"Torrent Power Limited
Q4 FY19 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to Torrent Power Q4 FY2019 Earnings 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 phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Dhruv Muchhal. Thank you and over to you Sir!

Dhruv Muchhal: Thanks. On behalf of Motilal Oswal, I welcome you all to the Q4 and full year FY2019 earnings conference call of Torrent Power. From the company we have Sanjay Dalal, Chief Financial Officer and Nikita Khubchandani, Manager Finance. We will start with the few brief comments from the management followed by the question and answer session. Over to you Mr. Dalal!

Sanjay Dalal: Good morning to everybody and thank you for joining earnings conference call of Torrent Power.

I will give a very brief overview of the financial performance for Q4 and for the year as a whole and some highlights on the balance sheet and then we will take questions from the participants.

Overall, consolidated PAT for Q4 was 18 Crores compared to 231 Crores in the comparative quarter that is lower by 213 Crores down by about 92%. The consolidated PAT was mainly affected by higher tax charge in Q4, which was the 192 Crores versus 59 Crores in the previous quarter that was higher by about 133 Crores. The company has actually paid MAT in both the period; however, annually the company reassesses the MAT credit utilization, which is possible over the next 10 to 15 years and accordingly makes adjustment to deferred tax charge, which to be made in accounts, so when this was done for 2018-2019 there was a reduction in utilization of accumulated MAT credit due to new projects, which were undertaken during the year mainly in the renewable space, which resulted in a higher charge on account of deferred tax adjustment in Q4. It is only a book adjustment arising out of an annual change in estimates, so if we take out the tax component then consolidated PBT for the quarter was 210 Crores versus 290 Crores in the comparative quarter where i.e. lower by 80 Crores.

When I talk about the annual performance I will go into greater detail about why this is lower, but suffice to say that the previous comparative Q4 was benefited by one time gains of about 59 Crores in other income and also there was a very high recovery of the regulatory gap in the comparative quarter.

Coming to the year as a whole, the consolidated PAT for 2018-2019 is 898 Crores versus previous year it was 965 Crores that is lower by 67 Crores or 7%. Consolidated PAT benefited from a lower tax charge in 2018-2019, which was 356 Crores versus 457 Crores in the previous year.

So consolidated PBT if one sees then for the current year it was 1254 Crores versus 1422 Crores in the comparative year, it is lower by about 12%.

Before we go into the reasons for the lower number, it is important to know that for the year as a whole most of the operating drivers showed a very positive trend in the year gone by. I will just explain five key drivers and how they moved during the year and what was the impact on the profits and then I will explain why the profit is still lower. So, licensed distribution business is our key business where we reduced the T&D loses by further 0.52% and also earned a higher absolute ROE because of the new investments, which we have undertaken in the last couple of years. This together pulled in about 89 Crores of additional profits.

The second part of our distribution business, which is the franchised distribution business. There was a significant reduction in AT&C losses, which we achieved during the year and we also experienced higher contribution rate from these businesses. So these two put together got in about another 143 Crores of additional profits.

Going to the thermal business, the thermal business also benefited during the year from increased fuel efficiency, improved profitability in merchant power business and some incentives and O&M efficiency gains which occurred, so all put together also brought another 120 Crores.The renewable business had higher capacities available during the year, which pulled another 65 Crores. So if we take all these together, contributed additional profit for the year was about 417 Crores.

In spite of the better operating drivers why is the reported profit lower that is the key question? So, this is explained by change in accounting policy, which we affected during the year as a result of adoption of Ind-AS 115 revenue from contract with customers. So this accounting standard with a mandatory from April 1, 2018 and as a result of this standard we have to change our accounting with the respect to the gap accounting, so from this year onwards we have started accounting for the regulatory gap. This change is explained in greater detail in our financial statements note #2 if you refer it will give you a detailed explanation of what is the change.

If I apply Ind-AS 115 to the previous year also on the pro-forma basis then my previous year profit before tax would be 969 Crores. This is because the previous year had a big benefit arising out of a large recovery of regulatory gap for previous years of almost about 450 Crores. So, strictly on the same accounting basis, the profit before tax for 2018-2019 is about 1254 Crores versus comparative year on a pro-forma basis have been 969 Crores, that is an increase of about 285 Crores. This explains why the reported number looks lower in spite of very significant improvement across all operating drivers of the company, so it is purely with the change in the accounting policy and on a comparative basis if we apply the same accounting policy for 2017-2018, the profit for 2017-2018 would have been 969 Crores.

I just want to draw your attention to note #3 in the financial statements, which relates to the impairment assessment for our DGEN power project. DGEN is a 1200 MW power project, which is stranded. Because it has been not operating for few years, we had undertaken assessment of impairment of its carrying value and at the end of it we are saying that there is no impairment in the assessment; however, this assessment is essentially based on certain assumptions and judgment. So, going forward if there are significant changes, which happen then there is a possibility that there could be an impairment charge, but as of now as on March 2019, there is no impairment of DGEN . So that completes the profit and loss overview.

