the key reasons for impacting the profitability of the Company for 2016-17.

While on one hand, the company is waiting for the demand to increase, on the other hand, there has been substantial reduction in the LNG prices all-over the world, as supply is exceeding the demand. The over-supply position in the world market is expected to continue as more LNG plants are being commissioned in coming 2 to 3 years and as global demand for LNG is expected to be subdued. Further, the Company has already tied up procurement of 7 LNG cargoes for delivery during April 2017 to December 2017 and is in the process of tying up more such cargoes for the next years i.e. 2018, 2019 and 2020. In view of the above scenario, the issue relating to gas affordability of gas is expected to be resolved to a large extent. Thus, the company is optimistic about its growth in view of positive external developments particularly the expected pick up in power demand.

Appreciations

Before I conclude, on behalf of the Board of Directors, I would like to thank the Central and State Governments, various ministries and regulatory authorities, for their continued support.

The Board also recognizes the contribution of our esteemed Consumers in the growth of the Company and I take this opportunity to pledge the Company's commitment to serve them better. I would also like to thank our bankers and vendors for their unstinted support and partnership.

I hereby acknowledge the dedication and commitment of all employees besides their deep sense of values. I owe gratitude to all my colleagues on the Board who have always provided their valuable guidance and support. Most importantly, I take this opportunity to appreciate all the shareholders for their continued faith in the Company.

I sincerely thank all of you for your valuable time and attention.

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