"Torrent Power Q4 FY2020 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to the Torrent Power Q4 FY2020 Earnings Conference Call, hosted by Motilal Oswal Financial Services Limited. 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. Aniket Mittal from Motilal Oswal Financial Services. Thank you, and over to you Sir!

Aniket Mittal: Thank you, Neerav. Good morning everyone. On behalf of Motilal Oswal Financial Services, I welcome you to the Q4 FY2020 earnings call for Torrent Power. From the management today, 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 the session with brief comments from the management and following that we will open for Q&A session and now I hand over the call to the management. Over to you Sir!

Sanjay Dalal: Good morning everybody. This is Sanjay Dalal, CFO of Torrent Power. I will give you an overview of our Q4 financial performance for about 10-15 minutes and then we will start taking questions from the participants.

On overall basis the consolidated profit after tax was negative Rs.290 Crores that means there was a loss after tax of Rs.290 Crores during the quarter versus Rs.18 Crores of profit in the comparative quarter that is lower by about Rs.308 Crores. To facilitate the understanding of this loss after tax we should look at the profit before tax number and the tax number separately. First I will quickly deal with the profit before tax number. The profit before tax for Q4 was again loss of Rs.693 Crores versus Rs.220 Crores of profit in the comparative quarter that is it was lower by about Rs.913 Crores. There are three key one off adjustments which I want to highlight for a proper appreciation of this numbers. The first adjustment is Rs.1000 Crores impairment loss which we have taken on the carrying value of our 1200 MW power project. As you know this is the stranded asset and has been operating intermittently. We will talk about this a little later but this is actually a noncash book adjustment under the applicable accounting standards One significant future impact of this impairment is that the depreciation charge will go down by roughly Rs.85 Crores per annum because of this impairment which we have taken from the next year onwards. Second one-off non-recurring adjustment is the provision of Rs.51 Crores which we have taken towards potential damages and other project related cost arising from expected delays or failure in the setting of 115 MW wind power project, which we won under the competitive bidding process earlier year under SECI V bidding This provision is similar to the one which we had taken in Q2 for the SECI 3 project. We will talk more about it under the briefing for renewable segment. The third one-off adjustment is Rs.48 Crores provision for doubtful debts which we have taken in our franchisee distribution business in Q4. This is a direct COVID impact, which resulted in dramatic fall in the electricity demand during the lockdown period and subsequent relief provided by the government in form of postponement of payment of electricity dues, led to a very drastic fall in the collection efficiencies in our franchise distribution areas particularly Bhiwandi and Agra. The outstanding receivables as on March 31, 2020 were assessed from a collectivity perspective and in addition to the normal provisioning norms which we follow we have taken one-time additional provision for bad debt of Rs.48 Crores. If we adjust for these three one-off items, the adjusted profit before tax for Q4 is Rs.406 Crores versus Rs.220 Crores in the comparative quarter that is it is higher by Rs.186 Crores or about 85%, so on an adjusted basis the performance has been very good.

Now coming to the tax expense part of the P&L account. In the Q4, the current tax is at Rs.74 Crores, which is roughly 26% of the profit before tax, ignoring DGEN impairment adjustment. Now the applicable tax rate is 17.4%, however, our current tax rate is 26% because this one-off provisions which we made for the SECI 5 project and the additional provision for bad debt etc., are not allowed as a deduction from book profit and therefore effective book profit tax rate is about 26%. In addition to the current tax, there is a deferred tax credit we have taken in Q4 for Rs.493 Crores. This deferred tax credit in Q4 is broadly made up of three onetime elements other than the usual adjustments which happen on account of deferred tax liability and asset for the transactions during the year. One big adjustment was reversal of Rs.189 Crores of deferred tax liability created in earlier year on our DGEN plant. This is a direct consequence of the impairment provision we took, because of the impairment the deferred tax liability created on the DGEN asset, got reversed in Q4 and that was Rs.189 Crores of credit.

Second was that we had to reassess the future estimates of taxable profits, which we do for the purpose of determination of how much MAT credit we will utilize so this reassessment had to be done on the account of two factors. One was that next year 2021 will have COVID influence and obviously the profitability is likely to be lowered than what it was earlier estimated. Secondly because of the DGEN impairment the financial model used for the purpose of impairment also had to be used for the purpose of projecting future taxable profit, so with these two adjustments Rs.176 Crores of additional MAT credit also came to be accounted because that will get now utilized so that was another credit which came. The third element was Rs.79 Crores was recognized because of the reduction in MAT rate which happened during Q2 where the MAT rate was reduced from 21.55% to 17.47% and created a onetime gain of about Rs.464 Crores for the year so out of that Rs.464 Crores, 79 Crore was accounted in Q4. All that put together the total deferred tax credit for Q4 was Rs.493 Crores which explains the tax portion.