In terms of balance sheet, I will just give outcome of the key numbers, which gives an idea of how the future will pan out. So, the capex incurred during the year was 1692 Crores and the outlook is more or less on the similar lines and in terms of liquidity at the end of the year we had about 1253 Crores of liquid assets available in the balance sheet and our repayment liability for the next 12 months is about 843 Crores. The consolidated net debt to equity is at about 0.8, very comfortable and consolidated net debt to EBITDA is around 2.61.

So, that sort of completes the brief overview of the financial performance for the year also and now I think, we can go to question and answers.

Moderator: Thank you very much. We now begin the question and answer session. The first question is from the line of Shreeram Kumar from Spark Capital. Please go ahead.

Shreeram Kumar: Good morning Sir. I have a couple of bookkeeping questions. Can you please tell the split of the profitability for the different businesses, distribution, SUGEN, AMGEN, DGEN and distribution franchisees for both FY2018 and FY2019?

Sanjay Dalal: We are not giving the segment wise breakup of profits in our reported numbers, so we would not be able to share with you.

Shreeram Kumar: It is possible to share EBITDA margin for these businesses if possible to share that or the recurring pattern?

Sanjay Dalal: I can give you a broad overview, so in the generation businesses we have gas based plants and thermal generation plant. Amongst the gas based plant, SUGEN power plant is the regulated model similarly the Sabarmati coal based plant is also a regulated model, so if you refer to their tariff order you will get a lot of details about these plants. The UNOSUGEN and DGEN plants are stranded. There is a loss arising out of the depreciation and interest for those plants, which is already booked in the profit and loss. Similarly, if you look at the license businesses from Ahmedabad, Surat, Dahej, you will get details from the tariff order and you make an assessment for these businesses from there and in the franchise distribution businesses are not in a regulation so they are governed by the agreements with the license operator and there key profit drivers are two, one is reduction in T&D losses, which we achieve year-on-year and second in the contribution head that is the difference between the average sale price, which we realize and the average purchase price, which we pay to the license distributor, so for the year as I explained earlier both these drivers were very positive, there was a significant reduction in T&D losses during the year for Bhiwandi and Agra franchisee distribution. Just to give you a number of Bhiwandi we reduced the AT&C losses by 2.38% and for Agra we reduced it by 4.78% during the year. Roughly in Bhiwandi 1% reduction is 24 Crores of additional profit and 1% of reduction in T&D losses at Agra is roughly around 16 Crores of additional profit. So this much we can share. As of now, we are not giving out detailed segment wise numbers.

Shreeram Kumar: Can you give the current regulatory equity for distribution business and the generation business, current regulatory equity at the end of FY2019?

Sanjay Dalal: So, regulated equity for Ahmedabad and Surat out together is 2400 Crores.

Shreeram Kumar: And the SUGEN and AMGEN?

Sanjay Dalal: SUGEN regulated equity is roughly 900 Crores and AMGEN is about 410 Crores roughly, but if you refer to the tariff orders, which has just been issued you will get more detail and precise numbers also and I am giving you approximately correct number, but you will get more details there.

Shreeram Kumar: Second question is, what is the current debt in UNOSUGEN and DGEN?

Sanjay Dalal: Current level of debt UNOSUGEN debt is roughly 940 Crores and of DGEN is 2800 Crores, but all of this you should see it on a balance sheet basis.

Shreeram Kumar: Sir, the Agra and Bhiwandi, what is the capex that needs to be invested and what has been invested already?

Sanjay Dalal: For the franchise distribution business, there are two businesses, which are already operating Bhiwandi and Agra and there is a third one, which we recently acquired in the second half of last year and which we will start operating from this year that is a Mumbra-Kalwa area, so all these three put together I think over the next three years the outlook is the spend of about 400 Crores of capex per year.

Shreeram Kumar: And already invested for Agra and Bhiwandi?

Sanjay Dalal: I do not think we have that number readily available, can you just contact us offline we will give you that numbers.

Shreeram Kumar: Sure Sir. Thanks.

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

Mohit Kumar: Good morning Sir. On the renewable is it possible for you to give the revenue, EBITDA and PAT for the wind and solar business and my second question is, how much of the renewable assets you are building over the next one and half to two years and how are you going to fund it?

Sanjay Dalal: So, the details of the renewable assets, which are already up in operation and once which are under development are given in the investor presentation, which we have uploaded. Lot of details are given including the tariff numbers and everything, so you will get that, but to summarize it at the end of the year we had 138 megawatts of operating solar assets and we had about 473 megawatts of operating wind assets and about 851 megawatts of wind assets are under development. More details are given in the investor PPTand in terms of funding these assets, we are generally funding this by the way of long-term bank loans in the ratio of 70% to 30% or if it is in the SPV 65%-35% debt to equity ratio.

Mohit Kumar: Is it possible to detail out the capex plan for the entire company for FY2020 and FY2021 overall numbers and how much is the equity required?

