"Torrent Power Limited
Q2 FY 19-20 Earnings Conference Call"

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MODERATOR: **MR. ANIKET MITTAL -- MOTILAL OSWAL FINANCIAL SERVICES LIMITED**

Moderator: Ladies and gentlemen, good day and welcome to the Torrent Power Q2 FY 19-20 Earning Conference Call, hosted by Motilal Oswal Financial Services. 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 telephone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Aniket Mittal from Motilal Oswal Financial Services Limited. Thank you, and over to you, Sir!

Aniket Mittal: Yes, thank you. Good morning, everyone. On behalf of Motilal Oswal, I welcome you to the 2Q FY 19-20 Earnings Call of Torrent Power. From the management, we have with us Mr. Sanjay Dalal -- the CFO of the company; Mr. Rishi Shah -- AGM Finance; and Mr. Jayprakash Khanwani – Manager (Finance) of Torrent Power.

We will begin with the brief comments from the management and following that we will have a Question-and-Answer Session. Over to you Sir!

Sanjay Dalal: Good morning, everybody. I will give a very brief overview on the performance of the quarter and then we will take questions from the participants.

Consolidated PAT for Q2 was Rs. 750 crores, compared to Rs. 413 crores in the comparative quarter last year, i.e. higher by about Rs. 337 crores or 82%. Apparently, the PAT number has increased considerably, however a large part of it is attributable to the recognition of the deferred tax asset in the current quarter, which was due to the reduction in the MAT rate from 21.55% to 17.47% by the Taxation Ordinance 2019 which was promogulated couple of months back. Because of the reduction in MAT rate, along with the unchanged normal tax rate of 34.94%, has led to an increase in utilization on the accumulated MAT, which was previously unrecognized and as a result of that we had to take that additional net deferred tax asset of about Rs.281 crores during the quarter.

Coming to the PBT numbers, Consolidated PBT for Q2 increased to Rs. 524 crores versus Rs. 500 crores in the comparative quarter which is up by 5%. At EBITDA level, the Consolidated EBITDA increased to Rs. 1,104 crores versus Rs. 1,031 crores in the comparative quarter, up by about 7%

I will now give the key reasons for the change in EBITDA as compared to the corresponding quarter. It may be noted that the EBITDA number for the quarter is after absorbing the impact of reduction in tariff for SUGEN long-term PPA which was a result of the change in the CERC tariff regulations from April 2019 onwards, the impact for the quarter was Rs. 43 crores as compared to the corresponding quarter If you adjust for this change, the EBITDA would have been up by about Rs. 116 crores which is about 11.25% and PBT would have been up by Rs. 67 crores which is about 13.5%. This shows that all the other businesses performed as expected during the quarter.

Now there were two big one-off during the quarter. One was a credit on account of disputed carrying cost recovery approved by the regulator of Rs. 165 crores. For the year 2014-15 the regulator had approved the gap and allowed it in the tariff for 2016 - 17. However, he did not allow the recovery of carrying cost on the approved gap, as a result, it was taken as a dispute to APTEL and we received a favorable order allowing us this carrying cost. As you would know that we only account for gaps which are undisputed accordingly this amount was not previously recognized in the financial statements. With the receipt of the favorable order, we have taken a credit for Rs. 165 crores recovery of previous gap during the quarter.

On the debit side, we have taken a provision for onerous contract of about Rs. 164 crores. This is on account of a 500 MW of wind power project which we had won under the SECI–III auction. We had given the indication in the Q1 earnings call that we were facing serious headwinds in implementation of this project primarily on account of delay in procurement of land and secondly on account of the weak financial situation of the EPC contractors because of which they was not able to make much progress.

During the quarter, we assessed the situation. Scheduled Commercial Operation Date of the project is November 2019 and we are much behind, so there is no way we can commission the project in November 2019. Based on this and as required by the accounting standard 37, we have made a provision for the likely damages which we may incur in the PPA signed with SECI for this project, which is roughly about Rs. 164 crores. .

Both the one-offs are largely offsetting and do not have a net impact on the EBITDA level as such. After this two one-off, if we look at the positive performances, UNOSUGEN plant operated under the long-term PPA for the first time during this quarter. From July 2019 onwards, UNOSUGEN is operating under the long-term PPA which has brought in additional EBITDA. Merchant power sales during the quarter were also encouraging so that has also helped in boosting the EBITDA. And the franchise distribution business has also performed well in terms of further reduction in T&D losses as well as higher volumes and higher revenue.

The distribution business has performed as expected, so they earned their regulatory ROEs for the quarter. However, because of the way we account for the regulatory gap, there was no substantial gains recorded during the quarter on account of T&D saving incentive as well as O&M savings incentive within the regulated distribution businesses.

And finally coming to the negative performance, the renewable business experienced a substantial drop in PLF during this quarter. As compared to the comparative quarter, the PLF was down by 5% , but we also added about 10% capacity in the quarter, about 42 megawatts. As a result of which at EBITDA level the renewable business was more or less at the same level as compared to the corresponding quarter.

And one final development, which I would like to brief the participants on is the decision of the board to demerge the cable business from the main company. We have cable business which is part of Torrent Power. Now it has been decided to demerge it and put it into a wholly-owned subsidiary of the company. This is just a restructuring to facilitate business operations. It doesn’t have any impact for the quarter and even going forward. Details of the size of this cable business is already reflected in the disclosure note which we have given along with the Q2 financial results.