Now I will give you some commentary on the adjusted PBT numbers. The higher adjusted PBT was driven by improved financial performance in all our operating segments. Gas based generation performed better because of operationalization on 278 MW of UNOSUGEN PPA from second quarter onwards and because of the higher merchant sales which we did in Q4 and this is again net of the tariff blow which SUGEN PPA had to bare on the account of reduction in tariff in SUGEN. So even after the absorption of that reduction in tariff in SUGEN PPA this segment contributed towards higher PBIT.

The renewable segment also performed better on the back of higher average operational capacity which was available during the quarter. This quarter we had an operational capacity of 737 MW versus 577 MW in the comparative quarter and the PLF were also slightly better than the comparative quarters so on that basis renewable segments also brought in additional contribution. I will just give a little more color on the SECI 5 provision of Rs. 51 Crores which we have made during the quarter which I explained as onetime adjustment earlier. SECI 5 project suffered more or less the same issues in land acquisition which emerged from Government of Gujarat's land policy for wind projects. As a result, when the Government of Gujarat came up with the new land allocation policy sometime in November 2019, it said that all projects from SECI 5 and onwards can be allocated land only in renewable parks which are to be developed and not anywhere else. There are no renewable parks which are under development in Gujarat, as a result of this all our approvals and all project activities came to a complete standstill. We approached SECI for an extension of time for this citing that this should be treated as change in law. However, SECI has rejected our contention that extension of time is not entitled in this case and because SECI has rejected the time extension and availability of time from now till SCOD is not adequate to implement the project we have taken a provision for Rs.51 Crores on account of the possible liquidated damages and the project related cost which we have incurred. We are still in discussion with SECI on this issue but since on record, they have rejected our application for extension of time, we have taken the accounting provision in this quarter.

License distribution business also performed very well in this quarter in fact it was a star performance essentially on three counts, one is because of continuous new investments happening, ROE continuously keeps going up, secondly because of continuous improvement in efficiency of operations we have earned higher incentive and the third factor was that we won some regulatory approvals for past disputed matter for which we could take a credit in this quarter. So all put together distribution also brought in excellent performance. And finally franchise distribution business also did extremely well on further reduction in T&D loss and overall increase in volumes as well. This quarter on March 1, 2020 we formally took over Shil, Mumbra and Kalwa operations, so March this quarter includes one month of Shil, Mumbra and Kalwa operations and obviously that was the month of large loss because Shil, Mumbra and Kalwa operations when we took over had T&D losses about 55%. In March and no sooner we took over there was a lockdown so we could hardly do anything. As a result of that we have taken a blow of about Rs.22 Crores for one month operation of Shil, Mumbra and Kalwa. Even after that because of improved performance in Bhiwandi and Agra overall the distribution franchisee has turned in a decent performance. So that sort of is the color on the various operating segments. I would now start taking questions from the participants.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Mohit Kumar from IDFC Securities. Please go ahead.

Mohit Kumar: Good morning Sir and congratulations on good set of numbers. Sir, I had two questions, first is on the capital expenditure for FY2020 and given the COVID situation do you think we will be able to spend Rs.1500 Crores for the FY2021, is the number revised?

Sanjay Dalal: I could not get the first part of your question, can you repeat that please?

Mohit Kumar: What was the FY2020 capex across the board and secondly have you revised the capex expenditure FY2021 especially on renewable given the fact that I think hardly any pipeline left in SECI 1 I guess?

Sanjay Dalal: Firstly the capex for FY2020 I will just give the breakup for three major segments, one in the license distribution business we capitalized about Rs.812 Crores, franchisee distribution we capitalized about Rs.227 Crores and in renewable we have capitalized about Rs.836 Crores and balance Rs.51 Crores was miscellaneous capex in something in generation and corporate those kind of stuff so the total capex for the year was about Rs.1926 Crores. Now coming to the capex guidance, our earlier guidance was an average of Rs.1500 Crores over the next three years in the license distribution business and about Rs.300 Crores in the franchisee distribution business on a per annum basis. While the guidance remains the same because of the loss of time and some slowdown in activity during the current year, the current year spend has been revised downwards so I think we are currently hoping to do around Rs.1200 Crores to Rs.1250 Crores in the license distribution business for FY2021 and about Rs.350 Crores in the franchise distribution business. However the current year the situation is still evolving so this numbers could also further undergo a change. This is our current outlook on capex which considers delay on the account of loss of time and remobilization as well as our catch up efforts whatever we can do. This could change significantly depending on how the situation evolves. On the renewable, there are now no projects left with these two projects having provided for. There was renewable requirements for our renewable power obligation of our DISCOMs for which there was a project of about 150 MW solar plants which we had talked about last time. This also is now likely to be delayed because of reduction in demand which is likely to happen in 2021 and renewable power obligation of DISCOM itself might go down and therefore this project can likely get delayed. So does that cover all your questions?

Mohit Kumar: Yes Sir, on the gross debt numbers Sir, I think we have paid substantial debt in FY2020 despite having this huge capex, what is the gross debt right now and how much you paid in the fiscal FY2020, a comparison gross debt at the start of FY2020 and FY2021?

