

PTC India Limited
Q3 FY20 Earnings Conference Call
6 February 2020

Moderator: Ladies and gentlemen, good evening and welcome to the PTC India Q3 FY20 Earnings Conference call. Representing the company and to answer your queries we have with us on the call, the senior management team lead by Mr. Deepak Amitabh – Chairman and Managing Director.

I may draw attention and process that all participants' lines will be in the listen-only mode. 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.

At this time I would like to handover the conference to Mr. Deepak Amitabh of PTC India Limited. Thank you and over to you, sir.

Deepak Amitabh: Thank you very much. Good evening, ladies and gentlemen. On behalf of the senior management team of PTC, I welcome you all to the conference call for the Q3 2020 and 9 months 2020 results of the company. With me I will just say who all are sitting with me. Dr. Rajib Mishra, who is the Director-Marketing & Business Development; Dr. Ajit Kumar, who is Director-Commercial & Operations; Mr. Pankaj Goel, who is the CFO; Mr. Rajiv Malhotra, who is Executive Director & Chief Risk Officer; and Rajesh, who is the Chief Strategy Officer.

So the top PTC management team is there to answer any query regarding the results. We all know that last quarter was a very challenging time for the economy and more so for the power sector. We have seen that there was degrowth in the electricity demand and off take also. And there is some positive sides also that we could see the resolution of stressed assets started to have some small early wins.

Then certain power market developments also have taken place and most prominent among them is the mandatory payments security requirements derived by the government order which came in the month of June end and effective from 1 August. So what we have observed the impact of the move that it is generally are in compliance and are making regular payment for the current cycle, post August 2019.

Other than that, we had also seen that when I made a statement that there were some electricity demand and off take degrowth these are backed by some of the figures which show

that in October 2019 the capacity side PLF of thermal assets have gone down up to 49%. But there has been slight improvements since then and in December it has become 54%.

Similarly on the demand side also we have seen that November 2019 has seen a generation of about 95 billion units which was 14% less than average monthly demand. But that has also seen some traction and December 2019 figure show that this jump to 102.17 Billion units. So it is too early to predict that things are going to improve but we can see the traction happening. This shows that demand off take depending on obviously the manufacturing and other indicators should see slow return towards increase.

One thing is there that when there has been degrowth and the platform also we have seen in the quarter also degrowth 8% to 9% and even for 9 months also 5% to 6% degrowth which we have seen. PTC has been able to maintain its growth. We obviously our volumes grew by 2%. But even in the environment which I have narrated PTC's operations have demonstrated sustained volumes in the short run and the resilience of its business model for the long run.

With this introduction I am not getting into the figures etc. which you must have seen and the CFO is going to give the details whatever he wants to explain on the financial results. And then after that I will ask Director Marketing also to state few words to you and then we can leave it to open for the question-answer.

I handover this thing to Pankaj Goel who is the CFO.

Pankaj Goel:

I will take you through the financial results of the PTC India Limited. For the quarter ended December 2019 vis-à-vis the corresponding quarter of the last year. Volume has increased by 2% to 13.2 Million from 12.9 Million units. Total operational income has increased by 6% to Rs. 122.06 crores from Rs. 115 crores. EBITDA excluding the Ind-AS contra entries has increased by 2% to Rs. 93.95 crores from Rs. 90.2 crores. PBT has decreased by 1% to Rs. 78.59 crores from Rs. 79.4 crores.

PAT has increased by 13% to Rs. 58.27 crores from Rs. 51.34 crores. Total comprehensive income has increased by 14% to Rs. 58.32 crores from Rs. 51.04 crores. Earnings per share stood at 1.97 in comparison to 1.74. Now I will go through the 9 months ended December 2019 vis-à-vis the corresponding period of the last year.

Volume has increased by 5% to 54.3 Million units from 51.86 Million units. Total operational income has increased by 11% to Rs. 417.56 crores from Rs. 377.24 crores. EBITDA excluding the Ind-As contra entry has increased by 13% to Rs. 376 crores from Rs. 331 crores.

PBT has increased by 7% to Rs. 336 crores from Rs. 314 crores. PAT has increased by 23% to Rs. 255.94 crores from Rs. 208.47 crores. Total comprehensive income has increased by 35% to Rs.

255.9 crores from Rs. 189.51 crores. And earnings per share for the 9 months stood at Rs. 8.65 in comparison to Rs. 7.04.