With this, I would now request the participants to raise any questions which they may have on the performance for the quarter.

Moderator: Sure. Thank you very much. Ladies and gentlemen, we will now begin with the Question-and-Answer Session. We take the first question from the line of Kishan Shah from Isha Securities. Please go ahead.

Kishan Shah: So, my first question is of the total growth in the revenues, consolidate revenues, how much is the UNOSUGEN contribution?

Sanjay Dalal: At revenue level it will not be meaningful to compare growth, but if you look at EBITDA level, then UNOSUGEN was not operating in the corresponding quarter, so there was a loss which was contributed by the depreciation and the interest charge for that plant. For the current quarter it has operated at almost 70% PLF and contributed roughly Rs. 75 crores.

Kishan Shah: Rs. 75 crores, okay. And sir, how much do you expect it for the whole year?

Sanjay Dalal: If you look at last year i.e. 2018-19 UNOSUGEN plant had PBT level loss of about Rs. 185 crores comprising of interest and depreciation charge. For this year, we will be sort of zero or marginally positive.

Kishan Shah: Okay. And sir what is our CAPEX estimated for this year by FY 19-20?

Sanjay Dalal: What we had said in our last quarter con call, I think that we are more or less maintaining that guidance. The ongoing CAPEX in all of our distribution business will be around Rs. 1250 crores and the project CAPEX would be around Rs. 900 crores, excluding the SECI III project because today we are not very clear on the outcome of that project.

Kishan Shah: For SECI–III?

Sanjay Dalal: No, other than…

Kishan Shah: Excluding SECI–III.

Sanjay Dalal: Excluding that, sorry not Rs. 900 crores, roughly Rs. 1,100 crores.

Kishan Shah: Rs. 1,100 crores, okay. So sir, this SECI–III, you said that it might be delayed. So what is the timeline? What do you foresee by when we can

Sanjay Dalal: For the SECI–III project?

Kishan Shah: Yes.

Sanjay Dalal: SECI–III project as I said the scheduled commercial operation date as of now is November 2019. There is no way we can do the project by that time.

Kishan Shah: But by when do you see we could do it?

Sanjay Dalal: We have requested SECI for an extension on the schedule commercial operation date. We have not yet heard from SECI. Depending on what kind of extensions they give and if they give reasonable extensions, we can consider implementing this project. Otherwise, we may have to abandon this project. Right now the financial statements have taken the charge as to what kind of cost we would incur, if we abandon the project. However, we have not taken any unequivocal decision today to abandon the project, because we are still in discussions with SECI, to consider the reason for delay and allow us an extended timeline to implement the project. If we get a reasonable timeline, we will implement the project, in which case the provision, at an appropriate time, will have to be reviewed and reverse. Right now, the CAPEX number which I gave do not include SECI–III numbers.

Kishan Shah: That is Rs. 1,100 crores, right?

Sanjay Dalal: Yes.

Kishan Shah: Okay. And one more question on this cable business unit. So the FY 18-19 book value comes to Rs. 237 crores and we are selling the unit for Rs. 214.5 crores.

Sanjay Dalal: Can you just repeat, what value you said?

Kishan Shah: So the net assets were result Rs. 277 crores and liabilities were somewhere around Rs. 40 crores for FY 18-19.

Sanjay Dalal: I think you should look at the six monthly number of total asset and liabilities because, the working capital components will keep changing. If you look at the six months number it is Rs. 210 crores against that the valuer has given a valuation of about Rs. 214.5 crores. This Rs. 214.5 crores is subject to adjustment of any change in working capital which will happen from 30th September till 1st April, 2020 which is the appointed date. So if you look at the valuation number and the book value then there is a gain of about Rs. 5 crores, which doesn't matter, because the demerger is happening into a wholly-owned subsidiary and on a consolidated basis all of that will go away.

Kishan Shah: Okay. Sir, what did you say was appointed date?

Sanjay Dalal: Appointed date is 1st April, 2020.

Kishan Shah: Okay, sir.

Moderator: Thank you. Next question is from the line of Rahul Modi from ICICI Securities. Please go ahead.

Rahul Modi: So, just a couple of questions. So, sir, can you help us with the status of SECI–V currently, how is it progressing? Have we seen anything on that?

Sanjay Dalal: SECI–V project is also being implemented in the same area i.e. Kutch, Gujarat and it is also facing a lot of headwinds, but there is time available there and we have requested for further extension of time again because of the delay in procurement of land. But we have been able to procure fair amount of land for the SECI–V. So, we currently see SECI–V as a project which we will be able to do in the extended timeline and we are not seeing any likelihood of incurring any penalty on that project.

Rahul Modi: Okay. So, in terms of SECI–III now, the tariffs are quite low. So, I believe we would have earmarked a particular land parcel which would give that kind of an output. So, is there a possibility that if you do not get the same patch of land, this tariff status doable at any other site.

Sanjay Dalal: If the site changes there will be some impact. But it will be broadly in the same area, which is Kutch, I do not think that it will be a significant factor. Significant factor would be that what is the price we can get for the equipment from the new supplier now, because earlier EPC contractor obviously has failed in delivery.

Rahul Modi: Okay. So, that EPC contract stands terminated.