Sanjay Dalal: March 31, 2020 the gross debt was about Rs.8900 Crores and there were some reset of rate of interest which were due on March 31, 2020 so after that reset, the average rate of interest for Rs.8900 Crores was 8.52%. The current maturity in this Rs.8900 Crores is about Rs.1075 Crores.

Mohit Kumar: What were these numbers for March 31, 2019?

Sanjay Dalal: March 31, 2019 gross debt?

Mohit Kumar: Yes Sir?

Sanjay Dalal: It was Rs.9755 Crores.

Mohit Kumar: Okay Sir. Understood got it.

Sanjay Dalal: I can give you one more statistic which might be useful to you. The average rate of interest for 2019-2020 was 9.16% on an weighted average debt during the year of Rs.9270 Crores against that in 2020-2021 weighted average debt for the year will be about Rs.8900 Crores and average rate of interest as I said has already fallen to 8.52%. There are some loans which will now get reset from today till September so all put together we are estimating weighted average ROI of about 8.15% or so for the year.

Mohit Kumar: Understood, thank you.

Sanjay Dalal: And one more piece of information, which will still be useful, is the normative debt as on March 2020 was about Rs.2450 Crores. So this is useful because the part of the rate reduction will get passed on.

Mohit Kumar: So this Rs. 2450 Crores pertains to the distribution business of Ahmedabad and Surat, am I right Sir?

Sanjay Dalal: Yes, licensed distribution business and SUGEN.

Mohit Kumar: Okay. Understood Sir. Thank you Sir.

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

Rahul Modi: Sir congratulations for the very good set of number despite very difficult times hope all of you are safe and thanks for the opportunity. Sir just a couple of questions, how is the demand now at Bhiwandi, Agra post gradual easing of lockdown over the last 15 to 20 days, you see any kind of improvement there?

Sanjay Dalal: So I will give you a picture of demand actual numbers for the lockdown period that is first lockdown that March 25, 2020 to March 31, 2020 what happened, then I will give you what actually happened in April and then just some color on May. I will give you for all our areas before I think there will be questions covering other areas as well. So Ahmedabad, if you take first in the period March 25th to March 31st, there was a demand drop of 52% and in April that sort of recovered to a demand drop of 42%. If I take Surat same similar period numbers were 65% was the immediate demand drop in the lockdown first period up to March and that got recovered to 61% demand drop of the month of April. Dahej was 77% drop, which sort of again 60% in April. Given this for your question, the demand drop in March 25, 2020 to March 31, 2020 period was 65% and that partially recovered, nominally recovered to 63% in April. Agra, the demand drop of 30% and that actually increased to 34% in April.

So overall if you want, then for the license business, the demand drop was 57% in the March 25, 2020 to March 31, 2020 and that sort of recovered to 48% drop in April period and the distribution franchise business, the demand drop was about 54% and that recovered to about 52% demand drop on overall basis. So from May, it shows marginally improving trend as compared to April as things are gradually getting opened up. Our outlook is that May, June, July, we will see fairly sharp recovery in demand. However just to complete the picture, again this is a very evolving situation, so I will resist from giving any specific outlook or number, but our overall scenario sort of tells us that till March each month will actually degrow as compared to the comparative month. But the degrowth number will keep coming down. So it will take good full year for coming back to the level we were prior to COVID at the least. It could be worse also as I said it is an evolving situation.

Rahul Modi: Right Sir. Sir just one more question, Sir in the 48 Crores impact that we have taken, now you see more such events coming in, do you see some MSMEs actually not being able to pay that is the reason we had to take this and you see this at least for the next one to two quarters happening more in terms of our regular customers not been able to pay because either they are going bust or something like that?

Sanjay Dalal: Okay. Let us discuss this in two parts. The distribution franchise business and the license distribution business. In the distribution franchise business, we took 48 Crores of provisioning. This 48 Crores was based on the debtors receivables, which are outstanding as on March 31, 2020. Now because accounting standard requires that you assess those outstanding and then if there is a higher level of credit loss which you foresee on forward looking basis, we have to provide for them. So we have a standard policy for provisioning because these data run in lakhs in terms of numbers. So you really cannot provide on individual basis. So we have a broad provision policy rules based on the normal provisioning happens. So in addition to that this 48 Cr was additionally provided, which we took because we saw very sharp reduction in collection efficiency in March. So to give you an example the collection efficiency for Biwandi for the month of March dropped to 58% and the collection efficiency for the period of April to February was almost 98%. So this 58% of course had two elements. One element was that the due days were extended by the government for all the customers and therefore many customers did not pay and the second was that the impact of COVID-19 also would play a role in eventual collectability of this. So we categorized the data which were not collected into various segments and looking at how the segment was impacted, we have taken a provision. For example there were restaurants, so we took a higher provision for restaurants outstanding, there were cinema hall, where we have taken for example higher provisioning and so on and so forth. On that basis, we have provided. In 2021, I think similar situation will continue throughout the year for our distribution franchise businesses. How much that number will be I think will require an assessment at every reporting period so I will not be able to give you a number on that but to be sure there will be further bad debts in 2021 also in our distribution franchise business. Coming to the license distribution business, we do not foresee any additional bad debts because of the situation for the two reasons. One is that the collection efficiency did not drop significantly in these areas even in the lockdown period and number two in our license distribution business, we are very well covered by security deposit from customers and therefore we are well protected from non recovery in these areas. So this is broadly the outlook on collection.