Now let me go through the consolidated results for the quarter. Volume has increased by 2% to 13.2 Million units from 13 Million units. PBT has decreased by 11% to Rs. 112.04 crores from Rs. 125 crores. PAT has decreased by 30% to Rs. 63 crores from Rs. 90 crores. Total comprehensive income has decreased by 20% to Rs. 62 crores from Rs. 79 crores.

And earnings per share stood at Rs. 1.64 in comparison to Rs. 2.55. For the 9 months ended for the consolidated results vis-à-vis the corresponding period of the last year, volume has increased by 5% to 54 Million units from 52 Million units. PBT has decreased by 17% to Rs. 508 crores from Rs. 614 crores.

PAT has decreased by 14% to Rs. 358 crores from Rs. 415 crores. Total comprehensive income has decreased by 5% to Rs. 357 crores from Rs. 375 crores. Earnings per share for 9 months stood at Rs. 10.88 in comparison to Rs. 12.29.

Rajib Mishra:

Just to give you some of the positives what we have seen in the last quarter other than what we all know that we grew by 2% in volume inspite of the fact that there was a degrowth of 10% to 12% during this quarter in most of the industrial states like Gujarat, Maharashtra, Tamil Nadu there was less demand of power.

But despite of that we could grow by 2% during third quarter of the year. But other than that three or four which are very strong positives for PTC, I would like to just mention about that. Mangdechhu 720 megawatt hydro project in Bhutan we started scheduling the full quantum of course it was the wet months were over in the third quarter but we could schedule the entire quantum to all the beneficiaries in Eastern and Assam.

RKM Powergen of course it was not in the third quarter but rather it was 1 February 2020. We have started the full quantum of supply to Telangana. With that the entire quantum of 1,900 megawatt of those projects is now being scheduled. The trading regulation which was a point of concern for most of the investors in the company. We finally came to a conclusion and the trading regulations by and large is in favor of the trading companies. And the business as such is not getting affected because of the new trading regulations.

So these are couple of things which I just wanted to share but other than that the two major consulting projects which we are currently doing the AKVM Indore project we could retain for next three years and we have banded through a competitive bidding this time.

The Paradip Port which of course was not in quarter 3 but we could get a major order which is more than Rs. 10 crores for PTC.

So these are some of the major highlights. We think it is worth mentioning. If any other queries you have, you can always taken.

Deepak Amitabh: And one more thing which I just wanted to point out before this thing that we also have made certain amendments to our very general the dividend distribution policy which were there in move and obviously we will be putting up because it require confirmation of minutes etcetera. It take sometimes and as and when we get the confirmation we will be putting it on the site. So just wanted to keep you posted about that.

Thank you. Now we are open for the question-answers.

Moderator: Thank you very much. We will now begin the question-answer session.

The first question is from the line of Kirti Jain from Sundaram Mutual Fund. Please go ahead.

Kirti Jain: My first question is with regard to the plant divestment of the non-core assets, the wind power assets and as well as the financial services business divestment, what is the progress we have made? And secondly, with regard to the new stressed power assets when the scheduling will begin and when we will get the incremental volumes? These are the two questions from my side.

Rajiv Malhotra: This is Rajiv Malhotra taking the first part of your question. And second I will pass on to my colleague Dr. Mishra. So on the sale of that yet we are not yet in a position to give you a definitive proposal for say there is a definitive development culminating in a possible stakes here as of this point in time. But I will confirm to you that the process is on.

Kirti Jain: Sir, like what is causing the hindrance actually? It has been like sometimes we have announced those things on exchanges it is causing some hindrances in? Sir, I was trying to ask what is causing the hindrances in the divestment?

Rajiv Malhotra: Since you seems to be pursuing hindrance, first, there is no hindrance there, one. A process takes a natural time. Yes, there are market conditions which I think as analyst you would be well aware of. So we certainly do not want to short change ourselves or our shareholders when we go to a definitive price.

Rajib Mishra: Regarding the second part of your question, this is Dr. Mishra I am director marketing here. So I will explain what has happened on this for the pilot 2. Pilot 1, 1,900 megawatt the entire thing is now been scheduled. Pilot 2 which is 2,500 megawatt the nodal agency that is PSE Consulting has selected through a competitive process PTC for as an aggregator. So now we are aggregator for that. The bidding process has already started. The 21 bids with a total capacity of 6,000 megawatt has been bid for this 2,500 megawatt pilot 2.