Sanjay Dalal: It is not yet terminated. We are in discussions, but we are awaiting credible plan. So firstly, the extended timeline and secondly, a credible plan, these two are the key factors going forward. If the first is there and the second does not materialize properly then we will have to look at some other equipment supplier in which case the cost can possibly change and the returns can also change.

Rahul Modi: So the Rs. 400 crores that you have already paid to the supplier so that you still are safe with the bank guarantees as you have mentioned earlier?

Sanjay Dalal: We had the bank guarantees and we have encashed those bank guarantees.

Rahul Modi: You have encashed the Bank guarantee.

Sanjay Dalal: Right. So, we do not have any financial exposure on the supplier.

Rahul Modi: Okay. And sir, just coming to one more question in terms of do we plan to expedite now as we see that in case there is a delay we are a 500 MW turnkey project Rs. 3,000 crores plus, if there is a delay, so you plan to start repaying more debt from DGEN as well, which is lying in the books, if there is a delay because cash flow some other businesses remain good?

Sanjay Dalal: You are very right, we have actually done some of that in the month after the end of the quarter. We have almost repaid about a Rs. 1,000 crores of loans.

Rahul Modi: From DGEN itself.

Sanjay Dalal: DGEN included because we have a corproate loan against all these project that is why I am talking EBITDA number. We do not have projects specific loan. At some point we had reorganized all the loans into one corporate loan. Against that, we have repaid almost Rs. 1,000 crores of debt.

Rahul Modi: Up to September? Beyond September?

Sanjay Dalal: Till date, we have repaid around Rs. 1,000 crores of debt. In September there will be some small element of prepayment which we have done. But part amount is captured in September the substantial part is after September. All put together, we have reduce debt by Rs. 1,000 crores.

Rahul Modi: Rs. 1,000 crores. Okay, perfect. So, last question from my side. Sir, in terms of DGEN, sir, how is the demand environment currently? We seem very low prices on the exchange and otherwise also demand has been low. So, how do you see the gas based power demand currently from both UNOSUGEN and DGEN in the three - four quarters?

Sanjay Dalal: If I look at Q1 and Q2 that demand I mean the demand if you see market is not really very indicative, the demand and the prices. But what we have seen in the bilateral market, the short-term market one month, two months, three months supply time, the demand has been fairly strong in Q1 and Q2 as compared to the previous year. So, DGEN, if you recall DGEN operated for one month in Q1, it also operated for one month in Q2 under a bilateral contract. And our effort is to do that, even in Q3 and Q4. We have a gas which is very reasonably priced as low as $4.25 per mmbtu . So, even with the seasonally lower prices of Q3 and Q4, we may be able to supply from DGEN, that is our effort. This is again only making the best out of a bad situation but we are heavily banking on the government scheme for revival of the gas based power plant, which has obviously got delayed because of the disruption in the Power Ministry, the Secretary is changed and then they are again change, so hopefully now that is stable, secretarial appointment will happen and we hope that in Q3 the government should be able to fructify the scheme for revival of gas based plants.

Moderator: Thank you. We take the next question from the line of Santosh Hiredesai from SBICAP Securities. Please go ahead.

Santosh Hiredesai: Sir I just want to understand the seasonality that we see in the distribution businesses. So if you can just help us understand that better and how you know what sort of implication that has on your financials because I see the T&D losses considerably coming off, let us say in Agra and Ahmedabad in Q2 versus Q1? So if you can just help us understand that bit a little better.

Sanjay Dalal: Let us take our distribution business at Ahmedabad & Gandhinagar first. Here what happens is the T&D number is sort of influenced because of the peculiar accounting methodology which we follow. We have multiple billing cycles, so for high tension consumer we have a billing cycle, which is monthly and which is billed 31st and 1st of the month. So three cycles, three days, for which we bill to high tension consumers which really does not cause much of disturbance. The low tension and street light are another major consumers which follows our monthly billing cycle, but over five different days, 5^{th}, 10^{th}, 15^{th}, 20^{th}, and 25^{th} etc. and then we have a residential category where again there is there are five billing cycles so they are getting billed bi-monthly . This residential category which is billed bi-monthly is almost 53% of the sales. Now what happens is that all billing cycles, which are completed by the 15th of October, are taken as revenue for September quarter. Similarly, all billing cycles which were completed up to 15th of July, were taken as revenue for Q1 and so on and so forth. However, the actual purchase is accounted exactly for that quarter i.e. the USO what we have actually bought. So because of the seasonality between Q1 and Q2 and Q2 and Q3, the T&D loss is not accurately reflected because sales in Q2 is slightly for different period whereas purchases are exactly for the quarter. So, if I look on an overall year basis, which will even out all of this, we are on track to further reduce the T&D losses as compared to the previous year. In the previous period, we were at 4.98% for this area and we had a norm of 5.95%. For the current period our norm has been reduced by 11 basis points to 5.84% and we are confident of reducing the T&D losses at least by 0.9% if not more. So, we will be able to protect our incentive on account of T&D losses in our license distribution business.

Now, this is not a case with Bhiwandi however Agra is affected by this. But there we do not have a norm. So if we compare the trajectory in current year, then there is a futher reduction in T&D loss as compared to the comparative quarter. So, there the numbers are comparable.