Sanjay Dalal: The capex plan can be seen in two parts, one is the project capex, which largely relates to the wind projects, which are under development and the second part relates to the ongoing capex, which keeps happening in the license distribution business and franchise distribution business. I will take the second part, for the ongoing capex for the license distribution and the franchise distribution. If I look at 2018-2019, we spent roughly about 1130 Crores of capex for our license and the franchise distribution businesses. Now, last year we got two new areas, we got the Dholera Special Industrial Region License for 25 years to operate as license distributor there and we also got one new franchise distribution area in Maharashtra, the area of Shil, Mumbra & Kalwa, so we will also now require some additional capex, so this 1130 number, which we spent is likely to shift to go up to around 1600 Crores per year for our next two to three years. Coming to the renewable project, which are under development as I said 851 megawatts are in the development and the capex next year, which will largely be the amount required to complete and operationalise these projects during the course of 2019-2020 is estimated at around 3800 Crores, but as I said that if you look at the investor PPT you will also get the project cost estimates and everything there, but for the next to finish this 851 we will roughly incur around 3800 Crores.

Mohit Kumar: So, it will require for two years is around 2400 Crores, am I right?

Sanjay Dalal: You are calculating for the next two years you are saying?

Sanjay Dalal: Yes. If roughly you can take a 30% number.

Mohit Kumar: 2000 Crores is required means all the profits for the next couple of years will go to as capex to meet the equity requirement for this wind projects?

Sanjay Dalal: No, in the current the EBITDA is about 3400 Crores roughly, so even if you take that number on 2 years, we will have about 6800 Crores of EBITDA coming in as new capexes are being incurred, so the plan which we have on hand can be easily funded from internal accruals.

Mohit Kumar Is it possible to share the revenue, EBITDA and PAT for the renewable projects for FY2019?

Sanjay Dalal: We are not giving a rough now the segment.

Mohit Kumar Understood, Sir. Is there any development on the approval of the UNOSUGEN, PPA of power per share arrangement?

Sanjay Dalal: The proceedings with the state regulator are now over and we are hoping to get a favorable order in which he will adopt the tariff of UNOSUGEN as determined by CERC, so that should happen over next 2 to 3 months.

Mohit Kumar Thank you and all the best for next quarter.

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

Santosh Hiredesai: Many thanks for the opportunity. Sir, I was looking at the balance sheet where this item which has moved up quite sharply on the current asset side or the financial assets, which has moved from 750 Crores to 1679, does it explain the unbilled revenues and going to the change in accounting standards?

Sanjay Dalal: Yes it represents the gap accounting.The revenue gap of the current year as well accounted as a regulatory asset, which is reflected there.

Santosh Hiredesai: So, this will actually need the regulatory approval post, which you will be able to bill the customer and then recover is it?

Sanjay Dalal: No, let me explain. I think roughly 937 Crores or something is the total gap out of which 200 is already approved in the last tariff order and is under recovery during 2019-2020 and 737 roughly is the gap for the current year and the year before that, which will get approved whenever the true up happens.

Santosh Hiredesai: So, typically this is recoverable over how many quarters?

Sanjay Dalal: Normally, it is recoverable in the next two or three months. If you see the revenue gap number we are also lowest amongst all utilities, so we do not have so much of disputes on these items and normally as and when these are trued up they are permitted for recovery in the next ARR.

Santosh Hiredesai: Sure, second just also wanted to understand, you talked about include merchant off take also during the year, which has helped our numbers we get some sense of what sort of volumes awaited on the merchant side and average realization number and I am assuming this is broadly from SUGEN right?

Sanjay Dalal: Yes, so SUGEN has some merchant capacity and that we sell from time to time, so this year was a good year in terms of selling. I think we sold up roughly about 200 million plus in the merchant market with robust margins.

Santosh Hiredesai: Any color on the average number any range that could help us with?

Sanjay Dalal: I do not have that immediately may be if you can contact me offline we will give you that data.

Santosh Hiredesai: You are saying this year you have seen both improvement on the volume side as well as on the pricing side, so this number would be the same?

Sanjay Dalal: Right, that is the previous year, so may not happen all the time, but this is one of the explanations of better performance of the current year.

Santosh Hiredesai: That is it from my side. Thank you so much.

Moderator: Thank you. The next question is from the line of Anupam Goswami from Stewart & Mackertich. Please go ahead.

Anupam Goswami: Sir, any upcoming distribution franchise on the import you can bid on to?

Sanjay Dalal: As I earlier said that during the year we got one area Shil, Mumbra & Kalwa which is part of the thane urban circle, so that is something, which we will operationalize, I think the takeover is just about happening as we speak and it will operationalize during the year. As of now there are no franchise distribution opportunities on the horizon but as and when they come I think we will certainly be interested because that is going to be one of the key areas of growth of us, but as of now other than this there is none, so we will be focusing on developing the Shil, Mumbra & Kalwa area and if there are more to come during the year we will certainly bid for those, but on an average on a long-term basis considering the prevailing scenario and the level of interest in various states utilities to franchise out difficult areas, I think on an average we expect to get at least one area every year.

Anupam Goswami: Which of the states would be more outsourced such in this model?

Sanjay Dalal: Maharashtra certainly then UP, Rajasthan and Madhya Pradesh. Odisha will follow the privatization model, so we expect Odisha discom to be privatized, I think that is all about in terms of near term visibility.

Anupam Goswami: This AS-115 that you guys adopted from this year, so it would be applicable to all the discoms and private discoms?