Rahul Modi: I will just slip in the last one. Sir, can you help us with the volumes of merchant sales and the kind of margins we are looking at and just how we are doing in that? Thank you very much.

Sanjay Dalal: Merchant volumes, okay. So you want for the whole year?

Rahul Modi: Sir for the quarter and whole year will be very useful.

Sanjay Dalal: So if you look at Q4 current year we sold about 318 MU at net contribution of about 37 paisa and in the comparative quarter last year we sold 11 MUs at a net contribution of about 28 paisa. So just to add a color to this, pre-COVID as you know the LNG prices had crashed dramatically. LNG was available at a very attractive price and therefore we were targeting a very large amount of sale in the merchant power market in the peak season that is April to July period and then we had tied up lot of gas in anticipation of that. However, with this COVID and demand collapse, we had to therefore start burning the gas because the demand in the merchant power market as well as the prices had come down considerably. Since we tied up the gas at very attractive prices, we could still sell in the merchant power market including the market at surplus. So we did not incur any loss but we still had to utilize the gas because gas cannot be stored beyond a point and that is how this volume in Q4 is higher. If you look at the whole year, we sold about 1364 MUs at 82 paisa net contribution. So in the comparative period, it was 181 MUs at about Rs.2.47 of net contribution.

Rahul Modi: Okay. Great Sir. Thank you very much and all the best Sir.

Moderator: Thank you. Next question is from the line of Bhavin Vithlani from SBI Mutual Fund. Please go ahead.

Bhavin Vithlani: Thank you for the opportunity and congratulations for good set of numbers. Sir first is maybe if you can help us dissect the debt of 9000 Crores. So you mentioned 2400 Crores pertains to the regulated business, what part would be renewable and what part is the debt on the DGEN side and specifically on the DGEN what was the debt at the beginning of the financial year?

Sanjay Dalal: We see debt on a corporate basis, I mean each debt is raised with a specific purpose but over a period of time I think allocating debt to specific unit is not giving any meaningful insight. So we look at debt on a corporate basis. When I said 2450 Crores of normative debt that is the normative debt, it does not mean that actual debt for that unit is the same. It is the debt which the regulator has in his books on account of those units. The actual debt according to us should be seen on an overall basis because what has happened we have raised money not necessarily 70:30 at various points in time based on available funds we had. Secondly we have prepaid lot of debt on an Adhoc basis from any of the units depending on the where the opportunity for prepayment was the best. So looking at it on a unit wise basis does not make sense. 8900 Crores is the gross debt towards everything and all of it is long term.

Bhavin Vithlani: Understand. For fiscal year 2019, earlier you had mentioned there was a 550 Crores loss because of the DGEN what would be that number given that you have started generating from DGEN?

Sanjay Dalal: Loss on account of DGEN this, just give me a minute.

Bhavin Vithlani: This will be excluding the 1000 Crores of provision that we have taken.

Sanjay Dalal: Yes of course. For the current year, we have loss of 536 Crores at PBT level, and comparative was about 575 Crores. This includes the interest cost also. But if you want at the PBIT level, which I think is more meaningful, PBIT level DGEN was Rs.292 Crores negative versus Rs.320 Crores in the previous year.

Bhavin Vithlani: Understand. Sir the question is on the capital expenditure. So you mentioned that because of the COVID, your are lowering the capex, but you had a 4500 Crores capital expenditure for the licensed area over a three year basis and reducing it to 1250 Crores assuming that would be spilled over to the subsequent years?

Sanjay Dalal: So actually when I said 1500 Crores and 300 Crores were average annual capex for the next three years that was the plan and that was the guidance. Now within that for year 2021, I said that now we are estimating lower number than the average, which I gave I think 1250 Crores and 350 Crores roughly. Now we are not changing the three year outlook on capex. We have made some change in the 2021 outlook and brought it down a little to account for the loss of time and loss due to remobilization and whatever catch up efforts we will do net of that. But otherwise on a medium term basis I think the capex outlook is maintained.

Bhavin Vithlani: Understand. So like when we look at the regulated equity for these license 4500 Crores which is 1500 Crores into three years, is constant maybe something has moved from fiscal 2021 to fiscal 2022. Would that be a correct understanding?

Sanjay Dalal: Can you repeat the question please?

Bhavin Vithlani: 1500 Crores per year over three years, which is 4500 Crores capex for the license distribution, would that be constant maybe there could be some spillover from 2021 to 2022?

