ORIENT GREEN POWER COMPANY LIMITED

12th November 2019

The BSE Limited
Corporate Relations Department,
P.J. Towers,
Dalal Street,
Mumbai-400 001.
Scrip Code: 533263

The National Stock Exchange of India Limited
Department of Corporate Services,
Exchange Plaza, 5th Floor,
Bandra-Kurla Complex,
Mumbai-400 051.
Scrip Code: GREENPOWER

Dear Sirs,

Sub: Transcript of Earnings Conference Call for Q2 &H1 FY20 results

This is further to our intimation dated 4th November 2019 pursuant to Regulation 30 of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, regarding the conference call to discuss the Q2 &H1 FY20 Financial performance of the Company.

The transcript of the conference call held on Friday, November 08, 2019 is enclosed for your reference and records.

Thanking you.
Yours faithfully,

For Orient Green Power Company Limited

P. Srinivasan.

P Srinivasan
Company Secretary & Compliance Officer

ORIENT GREEN POWER COMPANY LIMITED

Encl: as above

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Orient Green Power Company Limited

Q2 &H1 FY20 Conference Call Transcript
November 08, 2019

Moderator: Ladies and gentlemen, good day and welcome to the Orient Green Power Q2 & H1 FY20 Earnings Conference Call. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Suraj Digawalekar from CDR India. Thank you and over to you, sir.

Suraj Digawalekar: Thank you. Good afternoon everyone. I welcome all of you to Orient Green Power company Limited Earning Call to discuss the performance for the quarter and half year ended September 30th, 2019. We have with us today Mr. S. Venkatachalam – CEO & Managing Director and Mr. K. V. Kasturi – the Chief Financial Officer.

Before we begin, I would like to mention that some of the statements made in today's discussion may be forward-looking in nature and may involve risks and uncertainties. Documents relating to our financial performance were e-mailed to all of you earlier and have also been posted on our corporate website.

I would now like to hand over the floor to Mr. Venkatachalam. Thank you and over to you, sir.

S. Venkatachalam: Thank you, Suraj and a very good afternoon to all of you and thanks for joining the investor call.

Firstly, I would like to convey my wishes for the festive season and wish all of our investors a prosperous New Year ahead. I will start the discussion with a quick overview of the macro environment and industry dynamics before we move on to the performance for the quarter.

Firstly, in the slowing rate of the economic growth has impacted overall business performance and investor sentiment greatly which appears to be at an all-time low. Some of the sectors seem to be feeling the effects of this much more than the other. But the overall view is that it is a cyclical slowdown and there are definitely better days ahead. For the renewable energy sector rather than the last few months, it has been actually in the last couple of years which has actually thrown up several challenges and the actual issues plaguing the sector have been less cyclical and more structural in nature. But we are all confident as an industry that the situation is only going to improve from here.

There are four key monitorables for the renewable energy industry. That is one is the tariff, the second is cost, third is utilization rates or PLFs and lastly and most importantly the debtors or the collections. And I will walk you through some of these aspects and the changes that are really happening on each of these fronts.

Starting with the tariffs:

You are all aware the history that is surrounding the solar and wind tariffs, which had actually been shifted from the regulator derived tariffs to competitive bidding over the last few years. . The bidding system of thermal power was replicated without accounting for the fundamental differences in the true source of the power generation. In fact really speaking, some of the players in the renewable industry got carried away and started aggressively bidding on the amended bidding mechanism. Further to that the MNRE also put a cap on some of the bids and today if you really see, most of the players have expressed their inability to deliver to the bids and the projects are in limbo**.** So many of the projects are lying unconstructed, unfulfilled and that is a matter of great concern for the industry. Some of them are due to land availability, some of them are due to their inability to raise finances in the present levels of bids which are racing between Rs.2.44 and Rs.2.75. The industry has definitely learned its lesson and it refused to pursue business under the unsustainable tariff and recent grounds of competitive bidding have witnessed no interest from the established players. In fact only some amount of interest you can see, as far as solar bidders are concerned, but not really much in the wind sector. And we really believe that the era of unsustainable tariffs are really over.