Santosh Hiredesai: Great. So, I understand on a Y-o-Y basis, these are pretty much comparable. But I was just trying to get a sense whether this will have some distortion in terms of the profits that also we keep reporting, let us say lower in Q1 and higher in Q2

Sanjay Dalal: Yes, it will have. The distribution of incentive one account of T&D losses, in the license distribution is uneven because of this. So Q3 and Q4 will see more gains as compared to Q1 and Q2. We have to account for the regulatory surplus or gap for each of the quarter, however, the regulator fixes the ARR for the whole year. So we have to make some estimate for the whole year and then arrive at what kind of gap or surplus we will account for the quarter. Therefore, because of this and because of the billing cycle distortion, the T&D gain in license distribution is not very evenly spread out. But on a whole year basis, we are on track. The gap between our norm and our actual T&D losses will at least be protected or be higher but not lower

Santosh Hiredesai: Understood, sir. Sir, I just go back to Q2 of FY 18-19, where you had reported gains of Rs. 73 crores because of the change in accounting norms. Is this more now that you have migrated to this new accounting norm, is it more of a recurring feature or is it safe to assume that the Rs. 73 crores gain pretty much is there in our numbers going forward?

Sanjay Dalal: So that Rs. 73 crores was a disclosure, which is required to allow you to compare with the previous period.

Santosh Hiredesai: Okay. So it is just for comparison sake. But otherwise, given that you have migrated to a new norm.

Sanjay Dalal: Yes. So now both the quarters are on the same accounting basis. So that number as such is meaningless.

Santosh Hiredesai: Understood. Sir, in that case, I was just trying to understand the changing in PBT, you said Rs. 500 crores has moved up to about Rs. 530 crores and thereabouts, which has got impacted by Rs. 40 crores you explained on SUGEN. But on the flip side you have got UNOSUGEN contributing in fact much better number there, on the EBITDA, DGEN also I am assuming there is some contribution. I do not know the cost economics what would have contribution been. But I am assuming some contribution at DGEN level as well. So in that case, what explains just about Rs. 20 crores - Rs. 25 crores jump on the PBT side?

Sanjay Dalal: So as I said, the renewable business actually has a lower PBT as compared to corresponding period. As I told you earlier, at EBITDA level renewable business is same. However, there is an increase in capacity by 42 MW between the two period. So, obviously, there is an increasing interest & depreciation cost on that account, which because of the overall lower PLF of 5%, at PBT level the renewable business is down as compared to the corresponding quarter.

Santosh Hiredesai: Okay, all right. And sir, last bit on the Agra franchise business. So, I understand that the DISCOMs have been allowed a tariff hike in range of about 11% - 12% for the mix of customers we have, what is an indicative level in terms of the tariff increase that we should see?

Sanjay Dalal: The input is index to the tariff so that input price will also go up. So we have to actually look at what is the impact on my new average selling and my new average purchase price that is my contribution,whether it is going up. Now, typically when the tariff goes up, my contribution more or less goes up by that account**.** So to that extent we are benefited.

Santosh Hiredesai: So is it fair to say that our tariff will also go up by 10% - 12% I understand that our input cost also will go up by same range. But our overall increase in the tariff, billable tariffs will somewhere mirror that number of 10% to 12% is that understanding correct?

Sanjay Dalal: It will not necessarily be 10% to 12% because there are some adjustments which are also being made. So it will be lesser than that. But overall, if I got to say for example my average selling minus average purchase price was x last year and if the tariff has gone up, it will be x plus this year. So there will be a gain in the contribution which I guess.

Santosh Hiredesai: Understood. And sir, in continuation of that, we understand that there are delays in terms of the subsidy which comes from the U. P. Government. How does that impact if at all us? Or we just are able to reduce that from the costs that we need to pay for the cost of power?

Sanjay Dalal: No, for Agra we are not impacted by subsidies. There are subsidized customer in Agra.

Santosh Hiredesai: Okay, there is nothing at all. Okay, all right.

Sanjay Dalal: We have to collect from the customers and we have to pay to the U. P. DISCOM who supplies us the power.

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

Mohit Kumar: Yes. Good morning, sir. And pardon me, maybe I am repeating the question. I joined the call late. Sir, on the deferred tax accounting, what you have done in this particular quarter? And how it has got impacted due to the new tax regime? Can you explain it? And what is the disputed carrying costs which accounted in the particular quarter? And sir, on the wind on the SECI where we have provided for Rs. 170-odd crore. Have you booked any revenue to us, is it neutral to PAT or is it is affecting your PBT this quarter?

Sanjay Dalal: Okay, so first we take the tax part. So as you are aware that the government promogulated this tax ordinance a couple of months back in which they have reduced the MAT rate from 21.55% to 17.47%. As a result our current tax charge has gone down to that extent, so that is one aspect. The second aspect is that the normal tax rate remains the same which was 34.94%. We have been under MAT tax for last many, . So as a result of that we have accumulated MAT credit as on today, which we are allowed to use in the future to reduce our normal tax liability up to MAT liability. So, based on our estimates, we had accounted for a certain number as of June., Because of the said change that number has now drastically increased. We are able to utilize far greater amount of MAT credit, which we have previously not recognized. So all of that have now been recognized. Thats the prime reason why the deferred tax charge is a credit in the P&L. Out of the Rs. 321 crores all together, almost Rs. 281 crores is on that account. Rest is all normal.
So is that clear? Basically reduction in MAT rate and the normal tax rate being the same has resulted in a situation that going forward in the future years, when we start paying taxes based on normal tax rate, we will be able to reduce the tax liability because of our unutilized MAT credit. And that we have now recognized. So net-net because of this what will happen is that for next eight years, I will continue paying tax at the MAT rates. And after eight years, I move to the 22% regime. The MAT rate is 15%, so I will be paying that and then I will move to the normal tax rate.