Sanjay Dalal: Yes. That is what I am saying that we are maintaining the medium term indication on capex. We will incur all the capex eventually, maybe the three years can become three and a half years or whatever at the most.

Bhavin Vithlani: Correct and just last question on my side. So renewable something we have actually taken a back step on some of the build capex, but we have a very strong operating cash flows 3600 Crores in the current year. How should we look at the growth on a three year basis, so you have clearly outlined the capital expenditure on the license area as well as the franchise area. So how should we look at other growth avenues?

Sanjay Dalal: In terms of other growth avenues as we said last time in the last call also that in the medium term we are finding it difficult to identify quality growth opportunities in power sector. So license distribution and franchise distribution is an area where whatever growth opportunities come we will take it. The visibility is low but if you have read the recent announcements from the Finance Ministry, there is a strong move towards privatization as well as pushing the distribution model as part of the reforms in power sector, which the government plans to do. So we see more growth visibility and more growth opportunities there which we will certainly pursue. So far as renewable is concerned, we are taking a pause as I said mainly because the financial returns are not making sense and secondly because there are too much of risks which are unforeseen and manageable. So till that situation improves, we are not factoring that in our growth plan. Transmission is something which we will keep bidding though we are not giving any guidance because we have not still run any project there but that is something which we will pursue. With this growth plan in the medium term there is possibility that we may have free cash with us so we use that either to reduce that or pay divided or combination of the two.

Bhavin Vithlani: Understand. That is very helpful. Thank you so much.

Moderator: Thank you. Next question is from the line of Ravi S from Spark Capital Advisors. Please go ahead.

Ravi S: Good morning Sir. So the first question is on the impact of the lower demand on our licensed businesses. So is this likely to increase the fixed cost component and hence we have to petition for higher fixed cost per unit for FY2021?

Sanjay Dalal: The carry forward for 2020-2021 has been based on a certain demand and this was prior to COVID. Now because of the COVID that actual demand will come down. So, what will happen is that in a perfect scenario this will lead to a lower ARR for us in actual terms and what we are entitled to. That is how it will create what is known as regulatory gap. So for the next year there are other elements also, but to simplify for the next year the way we foresee and the scenarios which we have built today we believe that we will be able to at least recover our standalone ARR for the next year. What we will not be able to recover is approved gaps of the earlier years, which was otherwise supposed to recovered in the next year, so they will sort of get carried forward in the subsequent year.

Ravi S: The ARR is likely to be lesser because of lower variable charges, because we are purchasing lower power?

Sanjay Dalal: No actual ARR realizes nothing but the electricity which we bill to the customers. That is our annual revenues. The ARR which is assessed in the tariff order is built up from the cost saying that you are likely to incur these costs and therefore this is your ARR and I am giving you this tariff based on this demand. That demand sort of has now gone down, so obviously the recovered ARR will be lower. So, what I am saying is that there are two components to the assessed ARR. One component is what you are required to recover on a standalone basis for the cost for that year that is 2021 and secondly the gap which the regulator approves for the earlier years on truing up is also added to the ARR and allowed a recovery from the tariff of the next year. What we are saying that on current assessment we feel that we will be able to recover our standalone ARR for the next year. What we will not be able to recover is the gap which he has approved and which he had allowed for recovery in the next year. That will get carried forward in the subsequent year.

Ravi S: So on the standalone ARR there will be fixed component and variable because the fixed component is likely to go up?

Sanjay Dalal: Fixed component will remain same only, per unit basis it is not that important. My network cost is let say Rs.500 Crores and power cost is assessed based on demand at another Rs.500 Crores, and then he says that Rs.300 Crores is the gap which I have trued up for the earlier period, so he will give you an ARR of Rs. 1300 Crores on a certain assumption of demand. Now the demand has gone down, so I will actually bill on tariff derived based on ARR of Rs.1300 Crores, which now will bill only Rs.1000 Crores only because of lower units which I am going to sell. So that Rs.300 Crores is a new gap which will get carried forward, but Rs.1000 Crores is also my actual cost for the next year. So, what I am saying is that we will recover our actual costs and ROE for the next year. However, we will not recover the past gap, which was otherwise expected to be recovered next year. So, it is only a cash flow issue.

Ravi S: Final question, you mentioned about the collection efficiency dropping. What about the overall AT&C loss, how much would it have increased in the months of April, May in all the businesses?

Sanjay Dalal: Typically, I will talk of T&D losses, collection is a separate variable and particularly in franchise business it is also affected by unique factors. On T&D losses, typically what will happen is that next year in general, the T&D losses are likely to go up in each of our areas except maybe Dahej and the reason is simple that the demand drop is largely happening in industrial and commercial segment, which segment as such has a lower T&D loss percentage. So, in percentage terms therefore the T&D loss will slightly go up. However, for our license distribution business, our current assessment is that the actual T&D losses while they will be slightly above what they were in 2019-2020 they will still be below the normative levels which have been allowed to us. So, we will still have savings on account of T&D losses. In addition to that we are hopeful that the regulator will adjust the normative loss level because the normative loss level was fixed keeping in mind the normal situation of certain level of industrial and commercial demand and certain level of residential demand. Now that ratio has been disturbed so we will approach the regulator with a request that kindly adjust the normative levels slightly up. So, if this plays out the way we see, we will continue to earn the T&D incentive as we have earned it in the past.