Sanjay Dalal: Yes, I will explain Ind-AS 115 briefly. I am trying to make it as non-technical if possible. Ind-AS 115 is standard on revenue accounting, so some part of the standard deals with what is know as variable consideration, so under those we have accounting for the regulatory gap and surpluses, which happen, so these are applicable only to rate regulated activities.Now as far as my knowledge goes in the industry other than Torrent almost everybody has followed the accounting for rate regulated activities by adopting gap accounting much earlier, we were not following that out of conservative approach to accounting given the weather of regulation in India, but now it has become mandatory and we have also moved to gap accounting, so I think we are among the last of utility that is in the private sector who adopted gap accounting, all the other private players adopted it many years back.

Anupam Goswami: That is all. I will join back in the queue.

Moderator: Thank you. The next question is from the line of Karthikeyan VK from Suyash Advisors. Please go ahead.

Karthikeyan VK: Good morning. Thanks very much for the call. I had couple of questions. First is on the thermal generation especially on the gas side, could you give us some perspective on the breakeven gas price up to which the regulator allows you to buy from generator, I am trying to understand sustainable PLF numbers for that plant?

Sanjay Dalal: There is no such rule of breakeven price, SUGEN has a long-term PPA therefore it has to arrange fuel to fulfill its obligation in the long-term, Fuel arrangements are generally made and gas cannot be stored so whatever is bought will have to be utilized so fuel arrangements are made with the consent of the offtaker who in turn brings the regulator also on board.

Karthikeyan VK: In the context of locally available competing supplies, so at current competing prices what would be a good breakeven price?

Sanjay Dalal: I would say up to $8 it should work on an average.

Karthikeyan VK: Bumer tip price you are saying $8?

Sanjay Dalal: No, I sort of gave you the terminal prices, so long-term if it remains, when I say $8 it is a range, because currently the prices went through as low as even sub $5, so there is an averaging, which automatically takes place, there would be period where the cost is high and there would then period when fuel cost is low, so that sort of average you have, so I would say that on the upper end if the gas price go up to $8 or even $9 on an average the regulator should okay because there would not be any tariff shocks.

Karthikeyan VK: For the year the average should manage that is what you are saying?

Sanjay Dalal: Yes. If you want a very quick, what should be that average number I think that can be anywhere between around $7 I would say.

Karthikeyan VK: That is very helpful. Second thing what are the possibilities available for you to do a long-term tie-up for gas around these prices at current demand supply equations?

Sanjay Dalal: So far as SUGEN is concerned it has tied up fuel up to December 2020 at very attractive prices $6.5 actually.We had earlier tied up on the floating price basis, but when the oil prices were low we sort of hedge those prices and now with have a fixed price of $6.5 for all supply up to December 2020.

Karthikeyan VK: Perfect, and this is for what quantity if I may I ask Sir?

Sanjay Dalal: I do not know the quantity of hand, but this will be enough to fulfill the long-term PPA requirements.

Karthikeyan VK: Or is it for the full capacity?

Sanjay Dalal: It is not for the full capacity, certainly for 75% of the capacity and so this is up to 2020, currently LNG market is oversupplied and likely to remain for quite sometime effectively so it is also a good opportunity for us to tie up gas beyond the period of 2020, so we are contemplating that and probably we will go into market may be in a couple of months to tie up more fuel for the subsequent period periods also.

Karthikeyan VK: Just to understand that this should be again crude which you will say 12%, 13%, 14% crude that would be broad formula to think about?

Sanjay Dalal: Yes, so for India that thing is the best pricing basis, but we are also thinking of seeing whether other pricing measures would be more advantageous like NBP linked or TTF linked, but I think for all purposes we can assume they will be crude linked as they are still the best pricing basis available for India.

Karthikeyan VK: The second question Sir is that your AT&C loses in the discoms are at very, very interesting levels, I mean they are easily the best in the country what is the scope for you to improve further from here or should we assume that the regulator will allow you to remain at these levels going ahead because these are easily the best in the game?

Sanjay Dalal: May be there is still some room for reduction, but it cannot be as dramatic as it is say in Bhiwandi or Agra. There is always an incentive, which is required to be given to the operator to maintain it even at these low levels, so we hope that regulator will while today the scheme is that he gives a target and if you are below the target you retain two-thirds of the benefit, so we hope that on a long-term basis, he will continue to keep targets at such levels that we have some incentive always our level or he will devise another incentive mechanism to ensure that AT&C losses remain at these levels.

Karthikeyan VK: True and you refer to it briefly, but if I may request Bhiwandi and Agra what further scope remains there without doing very abnormal capex to improve AT&C losses? You are at about 15% to 16% currently in the two places, so how long could you go?

Sanjay Dalal: Bhiwandi we are at 15%. We were at 15% losses last year, so there is still room. If you look at Ahmedabad and Surat they are at around five level or five and a half levels, so there is still. Bhiwandi also can reach those levels, so we have a long runway there still and Agra was at 16.11%, so that again also there is still a long runway available for further reduction considering that we are operating our license businesses at around 5.2% to 5.5% level.

Karthikeyan VK: Sir one last question. You spoke about merchant sales, so what prices would you have realized Sir and would these have been within Gujarat or outside of Gujarat?