The bids are already submitted but the reverse auction is scheduled for tomorrow. So once the reverse auction is completed we will be in a position to get the price of supply. Once the price is firmed up, the power will be we are already in discussion with the potential discoms who will be buyer. So once that process is done we will enter into PPA preferably and then we have to go to state regulators for approval on this which may take almost 2 to 3 months. Once the process as far as the price discovery part is complete.

So we can expect this part to schedule if everything goes well from the month of May onwards. Of course we have many other technical issues related to it. That we first of all this we should get medium term open access for all the power which we will tie up. Then the metrics and the states procurement condition during that time.

So there are many other conditions which are linked to it. But if you ask me pure technical time, it will take three to six months from the day the discovery of difference.

Kirti Jain: Just one last question. With regard to our plan of opening exchanges where are we and in what time frame we will be able to open our exchanges?

Management: During our last hearing on 21st, IEX has sought some time to file the replies which they will be filing by tomorrow and then a week's time to us subsequently giving at CRP will start.

Kirti Jain: So within six months we should expect or it will take more time?

Management: We are hopeful.

Moderator: Thank you. The next question is from the line of Mangesh Kulkarni from Almondz Global Securities. Please go ahead.

Mangesh Kulkarni: Sir, after changes in this dividend distribution tax rates, are we seeking any interim dividend from PTC India Financial Services in the coming quarter?

Deepak Amitabh: See we cannot be speaking, I mean that is a separate board and the separate accounts etc. So as on today we leave it to the natural consequences, you have been following PTC India Financial Services' results etc. so the suggestion is going on right now. So we have thought on the **(Inaudible 19:45)** why should there may any the dividend distribution tax has just change on this thing and it will change from 1 April I think 2020. So too early to make a comment on that.

Mangesh Kulkarni: And sir, my next question is about like recently government has also announced setting up of energy exchange like gas exchange and all these things. So are we any with our experience in the power sector and all these things are we thinking of going in that direction also or we will focus on our power sector only?

Deepak Amitabh: At present we are focusing on the power sector because there is so much things happening at the regulatory and the power market designing which are happening. So we are highly focused on the energy sector as such but then the business development there is a separate business development team which keeps looking at such options. So they keep looking at then once in six months or 9 months we sit together all the options we take I mean then we sit together out of 10 what we should do. So it is at that stage only.

Mangesh Kulkarni: And sir, there are talks about these changes in electricity act and all these things. So means what kind of changes we are expecting like have you given any suggestions and all these things on this?

Deepak Amitabh: See we have given suggestions. What we believe that first before the electricity act changes etcetera there is a tariff policy which have been pending for quite some time and we expect that once the tariff policy comes out then obviously the current will start flowing again into their amendments etcetera. So as on I do not see anything happening like it is going to happen in the next two months or three months.

Mangesh Kulkarni: And sir, resolution front any further resolutions expected from these various resolutions are there in pipeline under the power plant with whom we have PPAs but they are struck in the problem?

Deepak Amitabh: That in any case, if we have the PPAs and there is concern and is into difficulty obviously then that goes to NCLT. RP is appointed, so our marketing team is consulting such types of people. And we are trying to always find an alternate solution.

Mangesh Kulkarni: So any near term resolutions are expected like now Rattan India is Power Finance has come out with resolution. So any further resolutions are expected in other power plants?

Deepak Amitabh: See we do not have PPAs in these plants but there are certain plants with PPA and there is a resolution take place and obviously they are actively engaged. Here we are engaged from a **(Inaudible 22:50)**. That we also keep watching the same condition is opportunity on account of being bringing them into elevator role as Dr. Rajib Mishra said that for the 2,500 megawatt which is the second phase pilot 2 the interest which have been shown by more than 6,000 megawatt.

So it gives an opportunity **(Inaudible) 23:12**. It gives opportunity for everyone including the people also to come and participate and if they are really see the whole thing depend upon how competitive the prices. If the prices are competitive then it is easier to say that we will be able to sell the power sell agreement and if the prices are not competitive then their stitching time will take much more longer. So we have to wait for the financial numbers to way out then we will see. And many of them may be stressed assets also.

Moderator: Thank you. We have a follow up question from the line of Kirti Jain from Sundaram Mutual Fund. Please go ahead.

Kirti Jain: Sir, with regard to cleansing of the book in the PTC Financial, how much like more the NPAs will get resolved and the book will become more cleaner we expect over like next three months and by March end how we expect the book to shape up?

Deepak Amitabh: See it is the question see we have early risk management committee there. Early warning signals which are there. So all those things we have been worked out. And during this year that is what the concept was. The management is working with that endeavor that to clean up and to come out of the stressed assets as much as possible. And in the other sectors which they are managing, other sector other than the thermal assets and whatever other assets are there on some of the five six assets that are there.