Mohit Kumar: Second question on disputed carrying costs, sir, how much you have accounted for the quarter?

Sanjay Dalal: Carrying cost we have accounted Rs. 165 crores. For the year 2014 - 2015, there was a gap which the regulator approved and allowed it as a part of the tariff order for 2016 - 2017. However, he did not allow the carrying costs on the same. So we went to Tribunal and appealed against this tariff order and got an order from the Appellate Tribunal in this quarter, where the Tribunal has typically said that this has to be allowed and expeditiously recovered. Based on this favorable order, we have now accounted for this item which was previously disputed and therefore not accounted. But now, we have taken the credit for that in the P&L

for this year. As a result of these two one-off, one is this Rs. 165 crores of credit and the provision for onerous contract which we have done in respect to our SEC III project which is Rs. 164 crores. The net impact of this on the PBT is as such neutral.

Mohit Kumar: Sir, is there any other carrying costs matter pertaining to past year which has not booked as of now? And when we expect that materialize?

Sanjay Dalal: Yes, on carrying costs. There are two disputes pending one involves an amount of Rs. 257 crores, which is identical in nature to the dispute which has recently been resolved. But it pertains to the year thereafter, so it pertains to the year 2015 - 2016. Regulator for 2015 - 2016 also approved the gap allowed it under tariff order 2017 - 2018 but did not allow the carrying cost there on. And therefore, that also is in appeal. However, the regulator has taken an additional plea in this appeal and therefore, we are not accounting for this till APTEL decides on the matter, but otherwise, it is an identical matter and we expect this also to come in our favor. But whenever we get the order we will take credit for this. That is Rs. 257 crores. Additionally, there is another carrying cost which is involving a sum of about Rs. 245 crores, which is on a slightly different footing. So, the regulator in the past when he had allowed carrying cost in many years, what he did was that if there was a gap in which the carrying cost was allowed, he did not allow the new carrying cost on the post term which was constituting the carrying cost on the ground that he will not allow carrying cost on carrying costs. So, this is a technical dispute which is going on. So, whenever we get APTEL order, if it is favorable then we will probably take for this Rs. 245 crores at that point in time.

Mohit Kumar: Last question, sir, you have given the fact that they have so many assets available in NCLT and given that we have a strong balance sheet, are you looking to acquire assets? Have you looked at the asset in past and are you open to acquiring assets going forward?

Sanjay Dalal: At this point, we are not looking to acquire anything actively, we are open to evaluate whenever we get something that makes sense to us from a risk return perspective. But, that is the active process as of now in respect of any specific assets.

Mohit Kumar: And so, what is the way should you look at the FY 19-20 and FY 20-21 in terms of growth for the company?

Sanjay Dalal: So we will not give you a guidance on profit…

Mohit Kumar: I am talking about in business sense, which are the businesses?

Sanjay Dalal: So as I said the capex number, so let me give you this, essentially a substantial part of business is a CAPEX driven model. If I look at the next three years, then on an average, for the next three years, we will be incurring a CAPEX of roughly Rs. 1,500 crores in our distribution businesses altogether from Ahmedabad, Surat, Dahej, Dholera, Bhiwandi, Agra, Shil-Mumbra-Kalwa all put together. About Rs. 1,500 crores is what we expect to spend every year. And on the project side, our current estimate for next three years would be about Rs. 1,300 crores per year.

Moderator: Thank you. We take the next question from the line of Dhruv Muchhal from HDFC Securities. Please go ahead.

Dhruv Muchhal: Sir, last time you had given a very detailed bridge on the EBITDA segment wise, so if you can help us like you give SUGEN, what is the emerging power franchise and the distribution business?

Sanjay Dalal: You want segment wise EBITDA.

Dhruv Muchhal: The delta and EBITDA whatever.

Sanjay Dalal: Okay. So exactly, what do you want? Delta you want, is it?

Dhruv Muchhal: Yes, I mean as SUGEN had a drag of Rs. 42 crores, UNOSUGEN had a positive impact of Rs. 75 crores. so how much was franchisee? How much was much merchant power sales?

Sanjay Dalal: I will have to give you offline. We will work out and we will probably get in touch with you.

Dhruv Muchhal: Sure, sir. And sir, on UNOSUGEN, you mentioned the delta is about Rs. 75 crores on EBITDA, so does this include any merchant sales or otherwise, you analyze the delta should be about Rs. 300 crores per year? I mean based on this number we should be PBT positive on UNOSUGEN?

Sanjay Dalal: UNOSUGEN marginally, we will be positive because of the merchant power.

Dhruv Muchhal: I assume Rs. 75 crores, so Rs. 75 crores for the quarter, so fully approximately this should be largely similar. So about Rs. 300 crores for the full year and you have PBT drag of about Rs. 180 crores last year. So this would be decently PBT positive.