To compound this, in fact when the bids started going to an all-time low, some of the discoms actually started revisiting the tariffs and the regulators started arm-twisting the developers. But that is a thing of the past. They had realized that you can no longer arm twist the regulators on a signed and a sovereign guarantee was given by the various governments. Now, the new issue that has come up, which you are all aware is that Andhra through its discom had started to revoke PPA signed during the regime of the previous government by claiming that the agreed tariffs are far too high. However, tariffs being sort were too low. They were looking at a tariff of Rs. 2.54 paisa and which are definitely unsustainable. Each tariff depends on the number of factors such as, one is the PLF that is achievable at that particular wind site, it depends on the capital cost, and it depends on the interest that you can borrow at. And a number of such parameters and definitely you cannot apply one tariff if it is all kind of thing to everybody.

Now, a plea has been filed by the power generation companies and their associations and after this, granted a stay on the renegotiation of PPAs. Now the matter is lying before the AP High Court and definitely expect it to rule in favor of the power generation companies. In fact, to supplement that the Power Minister and various other people in the central government, the MNRE and so on and so forth have written and vociferously been communicating this to the AP government that this thing is not sustainable, and this cannot be done. However, now we believe that it is only a matter of time. We are definitely going to win this case. But really speaking, it delays the processes and it is only a matter of time when this will all be sorted out. So we are confident that the industry will emerge stronger from this episode and will be resolute in setting of tariffs and henceforth.

Secondly, coming to the cost, one is the capital cost and the other is the finance cost. As far as the capital cost is concerned, it is only the solar that can sustain the prices, have been going down in terms of capital cost, but I cannot guarantee you as to what kind of quality of panels are available at those costs, that is for a matter to be decided by the investor themselves. But wind tariffs are not really, the capital costs are not really coming down. In fact if anything they will be maintained at status quo or they will be going up because the quality of windmills are going up and the cost per Kw or if you look at that kind of parameter would definitely be going down overall.

But if you really look at the interest cost, okay, the interest cost, the RBI has definitely reduced rate significantly in recent quarters and it is only a matter of time that these will be passed down by the banks themselves. But, okay, at this point in time, with uncertainties the banks are also not, and also with very low tariffs the banks are not really looking at the sector itself. But it is only a matter of time once these get corrected and we are confident that it will get corrected in the next few quarters.

As far as the PLFs are concerned, the MNRE has given an overall thing that this, the must-run status has to be maintained and even mandated some of this project cost has to be paid in case there is a back down by the discom. However, of course this has to be mandated. We are working towards this that this will be mandated and definitely utilization rates of these plants and back downs will reduce. In fact some of the governments are looking at spinning reserves in terms of gas based power plants etc. And we are really looking at as to how the renewable energy target of the center can be met.

Coming to the debtors which is the fourth and final area which definitely, there was a recent article in the Renewable Watch Magazine and the Power Line Magazine that the outstanding dues from discoms is at about Rs.10,000 crore. Andhra itself is about Rs.2,000 crore which is a topper in this particular aspect and Tamil Nadu and Telangana are in excess of Rs.1,500 crore and they were the renewable energy sector alone, forget the government sector and the others. In fact, large organizations like NTPC and SECI have actually taken initiatives to discuss the payments with discoms and are examining legal actions. The industry association which is on a stronger footing than the individual power producers are actively questioning the payment dues. In fact, Union Minister of Power has been fairly vocal about the need to expedite payment and the matter is believed to be actively followed up with the PMO level since this has become a matter of national concern. And this will also impact the ambiguous targets of 175 GW they have set for themselves by the year 2022. And it is only a matter of time; I would believe that the discoms will be forced to pay within a particular time.

But as far as OGPL is concerned, our main area of concern is that with AP discom, a significant amount of money is parked with AP discom and even if a part of it comes and considering that RECs are trading at a much higher level, even if a part of this money comes, we will be online with the banks and we stay regular with the banks. So this is the kind of situation we are in and we are quite hopeful that in the coming months that this will definitely get sorted out and because this is the combined pressure which is going from the center to the various discoms. So from OGPL's point of view, even in a bad wind year, we are definitely in a better footing, but it is only cash flow mismatch because we have always been in terms of cash profit positive over the last few years, but the mismatch is what is kind of setting us back. And once that mismatch is sorted out, we will definitely be able to raise funds. In fact we have talked to various government banks like PFC, IRDA, etc., who have promised us that once you are online, they cannot take up an account which is even which is technically called a derated account.