As told to us that early signs may be in certain cases, but they are not something which put them into big problem area. But in any case such type questions can be best answered by the PFS management. Because they are also listed company and they do this analyst calls so they will be in a better position to answer that.

Kirti Jain: Sir, how we expect the current year growth sir like we were envisaging 10% growth but given the circumstances of lower power demand how we expect the growth and what is affecting the power growth in your view?

Deepak Amitabh: Power growth so like as we have stated the whole concept of industry the way the market is also a part of the broader economic situation. So all of you are much more aware of the broader economic situation which was in the last six month or so. But things looks to be changing and today RBI also has come out and they are also saying that from H1 may be H1 of next year is going to be still the growth will not be so much but then obviously post H2 there will be a lot of growth happening.

And when we said also that is what I said that even if you see my nine months we have grown at 5%. And we believe that this year and the next year the growth should be better than this 5%.

Kirti Jain: But sir, our margins are not I mean our EBITDA growth is not for the quarter we see it is little softer. What impacted us, sir?

Deepak Amitabh: See one of the reasons that a short term market is as we have always said it is going to be volatile and short term also constitutes of your exchanges, your deep platform and the banking transactions etcetera. But if you see my margin we just did analysis. See margin there are many times when we are charging a very small margin also but with that there is a financial thing which are there that is the rebate and such charges.

So if you see that the overall margin because the rebates etcetera is a part of that. We have been able to maintain more than Rs. 0.07. In the quarter Q3 also as well as so more than Rs. 0.07 including rebates and margins. It is more than Rs. 0.07 in Q3 as well as 9 months also which we have maintained that and otherwise if you see just sale matter purchase obviously it is 3.66 and 3.68 something like that, which is flat.

When you see the profitability or if you see the facts, in last 12 months we had done Rs. 262 crores in the standalone and we have been able to do Rs. 257 crores to Rs. 258 crores approximately in the nine months which we have done.

Moderator: Thank you. The next question is from the line of Piyush, individual investor. Please go ahead.

Piyush: My question is that at consolidate level if we compare as on 31 December 2019 versus 2018 the consolidated level our PAT has reduced by 10%. So what is the major reason of reducing this PAT because standalone we are at flat so what is the reason of that?

Management: The PAT we are seeing for a consolidated level basically PTC India has done better. It has increased its PAT from Rs. 51 crores to Rs. 58 crores. PTC Financial also has increased from Rs. 41 crores to Rs. 43 crores. The shortfall is in the PTC Energy where there is a loss of Rs. 37 crores. So actually because of the increasing PTC Energy loss our consolidated PAT has gone down.

Piyush: So near future what is the growth aspect of PTC Energy whether the loss will further extent or it will come down? What are the expectations?

Management: See during this particular quarter the wind is also low and then based on the Andhra position we were subjected to heavy curtailment also. And we expect in this quarter the wind will grow up and the issue in Andhra will also get resolved because the High Court has taken cognizance of that. The curtailment issue once get resolved we will be able to make more energy and then make more money also.

Moderator: Thank you. The next question is from the line of Manoj Kumar from IDFC Securities. Please go ahead.

Manoj Kumar: Sir, my question pertains to the new trading regulation which I think I believe requires us to open up the letter of credit for each and every contract. Am I right in saying that? And if it is, what will be the impact of this in our P&L for the full year?

Management: If you just remember in the month of July 2019 Ministry of Power has given a directive for a mandatory security mechanism in this the LC has to be open for all the **(Inaudible 31:57)** and long term contracts. So I think this is in line **(Inaudible 32:01)** also in line with that.

So virtually there is no change of plan as far as the new regulation is concerned. So it remains same more or less in the same line what is the Ministry of Power order of July are what the trading regulations coming trading regulations sake it will be same line because there is no change.

Manoj Kumar: Is there any cost impact to us in the same we have to open the LC, is there anything which any key take away from these new trading regulations on our P&L impact?

Management: To make it more simpler, I would like to say that in case in the Ministry orders have taken that we had to open a LC for all the transactions actually there were some monetary involvement in that for the expenses involved in that. In the present trading regulation also the same thing will apply. So whatever was applicable in that has an expenses for opening an LC. It will also be applicable in this. CFO will clarify something.

Pankaj Goel: The approximate LC opening charges will be to the extent of Rs. 4 crores to Rs. 5 crores.