Sanjay Dalal: No, how have you calculated?

Dhruv Muchhal: Sir, Rs. 75 crores for the quarter. So Rs. 75 crores I am just analyzing it. So about Rs. 300 crores. So Rs. 300 and you lastly had a drag of about Rs. 180 odd…

Sanjay Dalal: I think the Q2 had roughly Rs. 53 crores of EBITDAon account of the long-term PPA, so that we can sort of multiply it by 3. Q2 also had about Rs. 24 crores on account of merchant. I do not think it may be prudent to multiply just by 3. It may be a lower number considering that Q3 will be a quarter of generally lower demand and lower prices both. And secondly, what happens is that merchant power actually supply based on the kind of contracts we get, it maybe supply from SUGEN as a top-up power, it may be supplied from UNOSUGEN again as a top-up power because now that is also operating, or it will be supplied from the DGEN. So that will depend on the kind of contract we have and how that we can optimize amongst the available capacity. In this quarter it is UNOSUGEN which has given good chunk of bilateral power, but it could be DGEN in next quarter and hence it has to be seen on a total basis. But I would still say that 53 x 3 is something which can be done and the balance 22-23 is something which may not be at the same level, it will be lower in Q3 and again, there may be an uptick in Q4. But based on our internal calculation for the whole year and whatever we have done in bilateral from UNOSUGEN till Q2, it should be marginally positive, not considering any merchant power in Q3 and Q4.

Dhruv Muchhal: Okay, sure, sir. Sir, on the renewable portfolio the SECI–V, we were yet to sell it the OEM supplier, have we done that?

Sanjay Dalal: No, we are in the fag-end of that process now.

Dhruv Muchhal: Okay. So because the COD is about July 2020, which is about six odd months. So…

Sanjay Dalal: There is an extension which will be available there. See, SECI very recently came out with general guidelines they will use in determining the extension because every project is affected. So all 100% project which are under implementation have applied for an extension on linear grounds which are beyond the control of the developer. So SECI is working out some guidelines based on which they will give extension. We are expecting a reasonable extension in SECI–V and therefore, we should be able to complete the project. I mean, the land acquisition issue which are there in Gujarat itself has caused a delay of more than six – eight months. Firstly, there was this land policy change by the Gujarat government and then immediately thereafter there was this model code of conduct on election. So, even if we get to six – nine months , I think we should be able to do the project.

Dhruv Muchhal: Six months to nine months of extension?

Sanjay Dalal: Yes.

Dhruv Muchhal: And sir, the MSEDCL is that on track?

Sanjay Dalal: That will be commissioned one month before the schedule commercial operation period. So, there SCOD is January 2020 and I think we will commission half of it by end of this month and balance half by middle of next month or end of next month.

Dhruv Muchhal: Okay. And sir, in terms of, if I exclude the SECI–III project, you say the project CAPEX will be about Rs. 1,100 crores and for the next three years about Rs. 1,300 per annum. But given, if we exclude SECI–III, they are largely two projects MSEDCL and SECI–V which is about Rs. 800 crores and Rs. 800 crores of CAPEX. So should we assume this Rs. 1,300 crores run rate of CAPEX or it will be lower unless you have any projects or is there something?

Sanjay Dalal: I am factoring that there will in that the third year, we will probably take up another renewable project. And we will also take up one or two transmission projects in the next two years. So it includes that when I say 1,300. For example our own DISCOM is planning to float a tender for 300 MW of solar power. Of course, they will have to procure it through a competitive bidding process. But we are also allowed to participate in it. So, that project will stand on a different footing as compared to other projects, because there is no counterparty risk. So, all put together our current outlook is that we should be able to spend about Rs. 1300 crores in project CAPEX.

Moderator: Thank you. We take the next question from the line of Bharani Vijayakumar from Spark Capital. Please go ahead.

Bharani Vijayakumar: So, to understand this impact on the tax a little bit more. To the end of March 2019, we had the deferred tax asset of about Rs. 653 crores. So this must have gone up by about Rs. 280 crores because of this reduction in tax rate. That was the impact, right, if I am not wrong. Right. So right now the deferred tax asset would be around say what Rs. 550 crores. so when do you, by which year do you think this would be utilized and when would we go to our normal tax rate?

Sanjay Dalal: To answer your question, we will be able to utilize this deferred tax asset over the next eight years.

Bharani Vijayakumar: Yes, I understood. So eight years got it. So my second question is on the renewables. So this quarter, the drop in PLF is it due to monsoons or is it due to anything else?

Sanjay Dalal: Last comparative quarter, we had experienced overall PLF of 44% across all our main projects. This year we have experienced the PLF of about 39%. It is partly because last comparative quarter was a year of abnormal wind speed, this quarter was much lower than last year. This is just usual vagaries of nature. If you look at Q2 of the year before that the PLF was 33%. So for the sane Q2 it is 33%, 44% and 39%.

Bharani Vijayakumar: Understood. Next question is on the landed cost of gas for us. So in the UNOSUGEN agreement, the new agreement there was mention about the cost, the variable cost, there is restriction on what it would be and then hence, given now the international LNG prices have moved up a little bit. So what is the landed cost per unit right now and would it is impacting this particular thing?