Sanjay Dalal: These are largely outside Gujarat. Part of it, I think would be on the day ahead market and during the peak hours particularly and part of it would be under bilateral in the short-term market. Average realization at the busbar let me give you some broad color on it, so I think last year it was around Rs. 7.4.

Karthikeyan VK: Those are very, very good numbers Sir. You would have easily made Rs.1.5 to Rs.2 of EBITDA on these?

Sanjay Dalal: More.

Karthikeyan VK: More. Fine fantastic. This is very, very helpful Sir. Thanks very much and best wishes Sir.

Moderator: Thank you. The next question is from the line of Abhinav Bhandari from Reliance Mutual Fund. Please go ahead.

Abhinav Bhandari: Sir thanks for taking my question. Just wanted to understand on the renewable side there is a scale down on the SECI-1 project from 150 megawatt to 100 megawatt and the timeline also has been delayed, so just wanting to understand what has happened specifically in this case and for the other SECI and MSEDCL projects that we are doing where are we as far as land acquisition and the evacuation is concerned?

Sanjay Dalal: The Inox project was at 150 megawatt, which we have scaled down to 100 MW essentially because of inability of Inox to complete the project, so we have just given back them the project and financially we are neutral. We will get back the money, which we have invested in that project. Essentially on land as for the remaining projects that is SECI 3 project, which is the biggest, land certainly is an issue and the project will certainly get delayed beyond the SCOD, which is there in the PPA, but the issues facing this project at home and across all the projects under the SECI 3 auction so everybody has made an application to SECI for changing the SCOD and that is most likely to happen considering the reasons why this delay has happened. It was essentially because Gujarat government suddenly changed policy on land allocation to wind projects under the SECI auction and then there was an election model code of conduct, which came in, so now that those issues are resolved and the government has started allocating new land to SECI projects also, but good seven to eight months are locked in this protest and therefore there is a very strong possibility that SECI will extend the SCOD, that the projects will still happen within the extended SCOD. We have acquired almost 27% to 30% of the land in this project and so we foresee that this project we should be able to finish. As far as the other projects are concerned one is in Maharashtra, which is on track and that should happen and the SECI 5 auction project also once this land issues are resolved should happen within the original SCOD.

Abhinav Bhandari: Sir any threat because of this delay to our earlier IRR that we would have been projecting on three and five SECI?

Sanjay Dalal: No since it is a land delay, no substantial costs have been incurred. The cost also gets delayed because of this. So the IDC does not change in that sense and therefore nothing changes. The tariff will not change. The period will not change. Only the SCOD will change and the PPA will start from the new dates and the cost anyway as I said because this is a land delay related issue costs have also gotten delayed because of that.

Abhinav Bhandari: Sure got it Sir. The second question was on the AMGEN side which gets phased out by 2022 December so what is the plan then Sir on this particular project?

Sanjay Dalal: This is a simplistic view that because the new environmental norms will kick in by that time AMGEN will not find it financially and even in some cases physically possible to implement and achieve those norms, so in normal course it has to get phased out. If that happens anyway the land value where this plant stands is a big number and that should sort of offset any what I would say is the book value of the asset, which may be there in AMGEN. Financially this will not matter much. As I said, but this is not this simple an issue because AMGEN is an embedded generation for Ahmedabad distribution, so it is part of an islanding scheme, which ensures that even if the national grid collapses Ahmedabad will get power from AMGEN. That has to be resolved because that is the requirement of the government that all major cities must have, what is known an islanding scheme that in case of an emergency certain minimum power is available to that area, so that needs to be resolved and that can take some time and that is something, which can delay the phasing out. The second is that if it has to be phased out as I again said it is embedded generation it means that new import capacity for the city has to be created, which calls for additional investment, which is actually good for the discom business, but that also will require time and the third aspect of AMGEN that its useful life is still up to FY 27to FY 28 in terms of available operating hours, so considering all of this there could be a situation where it may not necessarily get phased out by December 2022, but may be delayed a little bit so far as the company is concerned, it will not matter much because as I said that it has about Rs.400 Crores odd what is the book value of asset. Unrecovered asset would be about Rs.415 Crores for AMGEN for March 2019, so a part of it will get recovered over the next two to three years and anyway no major capexes are envisaged in AMGEN so it will go down a little bit further, but as I said that AMGEN in a free hold land of about 59 hectares, which is in the middle of the city, so that value should be able to offset any such unrecovered book value of assets.

Abhinav Bhandari: Sir on this new circle that you got Shil, Mumbra & Kalwa initially in media there were some reports of resistance and political disturbance, which were impacting you taking over the offices and the area, so how is the situation now and could we expect this year you completely taking over and starting your work there?

Sanjay Dalal: You know the takeover process is going on as we speak, so I think the cutoff date is July, so I think July 1, onwards we should be operating in that area, so the small disturbances will keep happening, this is natural but we do not foresee any major issue there.

Abhinav Bhandari: Got it and then one last question Sir on the stranded couple of assets that we have today, is the environment now conducive enough for you to get some short-term PPAs and run these plants at least some PLF this year or it is still not conducive enough in terms of demand supply I am trying to understand?