Apart from this, there were some funds which were blocked in the escrow account pertaining to REC receipts where the honorable Supreme Court is hearing a matter on reduction of REC rates from Rs. 1,500 to Rs. 1,000 per certificate. And this was done in the mid-2017 and ever since then, that hearing is getting postponed, but we are confident. See, actually the RECs are trading well in excess of Rs.1,500, even the Rs. 1,000 RECs, because of the demand and because of the enforcement, if you really see the last year H1, we had traded RECs on an average of Rs. 1,100, Rs. 1,102 to be precise and it is now trading with the last 6 months average, for us it is something like Rs.1,547, that itself has given us an initial revenue of exceeding Rs.10 crore. So if you really see, the REC themselves are trading at a premium and secondly the government is, just like what we are saying about Andhra, the government is more really basis to revisit and hold REC which was a warehoused REC. Because of their inability to enforce, they have to; the Supreme Court will have to decide on our favor. It is only a matter of time and as I said there is a timing gap in all this.

Now coming to the overall performance in H1. This has been fairly subdued wind year, in fact we lost about 540 lakh units and in revenue terms is about Rs.13 crore difference in revenue that we have had in terms of. But okay, the revenue loss would have been more but it has been compensated by little bit of tariff increase and as I said, REC itself has compensated us by more than Rs.10 crore. And RECs in last 18 months or last 21 months, actually we have been 7 consecutive quarters we have been running with zero inventories of RECs. Now once we are regular with the banks, we are definite to look at, I mean we have been promised that we will be getting at least 250-300 basis points reduction overall.

Now the other major development which our CFO would cover more in detail is the Board approving the decision for reducing the share capital. This has been undertaken to streamline the reserves and to provide an appropriate representation of the improved financial position of the company.

And another area of concern which definitely would be concerning all the investors is the share price that is prevalent in the market. It has gone down to about Rs.1.5, probably this morning I saw level of about Rs.1.66 just before I came to this meeting. Now it is up to you to look at the basic asset base and see the actual asset base of the company and look at the earnings potential or EBITDA potential given this particular asset base. Definitely, it is up to you to take a call as to what the share price should really be.

Secondly, the debt level of the company, fairly the external debt is about Rs.1,150 crore and which we definitely will be refinancing with lower debt with lower interest rates. The internal debt is about something like **Rs.**360 crore plus, about Rs.85 crore is the interest component on that. So it is about Rs.440 crore is the internal debt. Now it is up to you as to which of these debt we should consider because the group has been writing off the interest component and so on and so forth. And the Rs.360 crore is also a part of the group debt and so it is up to you to factor in which part of the debt should be considered while arriving at the realistic market price.

To conclude, we continue to believe in the businesses overall prospects and we believe that the long term potential that outweighs the near term challenges. We have undertaken multiple initiatives to strengthen the business outlook. We have divested the biomass segment and we are looking at unblocking of dues, better asset utilization for implementation of the must-run status because it is more appreciate working capital regime. We are confident that the steps that we have undertaken to strengthen the industry will positively impact our operations and enable us to create meaningful value for our stakeholders going forward.

With that, I now hand over to our CFO, Mr. Kasturi who will take you through the financials.

K. V. Kasturi: Thank you, Mr. Venkatachalam. Good afternoon everyone and thank you for taking the time to join our earnings call. I will briefly run you through our financial performance for the period under review, post which we can start the Q&A session.

Starting with the topline, the total income for the quarter remained steady at Rs.135 crore while on half yearly basis, the same stood at Rs.230 crore. As mentioned by Mr. Venkatachalam earlier, we would have been able to generate even more revenues had it not been for a moderation in bringing the intensity and excessive monsoons.

EBITDA for the quarter stood at Rs.112 crore while on half yearly basis stood at Rs.183 crore. So the improved profitability was due to cost control and efficiency. Depreciation for the quarter stood at Rs.28 crore, while for the first half year the same stood at Rs.57 crore. The interest outgo for the quarter stood at Rs.39 crore, while for 6 months the same stood at Rs.78 crore. As many of you must are aware that we have been able to consistently reduce our debt over the last 5 years and are in discussion with banks towards refinancing our debt which should help us to lower interest rate approximately around 200 to 250 basis points in the next few years. Further, our efforts toward recovering the dues from our debtors, ontime should help improving or easing our liquidity level.

To conclude, I would just like to reiterate what Mr. Venkatachalam spoke earlier, that is we believe that the recent challenges to be transient in nature, that is long-term fundamentals of the industry and business are very much in place with government undertaking the requisite step towards developing RE sector, we believe situations will only get better with time. Further, our strategic initiatives which will also help to drive the business forward and create value for our shareholders. Thank you.