Ravi S: Thank you and all the best.

Moderator: Thank you. The next question is from the line of Manish Bhandari from Vallum Capital Advisors. Please go ahead.

Manish Bhandari: Thank you for this opportunity. My question has been answered.

Moderator: Thank you very much. The next question is from the line of Dhruv Mukherjee from HDFC Asset Management. Please go ahead.

Dhruv Mukherjee: Sir, on the distribution franchise business, now we have seen some decent demand decline, is there a possibility that we go to the government or the DISCOM for some relief given that mainly DISCOMs also want to state government some relief?

Sanjay Dalal: It is always possible. Firstly it is not a decent decline, it is an indecent decline I would say, but it is always possible but if you look at what the government has been doing in form of providing fiscal packages etc., it is unlikely that government will be giving any relief to any large private sector operators We will have to fend for ourselves and that is how we are managing our business.

Dhruv Mukherjee: Sir any color on what is happening in May given the last leg of lockdown was relatively relaxed in the demand sense in May for franchise businesses?

Sanjay Dalal: As I said that March 25, 2020 to March 31, 2020 the franchise business saw a demand top of 54% as compared to the previous period of 2019. In April, the demand dropped sort of slightly recovered and became 52%. May, June, July we are expecting significant recovery so that will still be a demand drop but it will not be so large and it will recover steeply. That is how we are seeing it but as I said it is an evolving situation and it is not possible to sort of have any firm views on this. But on overall basis for the whole year I think on a net basis we will still see a demand degrowth as compared to 2019-2020, both in our franchise distribution business as well as in our license distribution business, how much the degrowth is the matter which we can keep debating and building scenario then it will keep changing but for sure there will be a degrowth.

Dhruv Mukherjee: Sure, Sir on the capex number if I see the cash flows the capex number is about Rs.300 Crores versus the capitalization for about Rs.2000 Crores and if you see even though it means broadly be seen so what explains the difference?

Sanjay Dalal: I think it would be capital work-in-progress and capital advances up pending capitalization.

Dhruv Mukherjee: The feasibility is also broadly similar Y-o-Y?

Sanjay Dalal: You are saying that the number of 2019-2020 does not match with the balance sheet?

Dhruv Mukherjee: Sir you mentioned the capitalization was about Rs.2000 Crores and the capex number in the cash flow statement is about 300?

Sanjay Dalal: No, Cash flow statement will not give the correct picture. So the capex number which I said would include capitalization which has happened, capital work in progress, which is happening and any capital advances which we have paid on account of capital expenditure and secondly I think cash flow there is also an adjustment, the SECI III capex by virtue of encashment of bank guarantee is deducted from that number, that is why the cash flow number is smaller.

Dhruv Mukherjee: Sir, last two questions quick one, Sir on the Shil area if you can give some sense on how do you see it is panning in this year?

Sanjay Dalal: It is just month. We took over on March 1, 2020 and March 22, 2020 we started shutdown our offices and March 26, 2020 there was a lockdown so I think there is really no representative thing, but I think we started off with 55% T&D loss and overall of course we will be able to bring it down drastically from 55%, on overall basis I think from year 2021 with all this fallout from the pandemic also that area will not be profit accretive.

Dhruv Mukherjee: Sir just from T&D perspective what would be the T&D number in the first year required for breakeven if you can give us back to your sense?

Sanjay Dalal: T&D number for breakeven of Shil Mumbra-Kalwa, actually what I can give you is that for every 1% reduction in T&D I think approximately Rs.6.5 Crores will be the accretion to the P&L.

Dhruv Mukherjee: Accretion, okay got it Sir on an annual basis and Sir lastly what is the regulatory asset at the end of the year?

Sanjay Dalal: Regulatory, I think it is about Rs.1400 Crores.

Dhruv Mukherjee: Rs.1400 Crores? Got it Sir, thank you so much.

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

Abhinav Bhandari: Thanks for taking my question. Just two questions Sir. One is on your both license and franchisee business how would be the overall industry mix in terms of demand just to understand or rather build in some assumptions from our end on how would be the ramp up on the demand side, so just to understand the overall industry mix in that overall drop?

Sanjay Dalal: Okay so you want it for what the franchise distribution?

Abhinav Bhandari: Yes for both if you could say license as well as franchisee?

Sanjay Dalal: So let us take the franchise business first. I will give you the figures for 2019-2020 Bhiwandi roughly 85% is industrial and commercial, Agra is roughly 30%, Ahmedabad would be roughly 62% and Surat would be 75%.

Abhinav Bhandari: Sure so broadly that explains why you are expecting the Y-o-Y degrowth to remain there till March because that is contingent on how the industry revival or utilization would increase?