Sanjay Dalal: Let us address this in two parts. Mostly I said we have plants, which was built up specifically to supply power to our utilities, but because by the time the COD happened, the gas disappeared, there was a delay in adoption of tariff from the state regulator which as I told you a little while earlier that is under process and hopefully we should get a favorable order from them during this year. As far as DGEN plant is concerned, we do not have any PPA all that we can say now is that overall outlook surrounding gas-based plant is improving. In the near term, the government does have strong realization in the government that gas-based plant have a role in the power system of the country and they need to be operationalized whatever already created standard, so there is a gas pooling scheme, which the government is considering, hopefully something should come out once the elections are out of the way, if that happens then in the near term, DGEN could operate under the gas pooling scheme like it did in the year 2015-2016 when the similar scheme was brought. If DGEN operates under the gas pooling scheme of course then there will be additional opportunity to sell in the merchant market also from time to time, so that is the near term outlook. On the medium term outlook, again one could say that some favorable conditions are developing which for example there is clear recognition that coal is a big pollutant and compared to that gas will be 60% less in emission level so there is a need to sort of at least whatever we have should be at least operated from a pollution perspective also. There is also a top up increasing pollution tax on the coal based plant in parallel so today you have only Rs.400 per ton of clear energy cess on coal, but that is likely to go up, now if that goes up then it sort of creates some kind of a level playing field and gas-based plants can then compete more effectively against the coal-based power, so that is another development we hope should happen over the next couple of years and then of course you have this domestic gas outlook from the government, which is vastly improved so governments own projections show that by March 2022 almost 60 million cubic meters of per day of additional gas should be available, so if the domestic gas situation improves then a large part of this will have to be consumed by power sector only, because it is the only one it can consume so much of gas, so then that could also sort of dramatically change the situation for DGEN and of course regulators are also looking at technological superiority of gas plants to provide ancillary services to the grid, but all of this would be like balancing power to manage the intermittency of wind power or peak load management or spinning reserves, so these are regulations which are in work so if they come it will sort of create more opportunities for DGEN like plants, but we do not foresee a situation where the long-term PPA would be feasible in the medium term.

Abhinav Bhandari: Sir just one last questions, on the growth side, especially on the thermal side, have we so far participated or looked at any of the stranded thermal assets or is there a thought process of going in NCLT whenever these assets come as and when the opportunity is there or there is no thought on that side?

Sanjay Dalal: No of course there is lot of thought because being in the industry, we cannot ignore this event, so we have the familiarity with almost all of these stressed assets, so we have known and understood and seen these assets one time or the other, so on one hand there is no doubt that these assets are available at an attractive price or could become available at a very attractive price and therefore we are keeping watch on them; however, the price is only one aspect of this. Each of this asset has a set of problems and we need a clear path as to how these problems can be resolved, what is the timeline to resolve this problems and what is our own ability to resolve it. This will be all asset specific so this becomes very crucial for us, so assuming that we have a clear path, we know the timeline and we have the ability the next question would then be what is the impact of taking over such a plant on the medium term profitability of our company and on the balance sheet stability. The other growth investment which we already have in the pipeline, so overall view we will have to take from time to time to see whether the price and the return advantage which we get by taking our stressed assets does not disturb the rest of the activities and more particularly the balance sheet and the ongoing investment opportunities which we are executing, therefore it will always remain an opportunistic view which we will take from time to time.

Abhinav Bhandari: Thank you so much Sir and many thanks for hosting this call, thank you Sir.

Moderator: Thank you very much. The next question is from the line of Dhruv Muchhal from Motilal Oswal Financial Services. Please go ahead.

Dhruv Muchhal: Thank you. Sir just a few questions. Sir you mentioned that Bhiwandi and Agra can reduce losses to the levels of Ahmedabad and Surat, can you give some color on what can happen for the next two to three years in terms of how much we can reduce given the big driver of our profitability?

Sanjay Dalal: I would say that in Agra you could consider about 2% over the next couple of year per year and Bhiwandi you could consider 1% over next couple of years.

Dhruv Muchhal: Sir if you can help us understand what is driving such sharp reduction in losses in Agra particularly we have seen it come off quite significantly so what is eating that decline?

Sanjay Dalal: It is combination of many things. It is a combination of our own vigilance team, the company's ability to rope in the support from local authorities, the capex plan and some technology I would say, so it is very difficult to sort of put it down to anyone factor, so it is a complete business process and know-how which we implement based on our experiences in Ahmedabad, Surat and Bhiwandi, so as I said we have a focused surveillance and vigilance. They also sort of rope in the support of local authorities which is not that easy to get, but you need to know how to go about it and make efforts there and then, we are identifying where these losses are coming from and then how they can be best addressed to technology, so under grounding of network for example is a common thing which we do to ensure that there is no threat, so it is more expensive than overhead lines, but then it sort of completely eliminates threat. As I said local authorities and law enforcement support is also equally important so you need to build that over a period of time.

Dhruv Muchhal: So these factors will remain favorable for us to continue reducing these losses?

Sanjay Dalal: Yes, I would sort of bundle all of these into what I would call the business know-how of how to go about this and will remain, that is our USP, and that will sort of differentiate us from others.

Dhruv Muchhal: Sir you are increasing your capex in the distribution business by about Rs. 1100 Crores about Rs.1600 Crores, so what could be the incremental contribution in terms of EBITDA or some numbers if you can give us?