Moderator: Thank you. We take the first question from the line of Chinta Ramakrishana, Individual Investor.

C. Ramakrishana: Sir, can you give more details on the equity reduction, like what will be face value that we are trying to reduce? I know current face value is Rs. 10. So what it is going to be after that?

K. V. Kasturi: So what we propose to do is, we are reducing the face value from Rs. 10 to Rs. 5 and accordingly whatever capital reduction will be adjusted against the share premium, that is what we proposed to do it and it will be subject to all the regulatory approvals and NCLT process and all those things to be carried out.

C. Ramakrishana: And what are the timelines that we are looking for sir to close end-to-end this entire process?

S. Venkatachalam: We have to get the postal ballot, there is an NCLT approval, and it has to go through the stock exchange and various other processes. What we have told is the entire process will take anytime between 9 months to a year.

C. Ramakrishana: Okay. And will there be at any point of time, will there be few days, where we will stop trading and then we will restart again freshly after the equity change?

S. Venkatachalam: I am not too sure. Our Company Secretary is here. I mean, I can just check with him if there is any stoppage at the point when we are shifting from 10 to 5, I am not too sure about that. .

K. V. Kasturi: I don't think this trading will stop. Trading will not be stopped. Trading will continue.

C. Ramakrishana: I mean, during the switch over sir, I know it will continue now, but during the switching movement, the day once we complete end-to-end process?

S. Venkatachalam: As far as we know, there is no such stoppage even for a day, I mean it will automatically migrate the next day or whatever.

C. Ramakrishana: Thanks sir and just one more last question from my end. Any recent development in the area of mergers or something because on the last call we said there may be some news in the next 3 months…?

S. Venkatachalam: Basically things are progressing but basically if you see the last quarter, I mean as I said basically one is the performance itself. The AP issue because of which people are taking a little bit of back seat and maybe investors are kind of on a wait and watch kind of a thing. They are definitely interested but really speaking the share price also, I mean, there has been one institutional investor which has really did I can say that for the reasons best known to them, they have actually been selling shares on a regular basis, week after week they are offloading one to two lakh shares every week. I mean, since its in public domain, I can even share with you that IDBI has sold about 40 lakh shares in the market over the last 5-6 months and that has really been responsible for the subdued values of the share prices and with the lower share prices also, it is not the prudent movement to go ahead with the, though talks are on. And I am sure, I can speculate but, I definitely see a better value as far as share prices are concerned and it is only the selling pressure which has really brought down the share prices.

Moderator: Thank you. We take the next question from the line of Mr. Suraj Digawalekar from CDR. Please go ahead.

Suraj Digawalekar: Sir, just a thought. If you could just articulate how the REC things is panning out and your outlook for the same?

S. Venkatachalam: So the REC, see, there are two issues. One is the REC itself is trading at a premium. In fact, there are sessions where in one of the exchanges either the IEX or the PXIL has been trading at Rs.1,650 and so on and so forth. But the weighted average for the half year is Rs.1,547 is the weighted average as far as we are concerned between the two exchanges and what we realize from the RECs and we have received about Rs.32 crore which really speaking if you compare on a like-to-like basis at Rs.1,102 of last year is about Rs.10.5 crore excess over last year. So, that has been a plus and that has kind of offset the lower wind and brought down the, actually given a better PBT because there is also a reduction in finance cost about Rs.30 crore. The other aspect of the REC is that the thing, which is lying with the Supreme Court, there is an escrowed amount of something like Rs.23 crore which is lying with the Supreme Court, escrowed with the CERC. Now the Supreme Court with their own schedules, they are tied up with various things. They have now scheduled it for a January hearing, and I am told that this time they will really take it forward and with the new bench sitting there and it is only a matter of time and definitely that escrowed amount will also come back to us. I mean, it is something like what AP has done, they are visiting the past treaties and similarly you cannot visit a first warehoused REC which is lying in the stock. I mean it is the Government's inability to enforce the renewable power obligation which is actually let the RECs trade at such low levels or at such low demands. Now the enforcement ever since that it has come down to Rs. 1000, tremendous amount of enforcement which is why it is trading at even above Rs. 500-Rs. 1500 which was originally slated for. So that is a brief on REC.

Suraj Digawalekar: And we expect the trend to be strong for us, at least for some time?

S Venkatachalam: Yes. Normally Q3 and Q4 when the obligated entities have their obligations to fulfill and they have to RECs to fulfill the obligations in this Q3 and especially Q4 is when volumes picks up. So we see an even better pricing in Q4 as such.