Sanjay Dalal: Right.

Abhinav Bhandari: Second Sir as you usually give, if you could give a broad EBITDA for PBT breakup for FY2020 across businesses?

Sanjay Dalal: I can give you PBIT I think that will be more useful, so just take the numbers; they may be slightly here and there. The overall PBIT is about Rs.2562 Crores, gas based generation is about Rs.287 Crores, coal based generation would be Rs.157 Crores, renewable would be Rs.433 Crores, license distribution would be Rs.993 Crores and franchise distribution would be about Rs.755 Crores and these are adjusted for one-offs, so one half I have taken from this and here is other corporate overheads and other unallocable etc. would be another negative Rs.64 Crores so that makes it about Rs.2562 Crores and if you remove the net finance cost which is about Rs.870 Crores, the adjusted PBT would be Rs.1691 Crores and there has been one half which will bring you to the reported PBT.

Abhinav Bhandari: Got it, perfect Sir. That is all from my side.

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

Mohit Kumar: Sir for the SECI projects which we have written off and of course they are few bits which are on the offer right now and given that I am assuming that we will have the land and the tariff discovered is slightly higher than the earlier round, are you going to participate in the new SECI bid?

Sanjay Dalal: No as we said that right now we are taking a pause from participating in renewable projects other than what is required by our own DISCOMs RPO obligations.

Mohit Kumar: I understood Sir and secondly on the distribution franchisee is there any clause in the franchisee agreement which protects us from this kind of situation or risk?

Sanjay Dalal: What kind of situation?

Mohit Kumar: COVID such as drastic demand

Sanjay Dalal: No, there is no specific such clause. So they have provided. Since our collections have trickled down because of government's orders extending the due dates both the utilities who are supplying us power for Bhiwandi and Agra have given us some relief and some extended credit period in payment of their bills so that help us to manage the cash flows, other than that there is no relief.

Mohit Kumar: Lastly on the Regulatory asset is Rs.14 billion is there anything which is still pending to be adjudged by APTEL or everything is clear a right now on this Rs.14 billion which has to be recovered by the consumers going forward?

Sanjay Dalal: I just want to make one correction. The regulatory assets are not Rs.1400 Crores, they are about Rs.1000 Crores roughly which are accounted in the book, that is one and number two about Rs.580 Crores are not accounted in the books because they are under dispute mainly at APTEL so they are not accounted in the book.

Mohit Kumar: Thank you. Best of luck.

Moderator: Thank you. The next question is from the line of Subhadip Mitra from JM Financial. Please go ahead.

Subhadip Mitra: Good morning. My question refers to the point that you made with regards to the distribution license area on the ARR you would be able to recover the costs for the current year; however, the spillover of the previous years would not come in, you did not mention that this is more of a cash flow issue so am I correct in understanding then this will not really impact our profit numbers so much but it only impact the balance sheet so to speak?

Sanjay Dalal: Yes its a cash flow issue. That is true. It does not affect because I mean profitability is driven by prudent cost plus ROE so that sort of does not change. All of these early mentioned determined as per the regulations so if we do not get that then the difference is allowed to us in a significant tariff here.

Subhadip Mitra: I understood, if it possible for you to specify what would be the quantum of previous sales which now probably will get spilled in future years, any ballpark number?

Sanjay Dalal: I told you know that ~Rs.1000 Crores is our regulatory gap which we have taken on the books. So part of that was to be recovered in 2021, that portion would not come.

Subhadip Mitra: I think that answers.

Moderator: Thank you. The next question is from the line of Abhishek Puri from Axis Capital Limited. Please go ahead.

Abhishek Puri: Thank you for the opportunity and congratulations for good set of results. Sanjay Bhai, I just wanted to reconfirm that Shil Mumbra Kalwa 1% reduction leads to how much gain is what you said, was it about Rs.6.5 Crores?

Sanjay Dalal: Right.

Abhishek Puri: Secondly in terms of SECI V coming back to that again for the provision that you have done so we will not going ahead with that project?

Sanjay Dalal: As of now we are still in discussion with SECI on the timelines. The reason for the provision was that SECI has already rejected our application, but for example, we have to commission it by the July 2020, that sort of anyway we will get extended by the lockdown period and maybe another 30 days or whatever that may be so it will go to say October or kind. But it is not possible to execute this project, in October because there is no land available, the government of Gujarat policy is clear that SECI V project and all the projects thereafter can be setup only in wind parks which are to be developed, till today not a single wind park is under development, no approvals therefore are coming through, no land is available so this project cannot be executed by that time and SECI has rejected the extension of times so all this put together calls for an accounting provision, which we have made.

Abhishek Puri: Understood but is that the only provision or if we do not decide to go ahead with the projects and there will be any further provisions for that?

Sanjay Dalal: This is the maximum financial loss. There is no further downside on account of this project or SECI project. There can be only a credit that some part of the provision may come back, we might not actually incur.