Sanjay Dalal: So the regulated business is you can easily work out the return.

Dhruv Muchhal: More so from the incremental capex which we are doing for the new circles?

Sanjay Dalal: No, new circles meaning you are talking of the license business 14% ROE post tax that remains the same on 70/30 basis for all capexes so each capex is a theme of 30% equity and 14% posted ROE thereon.

Dhruv Muchhal: Yes. I was more referring from your overall distribution capex is increasing from 1100 Crores to 1600 Crores and I believe this is primarily to do with new circles. The new circles I mean the Shil, Dholera area so what could be the contribution in terms of EBITDA or some numbers there?

Sanjay Dalal: I do not have that kind of a calculation readily available, but I will throw some light. So Shil, Mumbra and Kalwa for example, if you see the details given in the investor presentation has a loss level of about 47% so our initial estimate is that every 1% reduction in loss if you achieve there it will bring in about 6.5 Crores of contribution in addition to that the input purchase price which you have based is 4.87 on a levelised basis and the I do not readily have the equivalent levelised average sales rate which we will realize but it is a positive number so the levelised sale rate and the effective purchase rate is the positive contribution of say around a rupee, so when I mean effective purchase rate means adjusted for the losses. Now as I reduce the losses the effective purchase rate keep going down where as the effective sale remains the same and it actually goes up depending on that tariff orders which are available for that area.

Dhruv Muchhal: So basically from the first year itself we are contribution positive?

Sanjay Dalal: No. This is I am giving you levelised number. So I think very conservatively I think the P&L accretion can be seen from the fifth year or maybe it is function of many factors, but I am giving you conservative number, which could happen a year earlier also, but fifth year onwards surely we are looking at being P&L accretive.

Dhruv Muchhal: Thank you so much.

Moderator: Thank you. The next question is from the line of Shreeram Kumar from Spark Capital. Please go ahead.

Shreeram Kumar: Thanks for the opportunity again Sir. Sir I have couple of questions so you mentioned on AT&C loss being below target and we retain about two-third of it and how much is the target and what is the profit we have our every 1% influence on the target Sir?

Sanjay Dalal: So you asked for the license distribution business?

Shreeram Kumar: Yes Sir license. Yes we have already have very low AT&C loss at 5.47, what is the target and what is the profit we gain for every 1% lower than that target?

Sanjay Dalal: So let me give you a color on Ahmedabad. For every 1% saving in T&D for Ahmedabad area we sort of retain about Rs. 35 Crores.

Shreeram Kumar: And what is the target Sir?

Sanjay Dalal: I will give you the target , so normative T&D loss level for year 2019-2020 which will be there in the tariff order also is 6.7% for Ahmedabad.

Shreeram Kumar: Sir I have about 15 months of balance sheet. Sir due to the accounting change we have a current jump in retained earnings and the corresponding jump in the unbilled revenue? What is the reason behind this Sir?

Sanjay Dalal: So basically we have adopted the gap accounting from this year onwards, so as on March, there was revenue gap which was assessed for the year 2018-2019 and the revenue gap which was approved by it yet to be recovered for earlier years so that appears as an unbilled revenue as a regulated asset.

Shreeram Kumar: The corresponding adjustment is made in the retained earnings, is I am correct?

Sanjay Dalal: If you take just current year it is to the P&L account, so basically the process simplistically stated as under that for 2018-2019 for example we have the actual, we do a self true up of those actual based on the regulation and the regulatory practices adopted by our regulator. We do a self true up and see what is the ARR which we would be entitled to in 2018-2019 and compared it with the year at the through ARR, so the difference is the regulatory gap which we have to recover. The regulator will either allow during the course of the year or later on allow it, but as per the accounting standard we have to provide it as an income for the current year.

Shreeram Kumar: Yes Sir, sure Sir. Sir on the Agra and Bhiwandi for every 1% loss reduction I missed that number Sir, every one 1% loss reduction what will be the profit will be seeing?

Sanjay Dalal: So every 1% reduction will pull in additional contribution of about Rs. 24 Crores for Bhiwandi and Rs.16 Crores for Agra.

Shreeram Kumar: Sir finally on the certain on the income side, Sir we had certain other operating income that we have got it from say RLNG sale and incentives from REC based generation, so what would be the corresponding number here Sir, because those numbers were adding to the profitability directly if I am not wrong, so did we make any income from the sale of RLNG Sir this year?

Sanjay Dalal: No. RLNG essentially means regasified LNG. Since we are importing and storing LNG, there will be time periods when we maybe having some more inventory, or there would time period when we have some less inventory, because you cannot match the requirement exactly whereas the storage period available is limited so we have to continuously optimize our inventory so as a result of that there could be some sale or some purchase of gas which may happen over the year which we have tied up, so last year that generated a profit of I think Rs.19 Crores and this year actually there is a loss from sale of LNG because this year was a year where there were continuous drop in prices and there are points in time where we were thought of holding more inventory than what the terminal was willing to permit when we have to dispose it off, so that disposal happened at a loss, I do not have that number off hand available with me. This is not the significant number in terms of an ongoing operation. It is more an optimization exercise on inventory, so we are otherwise not in LNG tradingbusiness.