Manoj Kumar: So that will be the impact on our P&L, is it sir?

Pankaj Goel: Yes, as far as the P&L is concerned.

Moderator: Thank you. The next question is from the line of Abhijeet Bora from Sharekhan Limited. Please go ahead.

Abhijeet Bora: Can you just throw some light on the new PPAs which will be operational for the thermal and wind side or anything is not pending as of now?

Deepak Amitabh: So as we stated that the 2,500 megawatt once the bidding price is discovered which should happen in this month itself and they will both add depending upon the price which is discovered. The PTC team as an aggregator will be soft marketing which they have been doing will be converted in to hard marketing and we will have to find out a buyers for the sake of power.

And once the buyers agree to do it at a price and for a duration then the PPA and PFA will be signed and then the PPAs which they have to go to the regulatory commission also to get an order and these things that is what Dr Mishra was saying that three to six months' time it takes.

Abhijeet Bora: So this entire 2,500 megawatt, how much will be available in FY21 or how much will be operational?

Deepak Amitabh: That is what I said, if everything goes on we are able to construct PPA and PSA so obviously that will be available this 2,500 megawatt depending upon these things it will be available for six months, seven months depending upon when we conclude and when the regulator will allow.

So that we cannot forecast but normally we believe that it should be by before September if we are able to do that then the whole half year it should be available. And then it goes for multiple years.

Abhijeet Bora: And can I get the PAT number for PTC Energy?

Management: Yes, PAT is negative Rs.37.95 crores, there is loss.

Management: Actually there are two types of things in the PAT has gone down. One is around Rs. 14 crores has gone down due to the performance. There is a low PBT but this another Rs. 18 crores has gone because of the MAT actually. In the earlier period the MAT credit was taken on the entire because earlier they are not taking the MAT credit and in December in few quarters they have taken the MAT credit.

So that is why the loss was very low in that quarter. So because of that the Rs. 18 crores is added in this quarter. That is the **(Inaudible 36:20)** you can say that there is no cash loss or something like this. It is only a book entry.

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

Rahul Modi: Sir, just a couple of questions. Firstly, if you can just throw some light on the gas bids that are being talked about in the system. So how soon we see that coming in and whether there is any appetite? That is one. Secondly, if you can just help with the 9 months numbers for PTC Energy in terms of revenue and EBITDA and PAT?

Management: So the gas funding scheme which is at the final stage with Ministry of Power they have to come out with two schemes. One is only for supply of power through gas because the international prices are lower at this point of time. This will be for the medium term kind of a contract. The second will be the bundling of gas with the solar. So both these things are at the final stage of a draft preparation, the document preparation.

So once that document is prepared may be the aggregators will be selected and then it will go to the market. So since this will start only after this pilot 2 will be completed in terms of all the activities or may be after that the second queue will take off. So that is gas as well as the gas purchase.

Management: Regarding what, pleased repeat your question again?

Rahul Modi: What is 9 months Revenue, EBITDA and PAT please?

Management: Yeah 9 months revenue for PTC Energy is Rs. 254.31 crores and the EBITDA is for 9 months is Rs. 239 crores and PAT is Rs. 32.8 crores.

Moderator: Thank you. The next question is from the line of NM Modi, individual investor. Please go ahead.

NM Modi: You have mentioned something about dividend policy. Can you elaborate on that, sir?

Management: As I said that because board meeting took place yesterday till 8:39 in the night and the company secretary is getting those minutes approved because it is regarding dividend policy. So once it is approved we will be putting up in the site of the PTC as well as to the exchanges whatever we have to inform. It is a progressive this thing.

NM Modi: So far we do not have any dividend policy?

Management: We have a dividend policy but it was generic.

NM Modi: So you are going to make some changes in to it?

Management: Yes, so once you see that changes then you will understand what I am trying to say. It is more a specific job.

NM Modi: And regarding this income tax, we have adopted the new income tax rate?

Management: Yes, for PTC India Limited we have adopted the new income tax rate of 22% plus surcharges.

NM Modi: The PAT higher is due to the lower tax?

Management: Yes, mainly because of that.

Moderator: Thank you. As there are no further questions, I now hand the conference over to management for closing comments.

Deepak Amitabh: On behalf of PTC management, I thank all the participants for having spared their time and we had a very elaborate discussions with us which is always rewarding to both sides basically. We also though we understand the business, but your questions make it more focused.

Moderator: Thank you. On behalf of PTC India Limited, we conclude this conference. Thank you for joining us and you may now disconnect your lines.