K. V. Kasturi: In fact, Suraj this is especially on the trading front. So we have been consistently liquidating all the stocks in the trading and in the past 7 quarters, we are consistently showing a zero stock. Whatever is issued by the authority, it is getting sold in the market without any carry forward of any stocks. So that itself reflects the kind of a demand which is there for the stocks. So that is why it is reflecting on the price also. So we particularly very hope that the size momentum will continue, the prices will go up.

Moderator: Thank you. We take the next question from the line of Chinta Ramakrishana, individual Investor. Please go ahead.

C. Ramakrishana: Sir, could you tell me, advantages and disadvantages from the investor perspective on the equity reduction thing. Basically as an investor what kind of advantage do we see or disadvantages we see?

K. V. Kasturi: One is that, particularly on, see whatever the accumulated loss which we are carrying it today, so it is giving completely written off against the share premium. So it reflects the true, the balance sheet perspective, it will definitely reflect the true position. And also from the point of view of the price also, from Rs. 10 to Rs. 5, the pricing will also adjust particularly if there is a same as we do the performance well, definitely this market also reflect, this market price will also go upside, then it reflect the true value. What we are looking at is more towards reflecting a true picture about the whole position.

S Venkatachalam : And hopefully more investors we expect to, I mean the investors will take a better call as against what it was at Rs. 10 and at Rs. 5 there is because we have been looking at various businesses and as I reiterate it, then the share price is going subdued because of selling pressure. Now the share price listing whether this is Rs. 10 or Rs. 5, definitely I believe that it should get corrected to a more realistic value considering the effect base and also the earning potential of the business. So but when it reduces to Rs. 5 kind of share, we believe that there would be renewed, I mean it would be easier for investors to attract investor interest in the business as such.

C. Ramakrishana: Okay, thank you sir. And what is the normally P/E you expect for wind industry, sir, based on the EPS? Not just normal, approximate thing?

S Venkatachalam: I don't have any this one, probably I will come back to you later. Because it is quite evolving dynamically because of the certain subdued tariffs which have been discovered through the competitive bidding. So the P/E ratios, in fact we typically look at IRRs for the business, but as a shareholder you would be looking at the price earnings ratio as such. No ballpark figures from that. But we will have to see the, because there are a very few listed entities in this business.

K. V. Kasturi: See, we will just work it out and will let you know.

Moderator: Thank you. Well, ladies and gentlemen, that seems to be the last question. I would now like to hand the conference back to the management for closing comments.

S Venkatachalam: Thank you so much. I do appreciate that there will be certain concerns, one is regarding the share price itself which has been a matter of concern for various investors and as I reiterate it that definitely there is far more value and we are looking at a capital reduction also which would be able to attract more investors going forward. Now the only issue even in a bad wind year, as far as the way our business is structured, we will be fairly cash flow positive as you have seen in the last few years, it is only a timing mismatch really speaking from the flow of funds from various discoms to the collection of funds versus the outflows. We believe that the center itself has been pushing the Andhra government and various other government saying that this has to be really corrected, even trying to mandate LCs have to be open to evacuate wind and solar power, they are trying to mandate. Okay, that I believe will take a little bit longer time, but they are trying to put pressure on the discom saying that you can't keep inordinately delaying the payments to the investors or the suppliers. In the case of Andhra, it is 12 months plus, in Tamil Nadu we are all aware, it is closing to 24 months and so on so forth. So the center is trying to structurally correct it and probably infuse some funds from the center so that we tied over this crisis and get on to regular payments because this is definitely which is not a viable. Once that is corrected, irrespective of whether it is a good wind year, bad wind year, I am sure we will not be affected. We will be able to raise funds at much lower interest cost and we have been promised that last quarter we said that, but it has not happened this quarter also. But going forward once this gets corrected and once the RECs which are escrowed in our account is about Rs.23 crore as far as wind is concerned, the wind part of the business there was something escrowed in biomass also which is no longer a part of this business. Once that gets corrected, we are up and running. We are definite that this is something it is the temporary setbacks and also the structural corrections in the industry, not the cyclical corrections which the rest of the country is going through as far as automotive and other businesses, but the industry require some amount of structural correction and it is bound to happen. It is up to you to look at how the business will pan out and I am sure it will be, things are much better looking forward. Thank you very much and thank you for your patient hearing.