Abhishek Puri: In terms of the distribution franchise if we do some broad math specifically for Bhiwandi if you take a 40% decline in input energy for this full year and if the collection efficiency goes down to almost 60% in that case EBITDA shift can be pretty significant so is there a way to go back, in the franchise agreement that this could be a force majeure clause and we can go back to the regulator and ask for any relief here?

Sanjay Dalal: What we are told is till the Electricity Amendment Act is brought into force, the regulator will not recognize us as a stakeholder, because we are franchise operator, they are not within the purview of the regulator anyway and secondly the distribution franchise agreement does not provide for any such relief. So any relief fare all gone across the table discussion basis that they would be mainly for the purpose of cash flow management, they would not sort be in a form where our losses are taken over by the licensed operator, his position is even worse actually. So no relief which will impact, the P&L impact is only ours and we will have to bear it.

Abhishek Puri: How long do you think this collection efficiency or this collection impact will continue, would lockdown opening up you to release the bills or is it because for industry and commercial the bills were not paid online and hence it is an issue?

Sanjay Dalal: The entire deficit on account of lower collection efficiency is not provided for, only some part of it has been provided for. So for example as I said in Bhiwandi the 58% collection efficiency meaning 42% amount did not come in. This sort of segmented into some 15 different customers segments and then how each of them has been impacted and we took a view that some business will just not restart, there is a good number of restaurants which will not operate now, there has been a few cinema halls which will not start, that kind of a thing and accordingly on a granular basis we came to a provision of Rs.48 Crores. I think we will see some more provision in Q1 and Q2 albeit lower amount but this is just of the cost hunch I am giving you, I have no basis of saying this, but I think Q1 will see additional bad debts may be on a lower level and Q2 may also see some bad debts on a further low level. Thereafter it should normalize by then.

Abhishek Puri: Ideally to understand these bad debts will be related to fixed costs, because those units are not operating so they do not be drawing any power right now?

Sanjay Dalal: Yes and that whatever little power they may have used.

Abhishek Puri: Okay and is there any impact of tariff reduction in the state of Maharashtra?

Sanjay Dalal: Our average sales realized remains more or less the same because there has been some sort of increase even in some other heads so on in the overall basis our sales sales realization in Bhiwandi have not been impacted.

Abhishek Puri: For Q1 as well, because I think the new tariffs are applicable from April 1, 2020 in Maharashtra?

Sanjay Dalal: For whole of the year 2020-2021.

Abhishek Puri: Thank you so much and all the best.

Moderator: Thank you. The next question is from the line of Anuj Upadhyay from Emkay Global Financial Services. Please go ahead.

Anuj Upadhyay: Thanks for the opportunity. Sir you mentioned that Kalwa Shil area led to a loss of Rs.22 odd Crores during the month of march can we get similar level of figure or approximate loss for the April as well and similarly for the other franchisee like Bhiwandi or Agra?

Sanjay Dalal: No, April numbers I cannot give you.

Anuj Upadhyay: Correct me like you mentioned that the collection for March for the Bhiwandi was around 58% in the April had it increased to 98% or?

Sanjay Dalal: No, not 98%. What I said was that Bhiwandi in normal time was operating at a collection efficiency of 98% that is what I said. Let me just briefly explain what the concept of collection efficiency. Collection efficiency is that billing for a period and the collection for that period are matched to arrive at how much we have collected and that is treated as collection efficiency. The difference is not necessarily all of it is loss, some part we will come with the delayed payment charge at a later date also and some part may become loss so on this concept basis I am saying that Bhiwandi normally operated at 98% collection efficiency during the period April 2019 to February 2020. If I just compute the collection efficiency just for March it dropped to 58% and two reasons I said, one reason was that government changed the due dates and therefore lot of people will not pay, because they had extra time to pay and the second reason which is not explicit but which we are saying that there will be credit losses in some part of this.

Anuj Upadhyay: Right Sir, can we get the collection efficiency for April Sir?

Sanjay Dalal: I do not have that number.

Anuj Upadhyay: Sir of the total payment which you are receiving what portion be through digitize mode, through the digital payment of the payment are we whether to collect the entire 100% of it given the quantum utilized at 80% or 90% of that?

Sanjay Dalal: In Ahmedabad & Surat I do not have the exact numbers what are the payment channels through which we get payment. that number But for Ahmedabad, Surat it will be on the higher side. The digital mode does not mean payment because the due date itself has been changed, the government in Gujarat for example they said that all bill falling due from March 1, 2020 to I think May 15, 2020, will fall due on May 15, 2020 only so good part of them sort of what extended from I think 60 days to 45 days so average delay was about 30 days average extension, similar thing happened in Maharashtra, in Agra and in UP also.

Anuj Upadhyay: Fair enough Sir. That is it.

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

Sanjay Dalal: I have nothing further to add. Thank you everybody for joining the conference and I wish all of you stay safe and we all soon come back to normal and have our Q1 conference in much better environment. Thank you.

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