Shreeram Kumar: The income from the generation based incentive on the sale of REC Sir, so what would be that this year compared to last year because there is a jump in last year which was adding to the profit directly?

Sanjay Dalal: This year I think only for the six months we got generation based incentive after which we hit the ceiling so there is no generation-based incentive.

Shreeram Kumar: What will be that number Sir around Rs. 30 Crores?

Sanjay Dalal: Rs.32 Crores.

Shreeram Kumar: Sir finally on the other income Sir. Last year we had around 70 Crores from the miscellaneous income so what is the nature of this income and what would be the number this year Sir, because it is adding to the ROE we generate?

Sanjay Dalal: Last year you are talking.

Shreeram Kumar: Yes Sir, we had a Rs.70 Crores miscellaneous income and other income and this year if you could give that and what is contributing to that income and what is the number for this year?

Sanjay Dalal: So you are taking for year as a whole right?

Shreeram Kumar: Yes Sir year as a whole?

Sanjay Dalal: Year as a whole last year we had I think two major items which were one time gains, so one was relating to a warranty settlement in respect of our DGEN plant, so that is one time effect around I think Rs.43 Crores to Rs.44 Crores and another was sale of land which we did last year which brought in another Rs.44 Crores of profit, so I think around Rs.84 Crores to Rs.85 Crores was the one time effect as compared to this year.

Shreeram Kumar: Sure Sir.

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

Mohit Kumar: Do you think any regulatory gapremaining for the past tariff period which has not been recognized in the revenue till their as second has all the carrying cost being allowed was regulator and all the disputes related to carrying cost is a history now?

Sanjay Dalal: One is you asked about whether there is any regulatory gap, which you have not accounted. So our accounting policy allows us to recognize only that regulatory gap, which is not in dispute with the regulator, so whatever is accounted, is undisputed amount and this is determined based on the prevailing regulations as well as the regulatory practices adopted by the regulator. If there are disputes with respect to an item of regulatory gap, we do not account for it, so as of March 2019, the disputed regulatory gap not accounted for is about Rs.665 Crores and the second question whether carrying cost is allowed. So the regulator allows carrying cost on the regulator GAAP in the normal port so that also as a part of two of its determined and added to the next year ARR. Now however the past disputed the regulatory GAAP, which I just mentioned about Rs. 665 Crores largely consist of past disputes relating to carrying cost. This dispute related to three, four year back and they are pending at APTEL and we are hopeful of getting a favorable order during the course of this year. Should we get a favorable order from APTEL, this would result in recognition of these items and there could be lumpy credit then in the P&L.

Mohit Kumar: Sir can we say that there is regulatory gap for FY2019 and in FY2020 will be immaterial given the tariff?

Sanjay Dalal: 2019 we have already accounted, so it is there if you see the financial statements you will know the number also. I think in the notes it is disclosed. For the 2019-2020, we have just received the tariff order the regulator has assessed the regulatory surplus. Against this regulatory surplus he has allowed the recovery of the past true up gap for 2017-2018 and the carrying cost and even after doing that there is an un-dealt with regulatory surplus of about Rs. 115 Crores, so it is just a signal basically that we do not expect any major regulatory gap arising in the 2019-2020.

Mohit Kumar: Yes Sir, is it possible for you to share the input price and realized price for Bhiwandi and Agra?

Sanjay Dalal: I think input price you can get possibly from the distribution franchise agreement which maybe there on the website of the licensed operator, so MSEDCL website you will get. Average sale realization is nothing but the tariff, which has been fixed for that area.

Mohit Kumar: The demand for this fiscal year was pretty weak, if we go last 9 months, there is slight or no demand I think demand is not grown, it is slight decline overall I think 1% for the last 9 month whatever number I have even for Ahmedabad 1% decline, Surat is around 3% decline. Is any particular reason for this?

Sanjay Dalal: No, I do not think. Ahmedabad and Surat demand has not declined. There is a growth in demand. I think the average growth for both put together is about 3% growth for the year **Mohit Kumar:** One last question Sir. What is the difference between the benchmark, gas prices and landed gas prices at your terminal?

Sanjay Dalal: You can add about 65 cents for regasification charge per MMBTU and another 45 cents for transportation so $1.1 roughly to the import price to get the burner tip price.

Mohit Kumar: I think the taxes are VAT?

Sanjay Dalal: So for us, there are no taxes because we directly import and consume, so there is sale, which happens. So there are two taxes actually one is the custom duty on import and second is the VAT, now as the power sector direct importer we get an exemption from customs duty and since we import and consume it ourselves there is no VAT because there is no sale which happens in India, so that way we tend to save about 20% which any other indirect buyer would incur.

Mohit Kumar: Okay, understood.

Moderator: Thank you. Ladies and gentlemen that was the last question for today. I would now like to hand the conference over to the management for closing comments.

Sanjay Dalal: I think this was a good conference and we covered most of the questions raised; however, if anybody has any questions they can sort of get in touch with us offline and we will be happy to address all remaining queries.

Moderator: Thank you very much. Ladies and gentlemen on behalf of Motilal Oswal Financial Services that concludes this conference. Thank you for joining us. You may now disconnect your lines.