Sanjay Dalal: UNOSUGEN fuel passthrough or overall power cost cap imposed is Rs. 5.60 per unit. Now, if I have to be within the cap the maximum fuel price which I have to pay will be roughly $7.5. The price currently is ~ $5 or even lower at various points in time. So we are comfortably within the margin which is allowed by the regulator. Lowest we have paid till now is ~$4.25 per MMBTU.

Bharani Vijayakumar: Understood. And final question is on the expected prior period gap that we could recover in this year or next few years. So apart from the Rs. 257 crores and Rs. 245 crores the numbers you mentioned of the carrying cost what would be the absolute come out of gap that we should be recovering for previous year say for FY 2018 - FY 2019 put together?

Sanjay Dalal: The gap which we have accounted in the books is roughly Rs. 1,000 crores as of now. Now of that 165 which is accounted. Balance gap is 2017 - 2019 number gap, so they are also current because revenue will now get trued up and will be allowed as part of the tariff of 20-21 period.

Moderator: Thank you. We take the next question from the line of Aniket Mittal from Motilal Oswal Securities. Please go ahead.

Aniket Mittal: Yes, actually, just want to understand on SECI–III a bit better, see, you have applied for an extension of timeline over here. So what is the extension that you are looking at and by when can we come to know whether you would be actually going ahead with this project or not?

Sanjay Dalal: The extension we have asked is I think upto February 2021. Now, yes, as I said there are two factors which will determine one is what extension we get and secondly, whether we are able to implement it with current EPC contractor at the current prices or we have to implement it through another equipment supplier and at what cost. And whether it makes sense to implement the project or whether it makes sense to abandon the project. I think this quarter or maybe next quarter, we should have a clear idea.

Aniket Mittal: Okay. But the extension date are the same still which you applied for?

Sanjay Dalal: February 2021, I said.

Aniket Mittal: So even wanted to understand on the sourcing of gas actually, are we looking to tie up any contracts on that front? I think we have some available to December 2020. But what is your view on that?

Sanjay Dalal: Yes, we are looking at tie-up for the years beyond December 2020. So there is a separate team which looks at the most opportune time to do that. And in the past, the policy generally has been to tie-up almost 60% to 70% on medium-term basis and balance to buy on the spot basis. But in recent times the spot market has been very soft and LNG prices are pretty low as compared to what you get in the medium-term contracts. And therefore probably we may make a shift there and buy spot more and less in the medium-term, which is something a matter of continuous evaluation. But availability is abundant till 2022, the markets are likely to remain very soft till 2022 and therefore, it will make sense to buy more in the spot market rather than the medium-term the market.

Aniket Mittal: So just wanted to understand sir on that. So if one were to look at buying a contract on a medium-term right now what would be the cost?

Sanjay Dalal: I can give you a very hypothetical answer, based on my guess work. If you look typically in the medium-term market, the pricing is done with reference to an oil index, which usually is brent crude. So, if I look at the brent for next three years, the average comes to about $58 to $60. And in the current market, there LNG is in over-supply, we can expect a slope of about 10.5% to 11%. So that sort of gives current estimate of around $6 to $6.5.

Aniket Mittal: Okay, got it. Sir, and just one last question, if I may. Sir, just having a look at your project costs for MSEDCL, it seems that you have revised it downwards by 5%. If I were to just compare the costs that you have given, in your presentation right now versus the earlier seems to be slight 5% downward division. I mean, just wanted to understand on that front? The project for MSEDCL.

Sanjay Dalal: MSEDCL project was initially intended to be funded in a ratio of 30:70 equity-debt. And the debt was also tied up. But given the liquidity which we have, we have cancelled the loan and funded it internally only, right now during the project period and therefore, the interest during construction does not get capitalized. So that could be the big reason. And then apart from that there could be some gains in the project execution. Once the project is over, we will probably see based on our need for fund, we will tie up the necessary debt for that project.

Aniket Mittal: Okay. And what is the funding that you are looking at now? I mean, the funding so what are we looking at the debt to equity for this project now?

Sanjay Dalal: Right now it is internally funded we have not drawn any debt for this project because our own liquidity and because negative carry of liquidity is large, it did not makes sense to draw down the loan. So we have funded it internally, we will draw down the loans, if we require in future, there are few investments which will come up.

Aniket Mittal: All right. And sir, if I may, just one more thing. So you have talked about the fact that around thousand crores of loan you have repaid this year, sir, how much was it repaid by the end of September. So just to get an idea…

Sanjay Dalal: The total what we have repaid is Rs. 1,060 crores out of that about Rs. 182 crores I think was before September.

Aniket Mittal: Before September, Okay. Means you have en-cashed the guarantee you said. So have you used that to sort of repay some?

Sanjay Dalal: Liquidity or corporate pool is there. Yes, the encashment of guarantee also enhance the liquidity.

Moderator: Thank you. We take the next question from the line of Rita Ramani from Invesco Mutual Funds. Please go ahead.

Rita Ramani: So I just needed two book numbers. In terms of the quantitative impact to the PBT from this operational of the UNOSUGEN plant. What is the quantitative impact? How, like you said Rs. 75 crores is the positive contribution to the EBITDA. What is it on the PBT side?

Sanjay Dalal: We will have to pullout that number, we will tell you shortly. Any other question in the meantime you have?

Rita Ramani: Yes. And similarly on the PBT, the negative impact for the PLF drop on the renewable. What is that impact?

Sanjay Dalal: So UNOSUGEN, I think at PBT level roughly we are at about Rs. 31 crores versus last year Rs. (-48) crores, right? And renewables I think we negative this quarter by about Rs. (-20) crores.

Rita Ramani: Rs. 20 crores and negative and what was this say previous year because of you said, you know, the abnormal winds?

Sanjay Dalal: So about Rs. 140 crores.

Rita Ramani: Rs. 140 crores positive.

Sanjay Dalal: Yes, positive Rs. 140 crores versus Rs. 120 crores for this year and thats how it is (-20) I will say.

Rita Ramani: Okay. And sir, considering, you know, as you stated earlier, you are saying that UNOSUGEN this year will be marginally positive on the PBT side, right?

Sanjay Dalal: Yes, a year as a whole yes, at PBT level. That year PBT was minus 185, this year it will be positive.

Rita Ramani: Okay. And one more clarification I needed sir, in terms of CAPEX guidance for the three years you mentioned is Rs. 1,500 crores for the distribution business, is it right?

Sanjay Dalal: Distribution license as well as franchises.

Rita Ramani: So overall is Rs. 1,500 crores.

Sanjay Dalal: Yes, per annum.

Rita Ramani: Per annum, okay. If you do not consider the new projects which you will take into consideration say the renewable project or the distribution project. On your existing portfolio, how much would be the CAPEX required for the three years outlook?

Sanjay Dalal: So the ongoing CAPEX will remain the same, because they are pertaining to the distribution businesses.

Rita Ramani: And considering your SECI–III separately of Rs. 700 crores. So what would be the CAPEX, I am just trying to understand that is the SECI–III does not get cancelled and you do not get any other further projects. So in terms of the higher cash on the book, how much would you incur CAPEX and what would be still accruing cash on the book?

Sanjay Dalal: If I say take out potential projects, which we intend to do and just configure the project, which we are actually implementing right now, the project CAPEX we average about 600 crores over the three year per annum. And this does not include the SECI–III.

Moderator: Thank you. We take the next question from the line of Kishan Shah from Isha Securities. Please go ahead.

Kishan Shah: Sir, on this cable business, transfer we expect Rs. 214.50 crores of sales consideration? What is the planned use for the same? For the consideration that you get Rs. 214.50 crores, how do we plan to use it?

Sanjay Dalal: This is not going to change our cash because this is being downloaded in a wholly-owned subsidiary we only have to fund it. It is just a de-merger into a wholly-owned subsidiary, it will not affect us in any which way. This is a transfer into a wholly-owned subsidiary. We will be owning the subsidiary, there is no cash which we will get generated between the transaction. Everything else remains the same including the financial results will also remain unchanged because on a consolidated basis.

Kishan Shah: Okay. And sir, there is this note 11 on the consolidated financials regarding security deposit. So, could you just explain that, and would it affect our financials in any way?

Sanjay Dalal: Okay. Consumer security deposits are something which we get in our utility from our electricity consumer. Now these are being classified as non-current liability because these are not required to be repaid for a very, very long time. Only when the customer disconnect certainly, at that point we have to give him back the security deposit. So, these are virtually available for lifetime. Now, recently there was a opinion given by the Institute of Chartered Accountants of India regarding how these kinds of security deposit tend to be classified in the balance sheet. Meaning whether they have to be classified as non-current financial liabilities or they have to be classified as current financial liabilities? This opinion, they had given in context of oil marketing companies who have sought this opining in respect of similar deposits which they get form their LPG consumers. And the Institute said that the correct classification as per the Accounting Standard is in current financial liability. Since the Institute of Chartered Accountant had given such an opinion, the auditors are obviously bound by it and as management we do not concur with this but we have also followed it. But we have made an explanatory note explaining that we are a utility company and these deposits are virtually lifetime deposits. They are not expected to be repaid because when we show it as current financial liabilities, the assumption is that this will be repaid in next 12 months which is not going to be the case.

Kishan Shah: Okay. And sir, this franchisee of Shil-Mumbra-Kalwa that we have, so by when do we quarter three FY 2020 was the timeline I guess. So, what is the update on that and what kind of revenues do we expect for the full year like in FY 2021?

Sanjay Dalal: The takeover is expected to happen in the current quarter as we had indicated last time also. We are waiting for the formation of the government in Maharashtra. Once that happens we will be given that. In terms of revenues I do not really have numbers, but I think if you refer to our Investor Presentation we have given a snapshot which can give you an idea of what it is.

Kishan Shah: So I think, in the presentation there is no guideline and such for the potential revenues.

Sanjay Dalal: Revenues will depend on what is the tariff for that area but otherwise in terms of size Currently I think it is about 500 MUs of sales, roughly.

Moderator: Thank you. Ladies and gentlemen due to time constraints, we take this as the last question. I would now like to hand the conference over to Mr. Aniket Mittal for closing comments. Over to you, sir.

Aniket Mittal: Yes, thank you. I like to thank the management and on behalf of Motilal Oswal Securities, I would like to thank everyone for joining the call. Thank you.

Sanjay Dalal: Thanks.

Moderator: Thank you. On behalf of Motilal Oswal Securities Limited, we conclude today's conference. Thank you all for joining. You may disconnect your lines now. Thank you, sir.